

## **Entrepreneurial decision-making process during the internationalization**

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## Entrepreneurial decision-making process during the internationalization

### Abstract

This inductive study analyzes the entrepreneurial cognitive process during the Small-Medium Enterprises' internationalization of operations. By analyzing 5 case studies we show that the internationalization process can be explained through Effectuation lens. We argue that in the situation of high uncertainty, goal ambiguity, and isotropy even experienced entrepreneurs of already existing organizations tend to adopt effectuation logic during the decision-making process, rather than causal one.

**Key words:** International entrepreneurship, internationalization, effectuation, SMEs, decision-making

### 1. Introduction

Recently, a number of efforts have been done to achieve a deeper understanding of the internationalization processes of Small-Medium Enterprises (SMEs). The studies faced a number of different research objectives, especially for what concerns International New Ventures (Rialp, Rialp and Knight, 2005).

But, as noticed by Zahra and George (2002) and recently underlined by Zahra, Korri and Yu (2005), the prior International Entrepreneurship (IE) research focused more on the content of new venture internationalization strategies neglecting somehow to analyze the development and implementation process of these strategies. Zahra, Korri and Yu (2005, p.129) proposed “*that a significant shift can occur in IE research by applying a cognitive perspective and examining how entrepreneurs recognize and exploit opportunities in international markets*”.

The type of managerial decision-making and the connection between entry modes and the organizational behavior remain under-investigated issues (Rialp, Rialp and Knight, 2005).

We decided to examine the decision-making process adopting Effectuation logic (theory). According to it, in situations characterized by a high uncertainty the entrepreneur tends to make decisions following effectual logic rather than causal one. Internationalization for a SME is a process characterized by many uncertainties; therefore, Effectuation Theory (Sarasvathy 2001) potentially is able to explain the entrepreneurial decision-making during the internationalization of the activities. Effectuation is a type of human problem solving that takes the future as fundamentally unpredictable, yet controllable through human action; the environment as constructible through choice; and goals as negotiated residuals of stakeholder commitments rather than as pre-existent preference orderings (Sarasvathy, 2008).

The present research consists in examining the SMEs' internationalization process by using a theoretical lens that describes and explains a logic used by entrepreneurs in taking their decisions.

The inadequacy of the previous research (Pervez, 2004), the complexity of the phenomena (decision-making process during a crucial phase for an organization) (Eisenhardt and Graebner, 2007) and the need to “*unravel the underlying dynamics of phenomena that play out over time*” (Siggelkow, 2007, p.22) suggested us to adopt an approach aiming in gathering rich in-depth longitudinal data. Using field and archival data coming from five Italian SMEs that have internationalized their activities in the early 2000s, we tracked the entrepreneurial decision-making process.

Our study contributes directly to the development of the IE by studying how entrepreneurs think and make decisions to identify and exploit opportunities in foreign markets (Shane and

Venkataraman, 2000; Zahra, Korri and Yu, 2005). By integrating entrepreneurship and internationalization literature we focused on the process of international opportunity recognition. Findings pointed how the unexpected difficulties, the increase of the complexity, and the lack of the resources force entrepreneurs to take decisions in an environment characterized by high uncertainty. In this type of environment, entrepreneurs tend to follow effectuation logic rather than causal one in making decision; but, when the level of uncertainty decreases they shift to a more causal logic.

## **2. Theoretical background**

### ***2.1. Literature review***

The research on SMEs internationalization started in the early '70s in the Nordic countries and produced stage models. The main output had been the Uppsala model (U-model) (Johanson and Vahlne, 1977; 1990; 2003). U-model describes the SMEs internationalization process as relationship between the acquisition and use of knowledge about foreign markets and the increasing commitment to international activities (Gankema, Snuiff, and Zwart, 2000, p.16). In this dynamic model, internationalization is seen as a gradual process of increasing a company's international involvement as a result of different types of learning. (Ruzzier, Hisrich, and Anonic, 2006). Generally stage models assume that internationalization process starts with sporadic overseas sales and continues with bigger and bigger commitments in the foreign markets through sales. The start up of overseas production unit is seen as eventually the last stage.

Stage models were increasingly challenged by “*researchers at the intersection of entrepreneurship and internationalization*” (Autio, Sapienza, and Almeida, 2000, p.909) that find empirical evidences that some SMEs are able to internationalize more rapidly than the

models predict (Oviatt and McDougall 1994, 2005). As a result, a new subfield in International Business emerged: “International entrepreneurship” (McDougall and Oviatt 2000, Peng 2001). It outlines that some firms, with a special attention on knowledge-intensive and knowledge-based firms, are likely to have an accelerated internationalization focusing their attention particularly upon International New Ventures (INV), ‘Born global’ or ‘Born-again global’ firms (Bell, McNaughton, Young, and Crick, 2003).

The researchers applied different approaches and theories in studying the phenomenon of SMEs’ internationalization. Many researchers used Network approach (Oviatt and McDougall, 2005), Organizational learning theory (De Clercq, Sapienza and Crijns, 2005, Oviatt and McDougall, 2005), Resource-Based View (RBV) (Peng 2001, Westhead, Wright, and Ucbasaran, 2001) and/or Dynamic Capabilities prospective (Sapienza, Autio, George, and Zahra, 2005; Zahra, Sapienza, and Davidsson, 2006).

Although internationalization research faced a considerable number of topics, understanding the relationship between entrepreneurial behavior and development of competitive advantages in international environment may necessitate a new way of looking on the phenomenon (Jones and Coviello, 2005). “*We know little about what goes through entrepreneurs’ minds as they explore their firm’s competitive global landscape*” (Zahra, Korri, and Yu, 2005, p.143). Zahra (2005, p.24) affirms that “*cognitions evolve over time and shape managers’ ability to see opportunities in foreign markets, influencing the various decisions to be made and how they are executed (Palich and Bagby, 1995; Mitchell et al., p.2000)*”. Finally, considering “*the definition of INVs’ identity, strategy, and organizational cultures*” he states that “*looking into the role of culture, geography, and history suggests a need to better understand the role of managerial cognition*” (p.24).

Given these premises, the specific objective of the paper consists in developing a research framework able to describe and explain entrepreneurial decision-making during the SMEs' internationalization by adopting Effectuation Theory (Sarasvathy, 2001).

Effectuation articulates a dynamic and interactive process of creating new artifacts in the world and this matches perfectly with the Oviatt and McDougall (2005, p.540)'s definition of International Entrepreneurship since "*discovery, enactment, evaluation, and exploitation of opportunities*" can be seen as "*the process of creating*" and "*future good and services*" as "*the artifacts*". The development of the concept of "Effectuation" as a tool for analyzing entrepreneurial behavior started with Sarasvathy's work (2001). Previous studies of entrepreneurship tended to pose the attention primarily on the performance of the entrepreneurial venture. The element of newness in Sarasvathy's study consists in focusing on the concept of expertise. "*Expertise*", as suggested by Sarasvathy (2008, p.12) "*consists in tacit as well as learnable and teachable aspects of experience that are related to high performance in specific domain*". It is important to note that studying the phenomena from entrepreneurial expertise point of view what really matters is the performance of the entrepreneur that can, or not, coincide with the performance of the enterprise. In other words, from the new point of view, entrepreneurs from being instruments in developing firms become the subject that use the firm.

By analyzing the research on decision-making under uncertainty, Sarasvathy (2008) reports that first and second type of knightian uncertainty (Knight, 1921) are faced respectively by analytic and estimation techniques. The effectual logic is a "*catch-all third category*" and can be considered 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*" (Sarasvathy, 2008, p.26). In other words, she argues that in low predictable phenomena where the influence of the human action is

primarily (e.g. internationalization in an unknown market of a firm) the behavior of decision makers is not necessarily irrational but can follow a specific logic that leads to “*very effective decisions*” (p.26). Besides knightian uncertainty, the effectual problem space is constituted by global ambiguity and isotropy.

Goal ambiguity indicates that the performances are not well-ordered or given. It is more likely that the decisions 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* is not clear which pieces of the environment can be useful. Otherwise, the process of collecting information is difficult and can not be set up in a traditional way as we do not know to which information to pay attention and which ignore.

The effectuation – “*indicating human agency, or a casual intervention by human beings in the real world*” (Sarasvathy, 2008, p.27) – is used as a cognitive inverse of a causation. Casual logic models starts with defining a clear goal to achieve and, consequently, they select the appropriate means or look to create new ones – it is goal-driven and resource-dependent process. The opportunities are given and the challenge consists in finding them. Effectual logic models start with the means in the possession of the entrepreneur, in our case, and try to create new goals by interacting with the environment – it is a path- and stakeholders-dependent process.

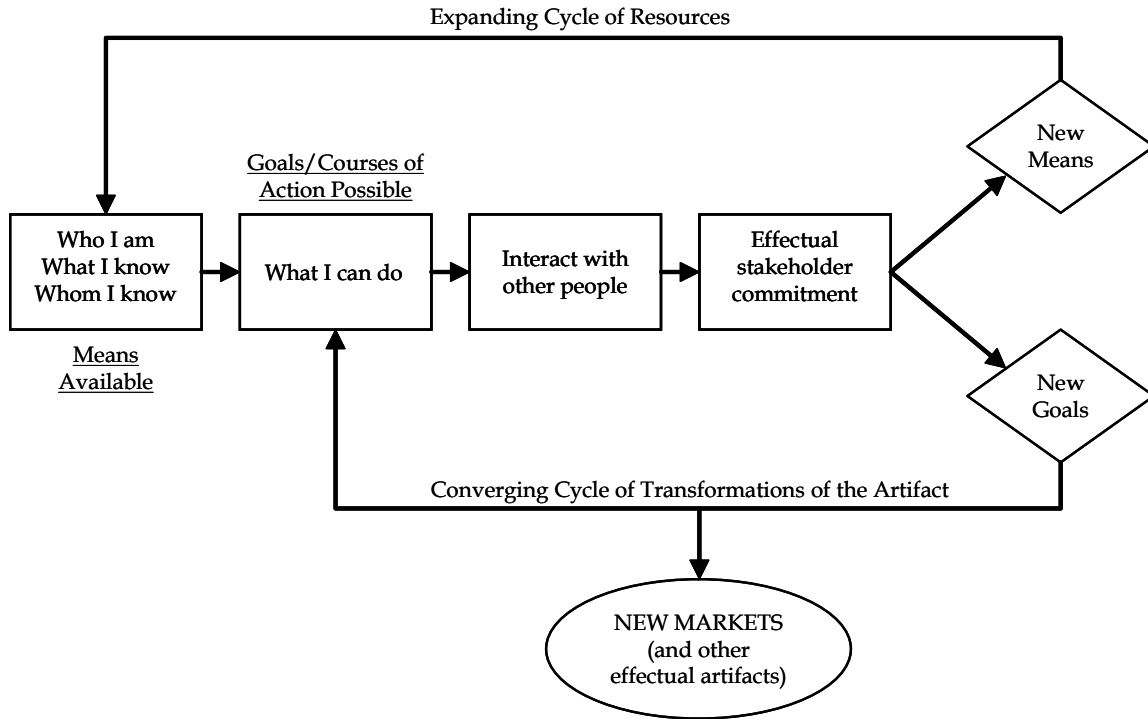
The world is seen as open to the human intervention; firms and markets are human-made artifacts. Thus, the effectual entrepreneurship is not considered as a social science but a science of the artificial (Simon, 1996). The effectual entrepreneur fabricates opportunities upon the means and connections known to him.

## ***2.2. Research framework***

Hereinafter, we present the dynamic model of effectuation as described by Sarasvathy and Dew (2005). (See fig. 1) The model illustrates the decision-making process of an entrepreneur from effectuation point of view.

The entrepreneur can or not recognize an opportunity, but he starts the venture basing on who is he, what he knows and whom he knows. He does not analyze all bunches of opportunities but he considers the means in his possession (means available) and analyze what he can do (goals/courses of action possible). The decision is not based on the calculation of the opportunity cost but on the principle of affordable lost, i.e. on how much one is willing to lose. This implies that making a commitment based on affordable-loss calculations minimizes (or can even evitate) reliance on predictive information.

The interaction with other people is crucial. The potential stakeholders are not pre-determined but they emerge from the interaction process (potential customers can become partners, potential suppliers – customers, etc.). This is possible as the goals are not clearly defined and, actually, their shape is a result of the interaction. New stakeholders bring into the venture visions, goals and means. Thus, the commitment of the effectual stakeholders produces new goals as well as new means that belong to two concurrent cycles.



**Fig. 1.** Dynamic model of Effectuation

Source: Sarasvathy and Dew (2005)

Adding new means to the pre-existing ones expands the resources on disposal. Actual means are transformed from ‘who I am, what I know, whom I know’ into ‘who we are, what we know, whom we know’.

On the other hand, creating new goals modifies ‘what I can do’ in ‘what we can do’. Converging goals/courses of action possible creates new markets and other effectual artefacts. Thus, new artefact is not the result of the design of a specific person (Sarasvathy, 2008: p.107), but through the interaction of the members of the network and not-yet-members of the network.

### 3. Method

The present research might be best described as theory development/expansion (Lee, Mitchell, and Sabylnski, 1999; Eisenhardt and Graebner, 2007). We try to apply the basis of a still emerging theory (effectuation) to a new field (international entrepreneurship) and to already existing organizations (versus creation of new ventures and new markets). The number of

newness, the inadequacy of the previous research (Pervez, 2004), the complexity of the phenomena (decision-making process during a crucial phase for an organization) (Eisenhardt and Graebner, 2007) and the need to “*unravel the underlying dynamics of phenomena that play out over time*” (Siggelkow, 2007, p.22) suggested us to adopt an approach aiming in gathering rich in-depth longitudinal data. Thus we identified five SMEs that internationalized their operations.

As mentioned by Siggelkow (2001; 2007) there are different uses of cases for research. In this work we employ the cases as illustration, i.e. we try to get closer to constructs and to illustrate the decision-making process of the sample SMEs from the effectuation point of view in order to understand whether this particular theory is suitable to explain the phenomenon. The phenomenon under investigation is decision-making process during the internationalization of a production unit in a SME.

We employed a multi-case design that allows “replication logic” where the series of cases are considered analogous to multiple experiments. Each case is used to confirm or disconfirm the emergent relationships inferred from the other cases (Yin, 1984; Eisenhardt, 1989b). A summary of the case-firms is presented in Table 1. The sampling of the cases was theoretical, and not statistical, such as suggested by a number of researchers (e.g. Eisenhardt and Graebner, 2007; Eisenhardt, 1989a; Glaser and Strauss, 1967). Patton (1990) identified 15 “*purposeful sampling strategies*” (p.181) and a 16<sup>th</sup> combination or mixed approach that is the case of this study. The main strategies adopted were: maximum variation sampling, snowball or chain sampling, criterion sampling and opportunistic sampling.

We identified 5 SMEs from North-eastern Italy. They belong to different industrial sectors as the aim consisted in maximizing the differences among the observations. The choice of

North-eastern Italy is due to the fact that in this region there is a high concentration of SMEs and a relevant number of them internationalized their operations. The choice of studying SMEs, and not directly the entrepreneur, is justified as in SMEs the power of making decisions is habitually concentrated in one (the entrepreneur) or a few persons (Anderson and Floren, 2008). Besides, the choice of the sample was guided by the following question: “Where is it possible to observe better the logic used by the entrepreneurs during the internationalization process?”. Thus, we decided to impose other two criteria. Firstly we chose SMEs that internationalized production activities as the production-oriented internationalization involves more in depth the company then market-oriented internationalization. Secondly, we chose SMEs that started some kind of production activity in a previously unknown market, i.e. in a country where the knowledge of the market was extremely limited as the problem of limited rationality highlights the role of the entrepreneur in making decisions.

**TABLE 1**  
Description of case data

Company*	Industry sector	Year of establishing	Year of intl. of the production	Turnover in mil € (before Intl)	Employees (before Intl)	Reasons for the Intl (in order of importance)	Export (before Intl)
AirComp	MECHANICAL compressors	1992	2001	9	45	Market (produce locally to deal locally) After-sale service Low labour cost	40%
Electro Mek	MECHANICAL electro-mechanical devices	1985	2002	6	55	Low labour cost	25%
Plast	PLASTICS lightning & large scale retail items	1977	2004	9	60	Low electricity power cost Tax dodges Proximity to the customer Low labour cost	30%
Sports Wear	TEXTILE sportswear	1986	2002	5	135	Shortage of subcontractors in Italy Low labour cost	83%
Mek Machine	MECHANICAL metal profile forming machines	1948	2000	9	180	Low cost subcontractor Low labour cost	45%

Intl = internationalization of the production

\* =The names of the organizations are disguised.

The sample is composed by five traditional manufacturing SMEs (see Table 1). During the first years all the companies were locally or, at most, nationally oriented, performing mainly as subcontractors for the large north Italian companies. The role of the entrepreneur was extremely important and even small decisions were under direct control of the entrepreneur. All the companies produce (manufacture and/or assemble) and sell own products. Before undertaking the establishment of a production unit abroad, the companies were differently involved in the foreign activities, exporting mainly or exclusively to the west Europe or to the most developed countries. All the companies continued producing in Italy.

After the first three cases the other two cases confirmed the previous findings and the additional findings were increasingly less relevant, although these companies belong to different industry. As we were reaching the theoretical saturation (Eisenhardt, 1989a), we decided that a number of 5 cases would be sufficient.

We collected the data from three different sources: interviews, archival data and observations. The sources of data are summarized in the Table 2. In each enterprise, we interviewed the entrepreneur and at least another manager highly involved in the internationalization process. We collected balance sheets and internal documents. In four cases we visited the companies' headquarter in Italy.

We agglomerated the data from all the sources, analyzed them by building single case studies and then compared them in order to construct a conceptual framework. (Eisenhardt, 1989a). The information obtained through interviews was compared and integrated with the balance sheet, the company's internal documents and the company's web-sites. We designed the triangulation of different data aiming at improving measure reliability and validity (McCutcheon and Meredith, 1993). Subsequently, we wrote the single case histories aiming at indentifying

missing or contradictory information. At least one informant from each company was contacted for a follow-up interview in order to complete the missing data and clarify conflicting outcomes.

**TABLE 2**  
Sources of data

Company	Interviews			Archival data		Observations	
	Informants	Hrs of interview	Total	N°	Examples	N° of visits	Sites visited
AirComp	Entrepreneur Production manager	4 2	6	3	Balance sheets Web-site	2	Assembling unit Projecting unit
Electro Mek	Entrepreneur Production manager Sales manager	2 2 5	9	7	Business plan Balance sheets Web-site Internal documents	5	All
Plast	Entrepreneur Production manager	2 0.5	2,5	3	Balance sheets Internal documents	1	Production unit
Sports Wear	Entrepreneur Logistics manager	3,5 2	5,5	3	Balance sheets Internal documents	1	Cutting, sawing unit Designing unit
Mek Machine	Entrepreneur General manager Commercial and logistics manager	1 3 2	6	1	Web-site Balance sheets	-	-

After collecting data from each company we performed a within-case analysis adopting the coding techniques as suggested by Strauss (1987). Firstly, the interviews of each company were clustered in two large categories (open coding). Consequently, we conducted the cross-case analysis adopting the techniques suggested by Eisenhardt (1989a) and Miles and Huberman (1994). We looked at the similarities and differences among the cases, analysing them in pairs. The similarities were grouped together and, then, tested again in each case (Eisenhardt, 1989a; Yin, 1984). The analysis used extensively tabular displays (Miles and Huberman, 1984). The iteration among data, theory and the conclusions was constant (Eisenhardt, 1989a). While obtaining the outcomes we compared them to the theory underlying the similarities and differences of the decision-making process in the case firms and the effectual thinking.

#### 4. Effectual reasoning in the internationalization process

We begin this section by illustrating how the entrepreneurs reacted in front of the threats and how they spot the opportunity to go international. Thereafter, we discuss the steps taken to implement the internationalization and the actual commitment (what it turned actually out to be). Finally, we present how the specific path extended the companies' resources and provided them with new objectives.

##### 4.1. *'Who I am, What I know, Whom I know' and 'What I can do'*

The case firms are manufacturing companies from different industrial sectors. All the firms before internationalizing the production had exported; therefore the management has already acquired some international experience. The entrepreneurs were aware and convinced that they had capabilities and resources to make their products. But the entrepreneurs and their managements did not have any previous experience in FDI and the knowledge (political, legislative, cultural, and linguistic) of the incoming countries was extremely limited. In other words, the environment was unknown and the level of uncertainty was high.

The companies in the late '90s were threaten by the increasing production costs in Italy and the consequent shortage of sub-contractors and/or were considering the opportunities offered by a commercial expansion in new markets (see Table 2). The entrepreneurs identified clearly that in order to survive under threats or to be able to expand they had to take in consideration the possibilities coming from outside national borders. The ElektroMek's sales engineer, speaking about the entrepreneur, said:

*"I mean, [the entrepreneur] understood only one thing: 'If he [enterprise] wanted to exist in the future, he [enterprise]'d have to make his products [...] cost less.'."*

Although they started with a “*given goal to be achieved or a decision to be made*” (Sarasvathy, 2001, p.249), the objective was flexible and the path how to obtain it was not pre-determined. After identifying what they had to do, they analyzed the firm’s resources that had provided them sustainable and competitive advantages up to that critical moment. The entrepreneurs asked themselves: “What can I do? How can I react to this critical moment?”. AirComp being still competitive by producing in Italy decided to explore new markets in the emergent Eastern Europe. ElectroMek, Plast and Sportswear, aware of being able to make products and of the market potentials of their products, decided to transfer a part of the production in the production low-cost countries. MekMachine, pushed by the increasing cost of Italian subcontractors, decided to find substitutes abroad. The MekMachine’s General Manager outlines:

*“The company got to a point that we [management] didn’t want to support alone promoting and marketing costs,... costs that involved the development of the brand without any subcontractors’ support. Meanwhile the subcontractors were increasing their prices”*

At this point the question consisted in where to internationalize. In order to answer to this question the entrepreneurs addressed people that they knew, connections’ network. They did not consult costly consulting companies and they did not performed in-depth market researches. The decision-making process followed two steps.

In the first step, they identified through the network connections a country that was satisfying the main goal (e.g. lower production costs). The information was considered reliable as they obtained it from people that they knew personally. These people usually had had a direct experience in the country suggested. AirComp and ElectroMek obtained the information from institutions such as the Chamber of Commerce. The entrepreneurs had an easy access to the data

as they were board's members. Plast obtained information about Serbia from own workers that are 70% Serbian immigrants; Sportswear gathered information thanks to friends (Italian entrepreneurs from the same area) that were already operating in Romania; and MekMachine used the personal connections in Slovakia of one of its managers.

The second step consisted in considering other factors such as: local laws, logistics, and fiscal discounts. The entrepreneurs chose the first country that satisfied the main goal (e.g. lower production costs) and where the other factors were not disturbing ones. The comparison with the other areas was limited.

#### ***4.2. How the 'Interaction with other people' takes to the 'Effectual stakeholder commitment'***

Once the country was chosen, the next decisions to be done were: "Where in the country and how?". In order to answer the entrepreneur and the management started interacting with the contacts in the incoming country. They did not have a previous experience in internationalizing the production and they did not know which were actually the possibilities and consequently the steps to follow. In fact, these interactions defined the effectual commitment that shifted from the initial entrepreneur's objective through the integration of new and unexpected stakeholders in the project (see Table 3 ).

Originally, AirComp visited Serbia with a business mission organized by the Chamber of Commerce and guided by AirComp's entrepreneur. The goal was to see the lie of the land for a potential distributor in that country. The entrepreneur met a Bosnian that was selling the compressors in Serbia and in Bosnia. They decided to start a commercial collaboration that soon was transformed in a joint venture in Bosnia. In fact, AirComp's management realized rapidly the potentials of the new distributor, the lower labor cost in Bosnia and, above all, the necessity of the distributor to know better the product in order to be able to provide post-sales service (key factor

in the sector). Consequently, they offered to the distributor the possibility to start assembling the compressors he was selling. The distributor considered the chances to increment the turnover and to become distributor of own products and accepted the offer. Therefore, AirComp having aimed at selling in Serbia started a joint venture in Bosnia where they assemble and sale in Bosnia and Serbia.

MekMachine, thanks to an own manager, contacted a bigger Slovakian company. It was a decades old company with more than 250 employees. Pushed by the low cost of the semi-manufactured products and by the chance to substitute a relevant number of small subcontractors with a sole partner, MekMachine decided to initiate a long-term relationship with the Slovakian company. After some months, the Slovakian company was about going bankrupt for former reasons unknown to the Italian machine producer. Thus, the entrepreneur and the general manager decided to take over the Slovakian company and its top management. The entrepreneur told about the main reason undergoing the decision: “...*the first thing we considered was that finally we’d manufacture the machines alone!*”. Therefore, MekMachine having aimed at finding some cheaper subcontractors took over a company in Slovakia and internalized a number of operations.

After starting the production unit abroad, the entrepreneurs and the management realized two facts. Firstly, they can extend the objectives of the commitment; secondly, they have new means on disposal. In the following two sections, we describe how the companies changed consequently to the specific path followed.

**TABLE 3**

From the initial decision to effectual commitment

Company	Reasons for the Intl (in order of importance)	Initial objective	Initial information's network	Stakeholders integrated on board	Effectual commitment
AirComp	Market (produce locally to deal locally) After-sale service Low labour cost	Extend market - Selling in Serbia	Chamber of commerce (entrepreneur member of the board)	Bosnian distributor	Joint venture in Bosnia - assembling, selling and after-sales service in Bosnia and Serbia
Electro Mek	Low labour cost	Assembling abroad (subcontractor)	Political institution (entrepreneur member of the board)	-	Green field factory in Slovakia
Plast	Low electricity power cost Tax dodges Proximity to the customer Low labour cost	Produce abroad	Own employees (70% Serbian immigrants)	Own Serbian employees  Italian manager operating in Serbia	Green field factory in Serbia
Sports Wear	Shortage of subcontractors in Italy Low labour cost	Find subcontractors that disappeared in Italy - Outsource in Romania (externalize the operations)	Friends entrepreneurs operating abroad (in Romania)	Italian manager operating since many years in Romania	Green field company in Romania - kept the operations internally
Mek Machine	Low cost subcontractor Low labour cost	Substitute Italian subcontractors with low cost ones - Outsource in low-cost country	Own manager's personal connections (with a Slovakian factory)	Slovakian company's management	Acquisition of a big company in Slovakia - internalized some operations

#### ***4.3. From the conception of 'New ends' to the creation of new artifact***

The companies established a subsidiary abroad with the goal to make it work as a production branch of the Italian factory independently from the local territory. The entrepreneurs' idea consisted in executing abroad the simplest operations and the operations with a high incidence of the workforce, exploiting thus lower production costs. The specific path followed during the internationalization, the interaction with other people, and the establishment of a company in

collaboration with (unforeseen) stakeholders (e.g. local managers, own employees) caused in most cases an unexpected (see Table 4) change extending, thus, the original objective.

**TABLE 4**

New operations, new activities and unexpected local impact of the foreign subsidiary

Company	New operations*	New activities	Local impact
AirComp	Extended the number of products (more complex) assembled in Bosnia	Sourcing in ex-Yugoslavia After sale service provided directly by Bosnian subsidiary	Creation of independent sister company in Bosnia
Electro Mek	Extended the number of products (more complex) assembled in Slovakia Extended the number of operations (more complex) performed in Slovakia	Accounting for the subsidiary performed in Slovakia (not by Italian unit)	Creation of an industrial zone in a Slovakian town (agreement with the local institutions to provide infrastructures for the ElectroMek's subsidiary and other potential investors)
Plast	Started production of new products through the acquisition of new machines for the subsidiary Differentiated the operations between Italian factory and Serbian subsidiary	Selling in Serbia Outsourcing in Serbia	Local network of subcontractors Creation of independent sister company in Serbia
Sports Wear	Extended the number of products through the identification of new subcontractors Internalized new operations (e.g. cutting) in the Italian factory	Outsourcing in Romania (extended portfolio of products) Differentiating the core business	Local network of subcontractors
Mek Machine	Extended the number of products (more complex) assembled in Slovakia Internalized new operations (e.g. painting) in the subsidiary	Projecting, sourcing and selling units in Slovakian subsidiary After sale service provided directly by Slovakian subsidiary	Creation of independent sister company in Slovakia

\*= the idea consists in including the product diversity

When Plast started operating in Serbia, they rented a small shed and transferred some presses from Italian factory (the ones with the highest incidence of workforce). By the end of the first year, the management decided to increase the number of operations by transferring other presses. Afterwards they acquired some new presses, not previously owned, only for Serbian factory. Thus, nowadays the productions in Serbia and in Italy are distinct. The Italian factory produces products that require big-sized presses and a high level of automation; the Serbian

factory owns medium-sized presses. Besides, the know-how of some products is mostly in Serbia as their production started directly in the subsidiary. Some local Serbian companies noticed the presence of the subsidiary and they entered in contact with it. Therefore, the Plast's subsidiary unexpectedly extended the activities by starting selling finished products and acquiring raw materials locally. Plast's general manager states:

*... now [3,5 years after establishing the subsidiary]we are starting taking some jobs in Serbia... now when they[Serbian companies] understood that we mould there.[...] They arrived in the subsidiary and asked us whether we are capable to mould beer cases for them*

Among first people to work for Serbian subsidiary were Serbs that previously worked for Plast in Italy. The majority of the workers in the Italian factory are Serbian immigrants and few of them accepted to be transferred. One of them, after having worked for 4 years for the subsidiary, decided to establish an own little factory in the same sector. Plast sized the opportunity and supported him during the initial phases by providing him with some small presses. The new company works 100% for Plast. Besides Plast identified other subcontractors; in this way, they started creating in Serbia a subcontractors' network as they already had in Italy. At the same time, the entrepreneur decided to increase the investments in Serbia by building a new bigger shed inclusive of a warehouse and office space. In the next future, the management intend to set up a more independent subsidiary with own commercial and acquiring units. Plast's general manager says:

*My idea is: in Serbia I need to create a company still linked to me, but that company has to become progressively more independent. They don't have to send me*

*back the goods. [...] I want to provide the subsidiary with own local clients. [...] There will be an independent sales office...*

Concluding, in all the cases few months after starting the production abroad, the new objectives included extension of the number of operations in the foreign subsidiary, extension of the number of activities in the foreign subsidiary, and connection of the foreign subsidiary with the local territory.

Therefore, the subsidiaries from a simple and passive production unit abroad became, by the interaction with other people met along the path and by the modification of the objectives through the entrance of new stakeholders, a new artifact. They developed the subsidiaries in effectual sister factories with an own structure able to contribute actively to the newly formed Group.

#### ***4.4. From the creation of ‘New means’ to ‘Who we are, What we know, Whom we know’***

Establishment of a production unit abroad provided companies and entrepreneurs/management with new means. They expanded the resources and the knowledge through the interaction with other people, ‘taking on board’ new people (effectual stakeholders), and the direct experience. The specific path followed had three main consequences on the management and the entrepreneurs.

Firstly, it changed them and their perception of themselves (who we are). The entrepreneur and the management, as well as the low level employees, consider their companies as a small international firm. AirComp entrepreneur says:

*[Employees] changed. Before there was a tendency to say: ‘No, no!’ to the internationalization. They were afraid about losing their job as the production would be transferred abroad. But, after a year and half they realized that the production increased even thanks to the [Bosnian] subsidiary. They realized: ‘Ah, ok! We can*

*repeat the stuff [internationalization].'. Today, they are open to new experiences; they ask us to go even more international!*

Consequently, the management changed the way of presenting (or branding) the company towards both the clients and the employees. For example, Plast presents itself to the clients as a flexible international company, although still medium-sized. They are capable to deliver products at a lower price but longer delivery time (by producing in Serbia) or, vice versa, at a higher price and shorter delivery time (by producing in Italy).

AirComp and MekMachine use the new branding to communicate that they are capable to provide high level after-sale assistance locally. On the other hand, when hiring new personnel the companies in the job description underline the possibility to have international experience. Plast's entrepreneur speaking about the workers' attitude towards the internationalization of the activities says:

*At the beginning there's a lot of resistance, it seems that you want to take from them everything! [...] But, by the passing of the time the people understood [...] When they realized that the factories that hadn't internationalized were bankrupting and our company grew and became larger, this was a reason of pride! From being a negative aspect, it passed to be something very positive.*

Secondly, the path extended the knowledge in their possession (what we know). The companies learnt how to establish a subsidiary abroad. They learnt what kind of problems could arise and what kind of professional support (e.g. juridical, accounting) they need. Every entrepreneur took the internationalization as a challenge. They did not know what to expect, whether they were able to do it. But now, the companies are aware of their potentials: although small, they can go international. AirComp entrepreneur states:

*Definitely [the internationalization experience in Bosnia] from the strategic point of view told us: 'Ok! We can do it!'. In other words, we can go to India, we can go.... i.e. often the difference between thinking and making it happen consists in being convinced that you can do it.*

Thirdly, the path extended the network of the people they know (Whom we know). On one hand, the entrepreneur, the management and the employees in contact with the foreign subsidiary established professional and personal relationships with foreign employees and other people in the foreign country. On the other hand, the entrepreneurs and the management entered in contact with Italian professionals expert in international business. They supported the companies in bureaucratic, legal and administrative issues; in addition, AirComp, ElectroMek and Plast employed a person, capable to speak the language of the incoming country, to manage administrative issues. In this way, the companies extended the means on their disposal, integrating them among the own resources. This increased the general attitude in understanding foreign specific cultural, mentality, religious, and linguistic aspects. Sportswear's entrepreneur reported:

*[Internationalization] is a great aid because it allows to penetrate and to understand certain dynamics. [...] Now we've made an [international] experience; it allows us to think and to be open to any possible future event.*

The path followed allowed all the companies to take in consideration further international expansions (see Table 5). The following internationalizations involved fewer efforts thanks to the experience acquired and means available. In other words, the entrepreneur and the managers knew what to do. Sportswear's entrepreneur is convinced that *"after the experience in Romania, establishing a factory in Albania was easy! We knew what to do"*.

It is interesting to notice that in the subsequent expansions abroad AirComp, Plast, MekMachine and partially ElectroMek and Sportswear followed a more systematic approach, adopting causal thinking rather than effectual one in making decisions. They started from a concrete problem; they identified a number of possible solutions evaluating pros and contras of each. They reduced the choice on two or three solutions with best scenarios; they analyzed more in-depth them and, finally, they implemented the solution with the best scenario.

**TABLE 5**

Further internationalizations and the activities of the subsidiaries

Company	Where	Activities
AirComp	Brazil	Production, sourcing, selling
	Poland	Production, selling
ElectroMek	China	Production, sourcing, selling
	USA	Selling
Plast	planning in Arabia or Bulgaria	Production, selling or sourcing
Sports Wear	Albania	Production + differentiation of core business (real estate)
	Japan	Selling
	planning USA	Selling
MekMachine	England	Projecting
	planning Belgium	Producing (vertical integration)

When AirComp decided to attack the South-American market they took in consideration the market potentials of each country and chose Brazil as the most promising one. In order to enter more effectively in the market they looked for a company capable to (in order of importance): market, provide after sell service, manufacture and design the compressors. Designing capabilities are useful in adapting the EU products to the Brazilian standards. The first research produced a total of about 20 potential partners. Three were chosen for a more in-depth investigation. The three companies had equivalent technical skills; they decided to start a joint venture with the

company which entrepreneur had Italian origins and could speak Italian as thus the communication would be less problematic.

Finally, in all cases we can say that the different perception of themselves, the extension of the knowledge, and the extension of the network expanded the resources available to the companies. The original locally oriented SMEs became truly international SMEs, able to operate globally. They consider opportunities/threats coming from different corners of the world.

## **5. Discussion and conclusion**

This research explored the entrepreneurial decision-making in SMEs (of experienced entrepreneurs in already existing organizations) during the internationalization process of their activities. The internationalization in an unknown country with limited resources typical of a SME is a phenomenon characterized by low predictability, but the future is primarily influenced by human action rather than nature. It is the human action and interaction with the other stakeholders that shape the future. Such phenomena are particularly challenging because they are characterized by the third type of Knightian uncertainty, goal ambiguity, and environmental isotropy (Sarasvathy, 2008). We found that in such situations also experienced entrepreneurs of already existing organizations (SMEs) tend to adopt effectuation logic rather than casual one. Dynamic model of Effectuation (fig. 1) illustrates well their decision-making process with some exceptions (see fig. 2).

The entrepreneurs start with clear general goal, i.e. they want their firm to survive or to expand. They are experienced and successful entrepreneurs and they identified some opportunities in the foreign markets. But, how to obtain the advantages from the internationalization and which kind of internationalization to perform are not clear. The general goal has not been translated into specific “*sub-goals that can be actually acted upon*” (Sarasvathy, 2008, p.113). The sub-goals,

such as the choice of the foreign country, the partners, the type of internationalization, and the operations to be internationalized, are all products of the interaction with other people that may or not come on board and become the effectual stakeholders.

Before or while investing in the foreign country the companies did not prepare any business plan trying to predict the correlation between the investment and the profit. Probably it was due to the fact that the entrepreneurs and their managers were not able to develop different possible scenarios (because of the lack of information<sup>†</sup> or capabilities), they did not have a fix goal, and did not know which information in the environment were valuable (foreign country). The companies proceeded by small steps investing time and resources that the entrepreneur could take away from Italian company without damaging it. The decision-making process followed the principle called in the effectuation theory ‘affordable loss’. Even once they decided to start producing abroad they proceeded gradually leaving always open the possibility to turn back. The number of employees increased gradually. They started performing abroad the simplest operations increasing gradually their number and complexity as the entrepreneur’s trust was increasing.

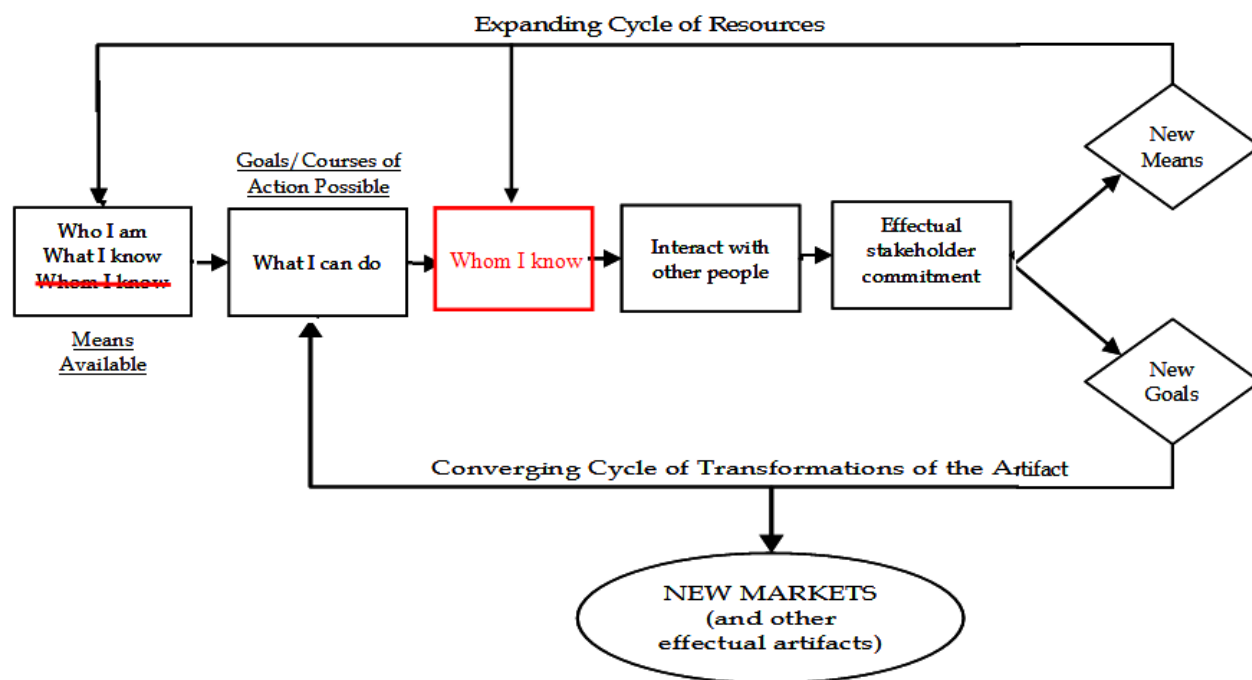
The results of the internationalization process are: an effectual stakeholder commitment (an abroad subsidiary), new goals and new means. The effectual stakeholder commitment is the established foreign subsidiary (see table 3). New goals consist in the extension of the number of operations in the foreign subsidiary, the extension of the number of activities in the foreign subsidiary, and the connection of the foreign subsidiary with the local territory (see table 4). New means are the resources acquired and the capabilities developed necessary for further internationalizations (see table 5). Considering the Dynamic model of Effectuation (fig. 1), on one hand new goals contributed in the creation of a new artifact; an effectual sister factory with an own structure able to contribute actively to the newly formed international Group. On the other

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<sup>†</sup> due to the lack of resources, typical for a SME.

hand, new means expanded the resources in the possession of SMEs; the original locally oriented SMEs became truly international SMEs, able to operate globally.

In our study we noticed a difference between the Dynamic model of Effectuation (fig. 1) presented by Sarasvathy and Dew (2005) and what we found (see fig. 2). The entrepreneur starts the decision-making process by analyzing ‘Who I am’ and ‘What I know’; but the analysis of ‘Whom I know’ comes after investigating ‘What I can do’. We suppose that the difference consist in the fact that the entrepreneurs in our sample are experienced as in the Sarasvathy and Dew’s work but they are part of already existing organizations (SMEs). When facing a problem, being part of an organization, they at first glance try to understand the possible solutions basing their evaluation on the capabilities and resources already owned. In small organizations the entrepreneurs are usually the only ones that have an overall view of it, and only if the solutions can not be implemented turning to internal connections, they address the network.



**Fig. 2** Dynamic model of Effectuation in the Internationalization of SMEs

We noticed as well that during the development of the subsidiary the entrepreneurs tend to use still effectuation logic, where as in the subsequent expansions abroad the entrepreneurs used a more systematic approach adopting casual logic in decision-making. This is probably due to the fact that from the first production-oriented internationalization they learnt how to do it, which information are crucial, and which variables are important to be taken in the consideration. On the other side, the development of the subsidiary presented still the characteristics of the effectual problem space. Therefore, we concluded that entrepreneurs are not *a priori* more oriented towards a specific type of logic, but the logic used depends on the characteristics of the phenomena.

This research is based on five Italian manufacturing SMEs that internationalized the production in the Eastern Europe. Clearly it is necessary to conduct more empirical work to prove under which conditions it is possible to generalize. For instance, are there implications depending on the home country of the SME and/or on the country where the investment is made? Are the findings still valid when internationalizing other activities, such as sales, R&D or financing? Can we extend the findings to the INV or to the service firms that go international? Does the entrepreneurial background influence the decision-making process and, eventually, how? All case-firms had a successful internationalization. It would be very useful to investigate cases of failure in order to understand whether that can be explained by the decision-making process adopted. Equally interesting would be to understand whether there are differences in performances when entrepreneurs adopt different cognitive logics.

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