Track 5: SMEs, international new ventures and international entrepreneurship

Competitive Session

Foreign Market Entry Mode Choice of Small- and Medium-sized Enterprises: An Effectual Perspective

ABSTRACT

Despite considerable research, it remains unclear how foreign market entry mode choice unfolds when firms lack critical foreign market knowledge. The present paper introduces an effectual perspective to explain foreign market entry mode choice of small- and medium-sized enterprises (SMEs). We study the impact of the key dimensions of effectuation (i.e. given means, affordable loss, partnerships, and acknowledge the unexpected) on foreign market entry mode choice. We validate our theoretical predictions using survey data from 195 SMEs. Our research expands prior literature by applying effectuation logic to explain the foreign market entry mode choice of SMEs and contributes to an ongoing discussion regarding decision-making under uncertainty in firm internationalization.

Foreign Market Entry Mode Choice of Small- and Medium-sized Enterprises: An Effectual Perspective

INTRODUCTION

Foreign market entry mode choice refers to a firm's initial entry into a host country determining the investment it commits to its foreign activities, the control it exerts over its foreign activities, as well as the risk associated with its foreign activities (Anderson & Gatignon, 1986; Brouthers & Hennart, 2007). Prior research distinguished between non-equity based (e.g., exports, licensing) and equity based (e.g., joint venture, wholly-owned subsidiary) foreign market entry modes (Pan & Tse, 2000). Non-equity based entry modes imply lower investments and risks but also lesser control over foreign activities compared to equity based entry modes. Firms' foreign market entry mode decisions involve high levels of uncertainty as at the time of initial entry host country conditions (such as challenges, risks, or contingencies) are not fully predictable (Kulkarni, 2001; Sousa & Bradley, 2006). Firms entering a new international market face uncertainties due to liabilities of foreignness stemming from differences between the home and host country in terms of culture, language, economy, legislation, and politics (Zaheer, 1995). Foreign market knowledge is a key enabler to overcome liabilities of foreignness and to predict host country conditions (Johanson & Vahlne, 1977, 1990; Eriksson, Johanson, Majkgard & Sharma, 1997).

However, extant internationalization theories are silent on how firms come to foreign market entry mode decisions when they lack the necessary foreign market knowledge (Andersen, 1993; Whitelock, 2002). Acquiring relevant knowledge prior to market entry is challenging, costly, time-, as well as resource-intensive and, hence, not feasible for all firms (Eriksson et al., 1997). On the basis of limited or missing foreign market information, it is nearly impossible for firms a) to predict reliable goals relating to the new foreign market entry, b) to predict expected returns stemming from the new foreign market entry, c) to develop a proper firm strategy to control the host country conditions, and d) to exploit existing knowledge effectively. Prior internationalization literature has largely omitted the aspect of decision-making under uncertainty when relevant foreign market

information is not available (Schweizer, Vahlne & Johanson, 2010). Thus, a fundamental open question is how do firms choose an appropriate foreign market mode at initial entry when the host country conditions are largely unknown exposing the firm to high levels of uncertainty (Harms & Schiele, 2012; Child & Hsieh, 2014).

Dealing with uncertainty is central in Sarasvathy's (2001) Effectuation theory. She argues that in uncertain situations (such as entering a new foreign market with limited or missing foreign market knowledge) economic actors (e.g., a firm or its main decision maker) use different decision heuristics compared to situations in which the future is more predictable. In short, such actors prefer control over prediction as controlling an uncertain future eliminates the need to predict it (Sarasvathy, 2001). More specific, economic actors following effectual logic focus on what can be achieved with existing resources rather than focusing on what ought to be done by trying to predict the unpredictable (Schweizer et al., 2010). According to Sarasvathy (2001) effectual decision-making is determined by a) a set of *given means* and selecting between possible effects that can be created with that set of means (rather than by a predicted goal), b) a predetermined level of *affordable loss* associated with the project (rather than by an expected return), c) *partnerships* to reduce uncertainties (rather than to rely on business planning), and d) the notion to *acknowledge the unexpected* in order to exploit arising contingencies (rather than the exploitation of preexisting knowledge).

The present paper applies effectuation theory to explain SMEs' foreign market entry mode choice. We aim at investigating the impact of the four dimensions of effectuation (i.e. given means, affordable loss, partnerships, and acknowledge the unexpected) on the foreign market entry mode choice of SMEs (i.e., equity versus non-equity based modes). Prior research suggests that differences in decision-making processes lead to different strategic choices (Dean & Sharfman, 1996). Hence, we consider effectuation theory a useful extension to existing internationalization frameworks explaining firms' entry mode decisions as the theory explicitly focuses on the aspect of decision-making under uncertainty (Autio, George & Alexy, 2011; Schweizer et al., 2010).

Effectuation theory originates from entrepreneurship research and originally describes the process entrepreneurs follow to start their own venture (Sarasvathy, 2001). However, recent reviews of internationalization literature have suggested that the field would benefit from a more holistic perspective pointing to the potential of entrepreneurship theories to understand internationalization processes (Keupp & Gassman, 2009; Jones et al., 2011). Several authors have argued that effectuation might be a useful extension to extant internationalization theories (e.g., Johanson, & Vahlne, 2009; Schweizer et al., 2010; Sarasvathy, Kumar, York & Bhagavatula, 2014) as internationalization processes are a prime example of decision-making under uncertainty (Schweizer et al., 2010; Harms & Schiele, 2012).

We seek to offer two contributions to extant research: First, we theoretically contribute by linking effectuation logic with firms' foreign market entry mode choice. To this end, the core arguments developed in our paper are consistent with and expand prior literature arguing that firms' foreign market entry mode choice is a question of decision-making under uncertainty for which effectuation theory provides an enhanced understanding. Hence, effectuation theory might be a missing piece to explain the early stages of firms' internationalization process (such as choosing an appropriate entry mode when foreign market knowledge is missing) where extant internationalization theories have shortcomings (Harms & Schiele, 2012; Child & Hsieh, 2014). We advance the field by revealing that foreign market entry mode choices are determined by firms' considerations of given means, affordable loss, partnerships, and acknowledge the unexpected.

Second, we offer a contribution by tailoring our research model to SMEs. Even though a considerable amount of internationally active firms are SMEs (Brouthers & Nakos, 2004), SME foreign market entry mode literature is more limited compared to research on large multinational enterprises (MNEs) (Brouthers & Hennart, 2007). However, we envisage the investigated relationships to be particularly pertinent in the SME context for at least two reasons. First, compared to large MNEs, SMEs suffer from liabilities of smallness such as limited resources, lack of internationalization experience, and particular sensitivity to challenges arising in the host country

(Laufs & Schwens, 2014). Hence, SMEs face higher levels of uncertainty when choosing a foreign entry mode compared to MNEs as a) it is harder for SMEs to acquire relevant foreign market knowledge pre-entry (because acquiring such knowledge is costly, time-, as well as resource-intensive), b) the knowledge is less likely to already exist within the SME (due to limited international diversification), and c) SMEs are more strongly affected by contingencies arising post-entry. Second, prior research points out that SMEs' internationalization (including entry mode choices) differs from the patterns of MNEs' internationalization. That is, SMEs choose different foreign market entry modes in case of external uncertainties compared to larger MNEs (Erramilli & D'Souza, 1993, 1995; Li & Qian, 2008). Moreover, SMEs' internationalization is not always strategic and long-term planned, but is rather influenced by emerging opportunities from SMEs' networks (Coviello & Munro, 1995; Spence & Crick, 2006; Andersson, 2011). Our paper contributes to extant literature by introducing an effectual perspective explaining some of the phenomena found in prior SME internationalization literature.

BACKGROUND LITERATURE

SME internationalization

SMEs suffer from liabilities of smallness (Aldrich & Auster, 1986; Brüderl & Schüssler, 1990). That is, SMEs have several specific characteristics differentiating them from large multinational firms (Laufs & Schwens, 2014). More specific, compared to large MNEs, SMEs have rather limited resources, lack relevant internationalization experience, and have greater sensitivity to challenges arising in the host country (Laufs & Schwens, 2014). In turn, SMEs take different strategic decisions in comparison to larger firms in general (Shuman & Seeger, 1986), in the internationalization process (Baird, Lyles & Orris, 1994), as well as specifically in regard to foreign market entry mode choice (e.g., Coviello & Munro, 1995; Erramilli & D'Souza, 1995).

First, lacking important resources, the relative proportion of resources invested in (and, hence, the risk taken in) a single host country is higher for SMEs compared to their larger counterparts (Buckley, 1989; Maekelburger et al., 2012). Resource constraints can enhance negative

performance or survival implications in case of inappropriate foreign market entry mode decisions (Brouthers, 2002; Brouthers, Brouthers & Werner, 2003). Additionally, resource constraints may restrict SMEs in their choice of equity entry modes, even when internalization to obtain the highest level of control is rational (Erramilli & Rao, 1993; Zacharakis, 1997). SMEs' lack of human resources that can be deployed abroad for longer time periods or limited financial resources prohibiting the establishment of a managerial-control structure abroad deter SMEs from engaging in higher commitment foreign market entry modes (Calof, 1994).

Second, SMEs have less international experience and pre-existing knowledge compared to large MNEs (Buckley, 1989). For instance, SMEs usually do not possess foreign subsidiaries worldwide (Lu & Beamish, 2001). The selection of the foreign market entry mode is therefore strongly influenced by subjective perceptions of individual decision-makers (Collinson & Houlden, 2005; Coviello & McAuley, 1999), resulting in different mode choices (Nordman & Melen, 2008).

Third, SMEs are highly sensitive to external influences (Cheng & Yu, 2008; Schwens, Eiche, & Kabst, 2011). Changing technological, political, and institutional environments in foreign markets make appropriate entry mode choices to control host country risks difficult. Studies find that SME entry mode choice differs from that of large MNEs particularly in uncertain situations (Erramilli & D'Souza, 1993, 1995) or in highly dynamic markets (Li & Qian, 2008).

Although more limited compared to the literature on MNE internationalization (Brouthers & Hennart, 2007), prior research has investigated the determinants of SMEs' entry mode choices (for comprehensive reviews see e.g., Coviello & McAuley, 1999; Laufs & Schwens, 2014). However, as most theoretical frameworks were developed in an MNE context, they largely fail to account for specific SME characteristics (Axinn & Matthyssens, 2002; Brouthers & Hennart, 2007). For instance, a common aspect of each of these frameworks is that firms' entry mode choices depend on the existence of some kind of foreign market information (Whitelock, 2002; Harms & Schiele, 2012). However, none of these frameworks explains, how resource-constrained SMEs choose a foreign market entry mode lacking the necessary foreign market knowledge (Schweizer, Vahlne &

Johanson, 2010). Moreover, these predominant frameworks largely fail to account for differences in decision-making styles between SMEs and larger MNEs (Aharoni, Tihanyi & Connelly, 2011; Nielsen & Nielsen, 2011). Thus, our understanding how SME decision-making of an appropriate foreign market entry mode is still limited (Harms & Schiele, 2012; Child & Hsieh, 2014).

Foreign market entry mode decisions and effectuation

Any foreign market entry mode decision exposes firms to uncertainty (Kulkarni, 2001; Sousa & Bradley, 2006) referring to situations with an unknowable or incalculable future (Knight, 1921). Referred to our research context, uncertainty is a multidimensional construct, triggered by differences between home and host market in such factors as language, culture, political system, education level, or level of industrial development (Johanson & Wiedersheim-Paul, 1975; Dow & Larimo, 2009). Prior meta-analyses emphasize that the specific degree of uncertainty has implications for a firm's entry mode choice in a particular market (Zhao, Luo & Suh, 2004; Tihanyi, Griffith, & Russell, 2005). In this regard, research emphasizes the relevance of individual decision-maker's perception of host country conditions (Sousa & Bradley, 2006; Nebus & Chai, 2014) in order to capture how uncertainty influences strategic decisions such as firm's foreign market entry mode choice. This is particularly pertinent in the context of SMEs. Suffering from limited resources and lack of experience, SMEs often cannot accomplish time- and cost-intensive prior foreign market analyses to obtain relevant market knowledge (Collinson & Houlden, 2005; Coviello & McAuley, 1999). Hence, foreign market entry mode decisions in SMEs largely depend on key decision-makers way of dealing with uncertainty (Collinson & Houlden, 2005).

Dealing with uncertain situations is the core of Sarasvathy's (2001) work on effectuation. Effectuation may even be regarded as a "general theory of decision-making in uncertain situations" (Sarasvathy, 2001: 227) focusing on the individual decision-maker as the "predominant factor shaping the future" (Sarasvathy, 2008: 87). According to effectuation logic, control is preferred over prediction. As long as the uncertain future can be controlled it is not necessary to predict it (Sarasvathy, 2001). Hence, effectuation logic, which is based on emergent (ex-post) strategies,

differs from the causation approach, which relies on rational (ex-ante) planning of predefined goals, decisions based on expected return, use of formal business planning, and exploitation of preexisting knowledge (Sarasvathy, 2001; Harms & Schiele, 2012).

Effectuation encompasses four key dimensions (Sarasvathy, 2001): given means, affordable loss, partnerships, and acknowledge the unexpected. *Given means* encourages individual decision-makers to base decisions on their existing means (i.e., knowledge, contacts, and resources at hand) rather than on predefined goals. The second effectuation dimension encourages decision-makers to consider the *affordable loss* of a decision rather than its expected return. Affordable loss refers to the extent to which a decision-maker incorporates potential downsides of decision alternatives so that failure will not endanger the firm's survival. The third effectuation dimension encourages decision-makers to build *partnerships* with stakeholders (e.g., pre-commitments from lead-customers) in order to reduce uncertainty rather than to rely on formal business planning. The fourth dimension encourages decision-makers to *acknowledge the unexpected*. This means, decision-makers may be open to exploit arising contingencies rather than exploiting preexisting knowledge.

We argue that effectuation is a promising concept to explain decision-making in situations characterized by high levels of uncertainty such as SMEs' entry mode choices (Autio, George & Alexy, 2011; Schweizer, Vahlne & Johanson, 2010). Recent contributions reviewing the current state of internationalization research have advocated a more holistic perspective, which integrates theories from other fields such as in particular entrepreneurship (e.g. Keupp & Gassman, 2009; Jones et al., 2011). In this regard, Jones and Coviello (2005) conceptionally depict internationalization as a "time-based process of entrepreneurial behavior" (p. 284) and point to the importance of entrepreneurship in understanding internationalization processes such as the process leading to a particular foreign market entry. Moreover, several authors argue that effectuation may play an important role in explaining stages of firms' internationalization process (e.g., Johanson, & Vahlne, 2009; Schweizer, Vahlne & Johanson, 2010; Sarasvathy, Kumar, York & Bhagavatula, 2014). In particular, Sarasvathy and colleagues (2014) emphasize that internationalization processes

are rather susceptive to effectual logic as predictive strategies are of limited use in uncertain situations such as choosing an appropriate entry mode with missing foreign market information. In contrast, internationalization is a prime example of decision-making under uncertainty rendering effectuation a useful extension to extant internationalization theories, which have largely refrained from explaining this important aspect (Schweizer et al., 2010; Harms & Schiele, 2012).

Owing to the newness of the concept, only a limited number of studies have yet analyzed the implications of effectual decision-making on the internationalization process. Here, most studies base their findings on comparative case studies. A recent case analysis by Kalinic, Sarasvathy, and Forza (2014) suggests that firms switch between effectual and causal reasoning depending on the prevailing level of uncertainty. Under high levels of uncertainty, firms prefer effectual instead of causal decision-making allowing them to quickly increase the level of commitment in foreign markets. Only a single study (i.e., Harms & Schiele, 2012) quantitatively investigates antecedents and consequences of effectual decision-making on firm's entry mode choice. Contrary to prior findings, results suggest that uncertainty induces firms to apply causal (but not effectual) decision-making. Moreover, effectual decision-making has no significant influence on firm's entry mode choice (whereas firms using causal decision-making prefer non-equity-based entry modes).

In sum, findings from prior case studies strongly suggest that effectuation plays an important role in firms' internationalization process. However, while case studies allow in-depth descriptions of phenomena, questions regarding the broader generalizability of findings remain. A first quantitative attempt by Harms and Schiele (2012) produced results contrary to prior case study findings (however based on a rather small and specialized sample of gazelle firms). Hence, further attempts to generalize (based on larger samples of traditional firms) and differentiate (e.g., by separating between the different dimensions of effectuation) findings are certainly warranted (Zahra, 2007).

HYPOTHESES

Gathering foreign market information through market research is difficult for resource-constrained SMEs. Hence, SME decision-makers realize that a causational decision-making based

on expected returns may not be effective and employ and effectual approach instead (Harms & Schiele, 2012). SMEs use their existing means as initial basis to pursue internationalization projects and, in turn, foreign market entry mode decisions (Kalinic et al., 2014). Three different categories of means exist (Sarasvathy et al., 2014): identity ("who I am"), knowledge ("what do I know"), and networks ("who do I know"). Hence, decision-makers focus on what they can do instead of what they should do (based on market research and other types of predictive analyses).

Relying on given means instead of desired outcomes encourages SME decision-makers to stick to their own capabilities and be open to arising possibilities (Sarasvathy et al., 2014). Regarding the latter, a focus on given means enhances SME's ability to detect opportunities in foreign markets (Westhead, Wright & Ucbasaran, 2001). New means at disposal or arising opportunities (e.g., through networks) in the host country can be exploited more effectively when the firm retains some form of flexibility to react to uncertain situations (Dow & Larimo, 2009). In other words, SME decision-makers concentrating on existing means seek to retain more flexibility (rather than structural control) in order to exploit arising opportunities or new means at disposal emerging from host country networks. SME managers making their decisions on a given means basis are more confident to flexibly control the host country activities without necessarily internalizing the activities by the choice of an expensive equity based entry mode. Moreover, the given means approach reduces market costs and risks making lower commitment entry mode choices more attractive (Harms & Schiele, 2012). In sum, we hypothesize:

H1. The more SMEs are guided by a "given means" approach the less likely SMEs will choose equity based foreign market entry modes.

Affordable loss relates to "committing in advance to what one is willing to lose rather than investing in calculations about expected returns to the project" (Sarasvathy, 2008: 21). As firm's affordable loss is rather easy to calculate (i.e., current financial position and how much the firm can afford to lose), the affordable loss approach eliminates the role of uncertainty (Kalinic et al., 2014).

Hence, affordable loss describes situations in which decisions on foreign market entry mode choice are made with the objective of risk minimization.

We argue that SME main decision-makers, who focus on an affordable loss approach, will manage the risk associated with the internationalization project through an appropriate entry mode choice. The uncertainty surrounding SMEs' entry mode decisions exacerbates firms' challenges to calculate expected returns from investment projects making decisions based on the affordable loss principle more effective (Harms & Schiele, 2012). In this regard, an affordable loss approach is seen as major lever for risk minimization encouraging firms to prefer non-equity based entry modes. Guided by the affordable loss principle, firms are more hesitant to invest and seek ways to reduce their investment and risk by choosing non-equity entry modes (Ahmed et al., 2002; Brouthers, 1995; Evans & Mavondo, 2008). SMEs may be reluctant to take unnecessary equity risks, which can easily overburden a smaller firms resource base and may therefore use a lower resource commitment (i.e., non-equity based) strategy (Agarwal & Ramaswami, 1992). For example, establishing a wholly owned subsidiary is more expensive than other forms of entry and therefore increases the firm's financial risk. This is consistent with Brouthers (1995: 10) pointing out that "physical presence in a country opens the firm up to political risk, such as changing laws, regulations, governmental philosophies, and exposes the firm's assets to the possibility of nationalization". Consistent with this argumentation, Ahmed and colleagues (2002) emphasize that firms tend to prefer non-equity based entry modes to reduce the risk associated with foreign markets. Similarly, Zhao et al.'s (2004) meta-analysis finds foreign market risk to have a statistically significant negative impact on the probability to choose equity based modes of entry. In sum, we hypothesize:

H2. The more SMEs are guided by an "affordable loss" approach the less likely SMEs will choose equity based foreign market entry modes.

The *partnerships* dimension of effectuation encourages SME decision-makers to engage in

alliances and pre-commitments with network partners as a way to expand means, co-create opportunities, reduce uncertainty, and share risks (Sarasvathy, 2001). Decision-makers following an effectual approach build new networks with stakeholders to obtain resources and critical foreign market knowledge. Moreover, the ad hoc selection of stakeholders to enter the network allows firms to retain a high amount of flexibility and, hence, to react upon arising opportunities from inside and outside the network (Kalinic et al., 2014). Consistent with this argumentation, Li and Qian (2008) show that in uncertain settings SME managers minimize risks by building partnerships. Such networks help SMEs to overcome liabilities of foreignness and outsidership (Johanson & Vahlne, 2009; Kalinic et al., 2014).

We argue that SMEs find it prudent to work jointly with their partners to minimize their risks and gain foreign market knowledge. Leveraging knowledge and resources of network partners helps SMEs to overcome differences as language, political system, or industrial development contributing to uncertainty at the time of foreign market entry. Extant research suggests that the involvement of partners helps SMEs to overcome resource constraints and information shortages in the course of their international endeavors (Ellis, 2000; Knight & Cavusgil, 2004). Partnerships allow SMEs to obtain access to partners' knowledge (De Clercq, Sapienza, Yavuz & Zhou, 2012; Schwens & Kabst, 2009) contributing to closing the knowledge gap SMEs often encounter at the time of entry. Thus, partnerships are a mechanism to reduce risks associated with the host country context making control by means of equity based foreign market entry modes less relevant. Partnerships are a lever to react to new contingencies in the host country and allow firms to react flexibly on a reliable basis. Moreover, partnerships have been shown to enable SMEs to protect proprietary knowledge from expropriation (Yli-Renko, Autio & Tontti, 2002). Hence, by interacting with partners SMEs become familiar with the host country (Schwens & Kabst, 2011) making costly equity based entry modes less necessary. This is consistent with Maekelburger and colleagues (2012) finding international network partners to function as a safeguarding mechanism for SMEs' specific assets allowing SMEs to forego on establishing costly subsidiaries in foreign markets. In sum, we hypothesize:

H3. The more SMEs are guided by a "partnerships" approach the less likely SMEs will choose equity based foreign market entry modes.

The fourth effectuation dimension – *acknowledge the unexpected* – encourages decision-makers to value emerging opportunities (Sarasvathy, 2001). More specific, decision-makers may treat changes in firm's environment or unexpected developments as opportunities to reduce uncertainty and stay in control. Hence, an effectual approach encourages firms to leverage arising opportunities instead of avoiding deviations from goal-oriented plans (Sarasvathy et al., 2014). Unexpected developments such as discomfiting information may motivate firms to discontinue unpromising projects and instead be open to serendipitous opportunities. Prior research emphasizes that such opportunities may even lead firms to "unplanned" internationalization projects (Chandra, Styles, & Wilkinson, 2009; Crick & Spence, 2005).

The ability to develop reliable goal-oriented plans is rather challenging given the uncertainty surrounding firms' entry mode decisions (Dow & Larimo, 2009; Zhao et al., 2004). We argue that firms guided by an acknowledge the unexpected approach prefer non-equity based entry modes, as SMEs must remain flexible to react to unexpected events in the host country and be less exposed to financial risks in case of failure. As Schwens and colleagues (2011: 336) point out, "equity based market entries imply less flexibility for SMEs" and are less suitable in markets where changes and opportunities arise frequently. The acknowledgment of arising opportunities in the internationalization process is particularly important for SMEs in order to guarantee and control sustainable firm development (Oviatt & McDougall, 1994). Managers of SMEs pursue flexible ways to adapt strategies when facing high degrees of uncertainty (Hough & White, 2003; Quinn, 1980). Researchers suggest that firms must maintain the necessary flexibility to change to a different entry mode in order to react to unpredicted changes in the environment (Brouthers, 2002; Erramilli & Rao, 1993; Zhao et al., 2004). In analogy, an internationalization project may be a result of an unplanned product request from a customer in a foreign country (Chandra, Styles, &

Wilkinson, 2009; Crick & Spence, 2005). The SME may respond to such an opportunity by entering with a non-equity mode. Brouthers et al. (2008) emphasize that when an investment opportunity cannot be accurately predicted, firms respond by keeping the initial investment low to retain flexibility in order to react to unexpected contingencies. Consistent with this argumentation, Nordman & Melén (2008) suggest that SMEs respond to emerging internationalization opportunities with non-equity entry modes such as exporting and licensing. In sum, we hypothesize:

H4. The more SMEs are guided by an "acknowledging the unexpected" approach the less likely SMEs will choose equity based foreign market entry modes.

METHODS

Data

Our study draws on data obtained from a sample of internationally active German SMEs in 2011. Consistent with prior research (e.g., Brouthers & Nakos, 2004; Maekelburger et al., 2012) and adhering to the commonly applied classification of the German Institute of SMEs (1997), we define SMEs as firms with up to 500 employees. Based on this definition, we collected the sample from the AMADEUS database resulting in 2,655 SMEs.

We developed our questionnaire in German language taking established back-translation literature for internationally accepted measurement items into consideration (Brislin, 1970; Hui & Triandis, 1985; Van de Veijver & Hambleton, 1996). Consistent with past research (e.g., Simonin, 1997), we gathered data via a mailed survey addressed to the firms' CEOs. In the context of SMEs, the CEO is perceived the best source of information about internationalization practices and strategic decisions (e.g., Rialp, Rialp & Knight, 2005). A total of 296 questionnaires were completed and returned (response rate of 11.1 per cent). Due to missing data, our final sample includes 195 SMEs. Controlling for non-response bias, we followed the procedure by Armstrong & Overton (1977). That is, we compared early and late respondents in terms of selected constructs showing no significant differences.

Measurement

We relied on previously validated scales from the entrepreneurship and international business literature to measure our main constructs. All questions were related to the SME's initial entry into its most recent foreign market (Brouthers & Brouthers, 2003). Thus, for our dependent variable ***foreign market entry mode choice***, we follow prior research (e.g., Brouthers & Nakos, 2004; Nakos & Brouthers, 2002) and distinguish between equity based (i.e., joint ventures, wholly-owned subsidiaries) (coded as "1") and non-equity based foreign market entry modes (i.e., export, contractual agreements, distribution) (coded as "0").

To measure ***effectuation*** as independent variable, we decided to use the scale by Brettel, Mauer, Engelen and Küpper (2012) and to adapt it to our research context. To this end, the four dimensions of effectuation were measured using a 7-point Likert scale (anchor points: 1 = "not at all" to 7 = "to a great extent"). The first dimension *given means* contains four items (Cronbach's Alpha: .79) and taps whether individual-related given means were considered when deciding about the internationalization project. The second dimension, *affordable loss*, contains four items (Cronbach's Alpha: .83) and measures whether the financial downside of the internationalization project was considered in the decision-making stage. The third dimension, *partnerships*, is measured with four items (Cronbach's Alpha: .80) and captures whether strategic alliances and pre-commitments of partners were central during the decision-making stage of the internationalization project. The fourth dimension, *acknowledge the unexpected*, consists of five items (Cronbach's Alpha: .79) measuring whether arising contingencies were leveraged in the internationalization project's decision-making stage.

We also included a set of control variables that may affect foreign market entry mode choice of SMEs. We included *firm size* measured by the number of permanent employees of the company, as the size of the firm is often considered as a proxy for resources availability. Because of industry differences identified by scholars (e.g., Brouthers & Brouthers, 2003), we controlled for *industry type* and *technology type*. Concerning the former we used a dichotomous variable that was coded

"1" if the firm was a manufacturing business and coded "0" if the firm was a service operation. Regarding the latter, we included a variable controlling for low-tech (coded "0") versus high-tech (coded "1") firms. Possible *resource restrictions* play an important role in SME's foreign market entry mode choice. Thus, we explicitly asked whether scarce resources hampered the foreign market entry of the SME (anchor points: 1 = "not at all" to 7 = "to a great extent"). *Legal restrictions* may also have an impact on an SME's entry mode choice. Consistent with Brouthers and Brouthers (2003), we asked respondents on a 7-point Likert-scale whether there were legal foreign market entry mode restrictions at the time of the foreign market entry (anchor points: 1 = "no restrictions" to 7 = "many restrictions"). Additionally, we included two variables measuring firm-level as well as individual-level international experience. That is, firm's *share of foreign sales* as well as CEO's *international experience* measured as foreign work experience in months.

ANALYSIS AND RESULTS

The bivariate correlations between our constructs are below the threshold of 0.7 (Anderson, Sweeney & Williams, 1996). Moreover, the highest variance inflation factor (VIF) was 1.57 staying well below the critical threshold of 2.5 (Allison, 1999). Hence, we do not assume multicollinearity to be problematic. All measures show high levels of internal consistency with Cronbach's Alpha values well above .7 exceeding this commonly accepted cut-off criterion (Nunnally, 1978). To analyze the validity of our constructs, we conducted principal component analysis with Varimax rotation. We used 17 items to generate the four constructs given means, affordable loss, partnerships, and acknowledge the unexpected. The rotated component matrix indicates clean factor loadings for each item and construct.

To test our hypotheses, we used binary logistic regression analysis. As shown in Table 1, we set up two models to illustrate our results. As proposed by Aiken & West (1991), this hierarchical approach allows showing changes in model fit and delivering information for the explanatory power of variables. Model 1 includes only the effect of the control variables on foreign market entry mode choice. Model 2 additionally includes all independent variables.

TABLE 1 GOES ABOUT HERE

Model 1 shows that firm size ($p \leq .001$), resource restrictions ($p \leq .05$), and share of foreign sales ($p \leq .05$) are positively significant, whereas technology type ($p \leq .01$) is negative and significantly associated with foreign market entry mode choice. These results suggest that the nature of the firm is an important factor influencing foreign market entry mode choice. Larger firms and firms with a higher share of foreign sales prefer equity based entry modes, whereas high-tech firms prefer non-equity based entry modes. Moreover, firms facing resource restrictions prefer (more costly) equity entry modes.

Adding the independent variables (given means, affordable loss, partnerships, acknowledge the unexpected) in Model 2 significantly increases the explanatory power of our model. The R^2 increased from 0.257 to 0.453 (Nagelkerke) and from 0.144 to 0.254 (Cox and Snell), respectively. We find a significant positive association between given means and entry mode choice leading us to reject our hypothesis H1 (.630, $p \leq .01$), which posited a negative influence. In contrast, we find support for hypothesis H2 (-.536, $p \leq .01$), meaning that firms guided by an "affordable loss" approach prefer non-equity entry modes. The significant positive relationship between "partnerships" and entry mode choice (.971, $p \leq .001$) is contradictory to our theoretical predictions arguing for a negative association. Hence, hypothesis H3 needs to be rejected. Lastly, we find no support for hypothesis H4, as "acknowledging the unexpected" is not significantly related to foreign market entry mode choice (-.377, $p > .05$).

DISCUSSION

The objective of the present study was to empirically analyze the effects of effectuation on foreign market entry mode choice of SMEs. The investigation of the effectuation logic gives new insights into entrepreneur's decisions regarding the internationalization pattern and offers explanations why some SMEs differ from other firms in their entry mode behaviour as observed by

several authors (e.g., Coviello & Munro, 1995; Nordman & Melen, 2008). Next, we discuss our findings in light of prior literature.

Although a recently published study by Harms and Schiele (2012) investigating the consequences of effectuation in the internationalization process did not indicate that effectuation does predetermine any entry mode strategy, this study finds empirical evidence of effectuation as an important predictor in the foreign market entry mode choice. In contrast to Harms and Schiele (2012), this study conducts a more fine-grained analysis of effectuation by investigating Sarasvathy's (2001) four dimensions of effectuation logic (i.e., given means, affordable loss, partnerships, and acknowledge the unexpected) on foreign market entry mode choice instead of aggregating the dimensions to one effectual measure. Since prior research (e.g., Chandler, et al., 2011; Perry, Chandler & Markova, 2012) proposes that effectuation should be considered as "a multidimensional construct composed of four sub-constructs" (Perry et al., 2012: 847), this might be the reason for finding no significant relationship between an effectual internationalization approach and the choice of foreign market entry in the study by Harms and Schiele (2012).

While we proposed a significant and negative impact of a "means-driven" approach on equity based entry modes, we did not find confirmation for this theoretical prediction. Consistent with our argumentation, we found that managers of SMEs who predetermine how much loss is affordable and focus on the downside of an investment or potential risk of the selection of the foreign market entry mode tend to prefer non-equity modes. Since literature provides evidence that SMEs are typically constrained by a tighter set of resources (e.g., Knight & Cavusgil, 2004) and that in the event of failure of the internationalization initiative the impact may jeopardize the survival of the SME (e.g., Sapienza, et al., 2006), managers of SMEs try to reduce the risk of foreign market entry by choosing low resource commitments (Ahmed, et al., 2002). We found strong but contradictory results regarding the role of partnerships. We found that managers who focus on partnerships tend to prefer equity based entry modes. An explanation for our contradictory findings may be the benefits of partnerships and network contacts in the internationalization process (e.g., Chetty &

Campell-Hunt, 2004). Strategic partners provide information about the business and enhance the level of control. However, rather than leading the SME to rely on less costly non-equity modes, the benefits and control obtained from partnerships seem to have structural consequences. This finding is consistent with Freeman, Edwards, and Schroder (2006) pointing out, that SMEs succeeding in entering foreign markets do so by using multiple business relationships. Partnerships help to overcome SMEs' lack of experience and provide them with knowledge about new foreign markets (Freeman & Cavusgil, 2007). Finally, our findings suggest that internationalization projects that not guided by an "acknowledging the unexpected" thinking.

As most empirical studies, our study has limitations. First, as internationalization is more a process than a state, longitudinal research could delineate changes over time. To this end, it is unclear whether SMEs use an effectual approach in their initial internationalization and switch later on to a causation approach (when they are more familiar with the market). Second, it should be noted that our empirical work has been collected retrospectively.

REFERENCES

Agarwal, S., & Ramaswami, S. N. 1992. Choice of foreign market entry mode: impact of ownership, location and internalization factors. *Journal of International Business Studies,* 23(1): 1-27.

Ahmed, Z. U., Mohamad, O., Tan, B., & Johnson, J. P. 2002. International risk perceptions and mode of entry: a case study of Malaysian multinational firms. *Journal of Business Research,* 55(10): 805-813.

Aharoni, Yair, Tihanyi, Laszlo, & Connelly, Brian L. (2011). Managerial decision-making in international business: A forty-five-year retrospective. *Journal of World Business, 46*(2), 135-142.

Aiken, L. S., & West, S. G. 1991. *Multiple regression: testing and interpreting interactions*. Newbury Park, CA: Sage.

Aldrich, Howard, & Auster, Ellen R. (1986). Even dwarfs started small: Liabilities of age and size and their strategic implications. Research in organizational behavior, 8, 165-198.

Allison, P. D. 1999. *Multiple Regression: A Primer*. Thousand Oaks, CA: Pine Forge Press.

Allison, P. D. 2002. *Missing Data*. Thousand Oaks, CA: Sage.

Andersen, Otto. (1993). On the Internationalization Process of Firms: A Critical Analysis. Journal of International Business Studies, 24(2), 209-231.

Anderson, D. R., Sweeney, D. J., & Williams, T. A. 1996. *Statistics for Business and Economics*. Mason, OH: Thomson Higher Education.

Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17(3), 1-26.

Andersson, S. 2011. International entrepreneurship, born globals and the theory of effectuation. *Journal of Small Business and Enterprise Development,* 18(3): 627-643.

Armstrong, J. S., & Overton, T. S. 1977. Estimating Nonresponse Bias in Mail Surveys. *Journal of Marketing Research,* 14(3): 396-402.

Autio, E., George, G., & Alexy, O. 2011. International Entrepreneurship and Capability Development-Qualitative Evidence and Future Research Directions. *Entrepreneurship: Theory & Practice,* 35(1): 11-37.

Axinn, Catherine N, & Matthyssens, Paul. (2002). Limits of internationalization theories in an unlimited world. *International Marketing Review, 19*(5), 436-449.

Baird, Inga S., Lyles, Marjorie A., & Orris, J. B. (1994). The Choice of International Strategies by Small Businesses. *Journal of Small Business Management, 32*(1), 48-59.

Barney, Jay. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management, 17*(1), 99-120.

Bell, J. 1995. The internationalization of small computer software firms. *European Journal of Marketing,* 29(8): 60-75.

Brettel, M., Mauer, R., Engelen, A., & Küpper, D. 2012. Corporate effectuation: Entrepreneurial action and its impact on R&D project performance. *Journal of Business Venturing,* 27(2): 167-290.

Brislin, R. W. 1970. Back-Translation for Cross-Cultural Research. *Journal of Cross-Cultural Psychology,* 1(3): 185-216.

Brouthers, K. D. 1995. The Influence of International Risk on Entry Mode Strategy in the Computer Software Industry. *Management International Review (MIR),* 35(1): 7-28.

Brouthers, K. D. 2002. Institutional, Cultural and Transaction Cost Influences on Entry Mode Choice and Performance. *Journal of International Business Studies,* 33(2): 203-221.

Brouthers, K. D., & Brouthers, L. E. 2003. Why Service and Manufacturing Entry Mode Choices Differ: The Influence of Transaction Cost Factors, Risk and Trust. *Journal of Management Studies,* 40(5): 1179-1204.

Brouthers, K. D., Brouthers, L. E., & Werner, S. 2003. Transaction cost-enhanced entry mode choices and firm performance. *Strategic Management Journal,* 24(12): 1239-1248.

Brouthers, K. D., Brouthers, L. E., & Werner, S. 2008. Real Options, International Entry Mode Choice and Performance. *Journal of Management Studies,* 45(5): 936-960.

Brouthers, K. D., & Hennart, J.-F. 2007. Boundaries of the Firm: Insights From International Entry Mode Research. *Journal of Management,* 33(3): 395-425.

Brouthers, K. D., & Nakos, G. 2004. SME Entry Mode Choice and Performance: A Transaction Cost Perspective. *Entrepreneurship: Theory & Practice,* 28(3): 229-247.

Brüderl, J., & Schüssler, R. (1990). Organizational Mortality: The Liabilities of Newness and Adolescence. *Administrative Science Quarterly*, 35(3), 530-547

Buckley, P. J. 1989. Foreign Direct Investment by Small and Medium Sized Enterprises: The Theoretical Background. *Small Business Economics,* 1(2): 89-100.

Burgel, O., & Murray, G. C. 2000. The International Market Entry Choices of Start-Up Companies in High-Technology Industries. *Journal of International Marketing,* 8(2): 33-62.

Calof, J. L. (1994). The relationship between firm size and export behavior revisited. *Journal of International Business Studies*, 25(2), 367-387.

Chandler, G. N., DeTienne, D. R., McKelvie, A., & Mumford, T. V. 2011. Causation and effectuation processes: A validation study. *Journal of Business Venturing,* 26(3): 375-390.

Chandra, Yanto, Styles, Chris, & Wilkinson, Ian. (2009). The recognition of first time international entrepreneurial opportunities: Evidence from firms in knowledge-based industries. *International Marketing Review, 26*(1), 30-61.

Chang, S. J., Witteloostuijn, A. v., & Eden, L. 2010. From the Editors: Common method variance in international business research. *Journal of International Business Studies,* 41(2): 178-184.

Cheng, H.-L., & Yu, C.-M. J. 2008. Institutional pressures and initiation of internationalization: Evidence from Taiwanese small- and medium-sized enterprises. *International Business Review,* 17(3): 331-348.

Chetty, S., & Campbell-Hunt, C. 2004. A Strategic Approach to Internationalization: A Traditional Versus a "Born-Global" Approach. *Journal of International Marketing,* 12(1): 57-81.

Child, John, & Hsieh, Linda H. Y. (2014). Decision mode, information and network attachment in the internationalization of SMEs: A configurational and contingency analysis. *Journal of World Business,* 49(4): 598–610.

Collinson, S., & Houlden, J. 2005. Decision-Making and Market Orientation in the Internationalization Process of Small and Medium-Sized Enterprises. *Management International Review,* 45(4): 413-436.

Coviello, N. E., & McAuley, A. 1999. Internationalisation and the Smaller Firm: A Review of Contemporary Empirical Research. *Management International Review (MIR),* 39(3): 223-256.

Coviello, N. E., & Munro, H. J. 1995. Growing the entrepreneurial firm. *European Journal of Marketing,* 29(7): 2-61.

Crick, D., & Spence, M. 2005. The internationalisation of 'high performing' UK high-tech SMEs: a study of planned and unplanned strategies. *International Business Review,* 14(2): 167-185.

De Clercq, D., Sapienza, H.J., Yavuz, R.I., & Zhou, L. 2012. Learning and Knowledge in Early Internationalization Research: Past Accomplishments and Future Research Directions. *Journal of Business Venturing,* 27(1): 143-165.

Dean, James W., & Sharfman, Mark P. (1996). Does Decision Process Matter? A Study Of Strategic Decision-Making Effectiveness. Academy of Management Journal, 39(2), 368-396.

Dow, D., & Larimo, J. 2009. Challenging the Conceptualization and Measurement of Distance and International Experience in Entry Mode Choice Research. *Journal of International Marketing,* 17(2): 74-98.

Dunning, John. (1988). The eclectic paradigm of international production: a restatement and some possible extensions. *Journal of International Business Studies, 19*(1), 1-31.

Dunning, John. (1993). *Multinational Enterprises and the Global Economy*. New York: Addison-Wesley.

Ellis, P. 2000. Social Ties and Foreign Market Entry. *Journal of International Business Studies,* 31(3): 443.

Eriksson, K., Johanson, J., Majkgard, A., & Sharma, D. D. 1997. Experiential knowledge and cost in the internationalization process. *Journal of International Business Studies,* 28(2): 337-360.

Erramilli, M. K., & D'Souza, D. E. 1993. Venturing into Foreign Markets: The Case of the Small Service Firm. *Entrepreneurship: Theory & Practice,* 17(4): 29-41.

Erramilli, M. K., & Rao, C. P. 1993. Service firms' international entry-mode choice: A modified transaction-cost analysis approach. *Journal of Marketing,* 57(3): 19.

Erramilli, M. K. & D'Souza, D. E. 1995. Uncertainty and foreign direct investment: the role of moderators. *International Marketing Review*, (12): 47-60.

Evans, J., & Mavondo, F. T. 2002. Psychic Distance and Organizational Performance: An Empirical Examination of International Retailing Operations. *Journal of International Business Studies,* 33(3): 515-532.

Evans, J., Mavondo, F. T., & Bridson, K. 2008. Psychic Distance: Antecedents, Retail Strategy Implications, and Performance Outcomes. *Journal of International Marketing,* 16(2): 32-63.

Evans, Jody, Treadgold, Alan, & Mavondo, Felix T. (2000). Psychic distance and the performance of international retailers–a suggested theoretical framework. *International Marketing Review, 17*(4/5), 373-391.

Evers, N., & O'Gorman, C. (2011). Improvised internationalization in new ventures: the role of prior knowledge and networks. *Entrepreneurship & Regional Development*, 23(7-8), 549-574.

Freeman, S., & Cavusgil, S. T. 2007. Toward a Typology of Commitment States Among Managers of Born-Global Firms: A Study of Accelerated Internationalization. *Journal of International Marketing,* 15(4): 1-40.

Freeman, S., Edwards, R., & Schroder, B. 2006. How Smaller Born-Global Firms Use Networks and Alliances to Overcome Constraints to Rapid Internationalization. *Journal of International Marketing,* 14(3): 33-63.

Gatignon, H., & Anderson, E. 1988. The Multinational corporation's Degree of Control over Foreign Subsidiaries: An Empirical Test of a Transaction Cost Explanation. *Journal of Law, Economics & Organization,* 4(2): 305.

German_Institute_of_SMEs_Institut_für_Mittelstandsforschung_Bonn. 1997. *Unternehmensgrößenstatistik 1997/98*. Bonn: Bundesministerium für Wirtschaft und Technologie (BMWI).

Hair, J. F., Anderson, R. E., Tatham, R. L., & Black, W. C. 1998. *Multivariate data analysis*. Upper Saddle River, New Jersey: Prentice Hall.

Harms, R., & Schiele, H. 2012. Antecedents and consequences of effectuation and causation in the international new venture creation process. *Journal of International Entrepreneurship*: 1-22.

Hoetker, G. 2007. The use of logit and probit models in strategic management research: Critical issues. *Strategic Management Journal,* 28(4): 331-343.

Jaccard, J. 2001. *Interaction effects in logistic regression*. Thousand Oaks: Sage Publications.

Johanson, J., & Mattsson, L. G. (1988). Internationalization in industrial systems - a network approach *Strategies in Global Competition* (pp. 287-314). London: Croom Helm.

Johanson, J., & Mattsson, L. G. (1992). Network Positions and Strategic Action- An Analytical Framework *Industrial Networks: A New View of Reality* (pp. 205-217). London: Routledge.

Johanson, J., & Vahlne, J.-E. 1977. The internationalization process of the firm – a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies,* 8(1): 23-32.

Johanson, J., & Vahlne, J.-E. 1990. The Mechanism of Internationalism. *International Marketing Review,* 7(4): 11.

Johanson, J., & Vahlne, J.-E. 2009. The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies,* 40(9): 1411-1431.

Jones, Marian V., & Coviello, Nicole E. (2005). Internationalisation: Conceptualising an Entrepreneurial Process of Behaviour in Time. *Journal of International Business Studies, 36*(3), 284-303.

Jones, M. V., & Coviello, N. E., & Tang, Y. K. 2011. International Entrepreneurship research (1989–2009): A domain ontology and thematic analysis. *Journal of Business Venturing,* 26(6): 632-659.

Kalinic, I., Sarasvathy, S. D., & Forza, C. (2014). 'Expect the unexpected': Implications of effectual logic on the internationalization process. *International Business Review*, 23(3), 635–647.

Keupp, Marcus Matthias, & Gassmann, Oliver. (2009). The past and the future of international entrepreneurship: a review and suggestions for developing the field. *Journal of Management, 35*(3), 600-633.

Knight, F. H. (1921). *Risk, uncertainty, and profit*. New York: Houghton and Mifflin.

Knight, G. A., & Cavusgil, S. T. 2004. Innovation, Organizational Capabilities, and the Born-Global Firm. *Journal of International Business Studies,* 35(2): 124-141.

Kulkarni, Subodh P. (2001). The Influence of the Type of Uncertainty on the Mode of International Entry. *American Business Review, 19*(1), 94-101.

Kumar, V., Stam, A., & Joachimsthaler, E. A. 1994. An Interactive Multicriteria Approach to Identifying Potential Foreign Markets. *Journal of International Marketing,* 2(1): 29-52.

Laufs, K., & Schwens, C. (2014). Foreign market entry mode choice of small and medium-sized enterprises: A systematic review and future research agenda. *International Business Review*, 23(6), 1109-1126.

Li, L., & Qian, G. 2008. Partnership or Self-Reliance Entry Modes: Large and Small Technology-Based Enterprises' Strategies in Overseas Markets. *Journal of International Entrepreneurship,* 6(4): 188-208.

Lu, J. W., & Beamish, P. W. 2001. The internationalization and performance of SMEs. *Strategic Management Journal,* 22(6/7): 565.

Maekelburger, B., Schwens, C., & Kabst, R. 2012. Asset specificity and foreign market entry mode choice of small and medium-sized enterprises: The moderating influence of knowledge safeguards and institutional safeguards. *Journal of International Business Studies,* 43(5): 458-476.

Mainela, T., & Puhakka, V. 2009. Organising New Business in a Turbulent Context: Opportunity Discovery and Effectuation for IJV Development in Transition Markets. *Journal of International Entrepreneurship,* 7(2): 111-134.

Nakos, G., & Brouthers, K. D. 2002. Entry Mode Choice of SMEs in Central and Eastern Europe. *Entrepreneurship: Theory & Practice,* 27(1): 47-63.

Nebus, James, & Chai, Kah Hin. (2014). Putting the "psychic" Back in Psychic Distance: Awareness, Perceptions, and Understanding as Dimensions of Psychic Distance. *Journal of International Management, 20*(1), 8-24.

Nielsen, Bo Bernhard, & Nielsen, Sabina. (2011). The role of top management team international orientation in international strategic decision-making: The choice of foreign entry mode. Journal of World Business, 46(2), 185-193.

Nordman, E. R., & Melen, S. 2008. The Impact of Different Kinds of Knowledge for the Internationalization Process of Born Globals in the Biotech Business. *Journal of World Business,* 43(2): 171-185.

North, Douglass C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.

Norton, E. C., Wang, H., & Ai, C. (2004). Computing interaction effects and standard errors in logit and probit models. *Stata Journal, 4*(2), 154-167.

Nunnally, J. C. (1978). *Psychometric theory* (2nd ed.). New York: McGraw-Hill.

Oviatt, B. M., & McDougall, P. P. 1994. Toward a theory of international new ventures. *Journal of International Business Studies,* 25(1): 45-64.

Oviatt, B. M., & McDougall, P. P. 2005. Defining International Entrepreneurship and Modeling the Speed of Internationalization. *Entrepreneurship: Theory & Practice,* 29(5): 537-553.

Pan, Y., & Tse, D. K. 2000. The Hierarchical Model of Market Entry Modes. *Journal of International Business Studies,* 31(4): 535-554.

Perry, J. T., & Chandler, G. N., & Markova, G. 2012. Entrepreneurial Effectuation: A Review and Suggestions for Future Research. *Entrepreneurship: Theory & Practice,* 36(4): 837-861.

Quinn, J. B. 1980. *Strategies for change: logical incrementalism*. IL: R.D. Irwin.

Rahman, S. H. 2003. Modelling of international market selection process: a qualitative study of successful Australian international businesses. *Qualitative Market Research: An International Journal*, 6(2): 119-132.

Rasheed, H. S. 2005. Foreign Entry Mode and Performance: The Moderating Effects of Environment. *Journal of Small Business Management,* 43(1): 41-54.

Read, S., Song, M., & Smit, W. 2009. A meta-analytic review of effectuation and venture performance. *Journal of Business Venturing,* 24(6): 573-587.

Rialp, A., Rialp, J., & Knight, G. A. 2005. The phenomenon of early internationalizing firms: what do we know after a decade (1993-2003) of scientific inquiry? *International Business Review,* 14(2): 147-166.

Sapienza, H. J., Autio, E., George, G., & Zahra, S. A. 2006. A capabilities perspective on the effects of early internationalization on firm survival and growth. *Academy of Management Review,* 31(4): 914-933.

Sarasvathy, S. D. 2001. Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency. *Academy of Management Review,* 26(2): 243-263.

Sarasvathy, S. D. 2008. *Effectuation: elements of entrepreneurial expertise*: Edward Elgar.

Sarasvathy, S., Kumar, K., York, J. G., & Bhagavatula, S. (2014). An Effectual Approach to International Entrepreneurship: Overlaps, Challenges, and Provocative Possibilities. *Entrepreneurship Theory and Practice*, 38(1), 71-93.

Schweizer, R., Vahlne, J.-E., & Johanson, J. 2010. Internationalization as an Entrepreneurial Process. *Journal of International Entrepreneurship,* 8(4): 343-370.

Schwens, C., & Kabst, R. (2009). How early opposed to late internationalizers learn: Experience of others and

paradigms of interpretation. *International Business Review*, 18(5), 509-522.

Schwens, C., Eiche, J., & Kabst, R. 2011. The Moderating Impact of Informal Institutional Distance and Formal Institutional Risk on SME Entry Mode Choice. *Journal of Management Studies,* 48(2): 330-351.

Scott, W. R. (1995). *Institutions and organizations*. Thousand Oaks: Sage.

Shuman, J. C., & Seeger, J. A. (1986). The Theory and Practice of Strategic Management in Smaller Rapid Growth Firms. *American Journal of Small Business*, 11(1), 7-18.

Simonin, B. L. 1997. The importance of collaborative know-how: An empirical test of the learning organization. *Academy of Management Journal,* 40(5): 1150-1174.

Sousa, C. M. P., & Bradley, F. 2006. Cultural Distance and Psychic Distance: Two Peas in a Pod? *Journal of International Marketing,* 14(1): 49-70.

Sousa, C. M. P., & Bradley, F. 2008. Cultural distance and psychic distance: refinements in conceptualisation and measurement. *Journal of Marketing Management,* 24(5/6): 467-488.

Spence, M., & Crick, D. (2006). A comparative investigation into the internationalisation of Canadian and UK high-tech SMEs. *International Marketing Review*, 23(5), 524-548.

Stöttinger, B., & Schlegelmilch, B. B. 1998. Explaining export development through psychic distance: Enlightening or elusive? *International Marketing Review,* 15(5): 357.

Tihanyi, Laszlo, Griffith, David A., & Russell, Craig J. (2005). The effect of cultural distance on entry mode choice, international diversification, and MNE performance: a meta-analysis. *Journal of International Business Studies, 36*(3), 270-283.

Van de Veijver, F., & Hambleton, R. K. 1996. Translating Tests: Some Practical Guidelines. *European Psychologist,* 1(2): 89-99.

Westhead, P., Wright, M., & Ucbasaran, D. 2001. The internationalization of new and small firms: A resource-based view. *Journal of Business Venturing,* 16(4): 333.

Whitelock, J. (2002). Theories of internationalisation and their impact on market entry. *International Marketing Review, 19*(4), 342-347.

Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York: Free Press.

Williamson, O. E. 1991. Comparative economic organization: The analysis of discrete structural alternatives. *Administrative Science Quarterly,* 36(2): 269-296.

Williamson, O. E. (1998). Transaction Cost Economics: How It Works; Where It is Headed. *De Economist*, 146(1), 23-58.

Wiltbank, R., Dew, N., Read, S., & Sarasvathy, S. D. 2006. What to do next? The case for non-predictive strategy. *Strategic Management Journal,* 27(10): 981-998.

Wiltbank, R., Read, S., Dew, N., & Sarasvathy, S. D. 2009. Prediction and control under uncertainty: Outcomes in angel investing. *Journal of Business Venturing,* 24(2): 116-133.

Yli-Renko, H., Autio, E., & Tontti, V. 2002. Social capital, knowledge, and the international growth of technology-based new firms. *International Business Review*, 11(3): 279-304.

Zacharakis, Andrew L. (1997). Entrepreneurial Entry Into Foreign Markets: A Transaction Cost Perspective. Entrepreneurship: Theory & Practice, 21(3), 23-39.

Zaheer, S. 1995. Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2): 341-363.

Zahra, Shaker A. (2007). Contextualizing theory building in entrepreneurship research. *Journal of Business Venturing, 22*(3), 443-452.

Zhao, H., Luo, Y., & Suh, T. 2004. Transaction Cost Determinants and Ownership-Based Entry Mode Choice: A Meta-analytical Review. *Journal of International Business Studies,* 35(6): 524-544.

Zhou, L., Wu, W.-P., & Luo, X. 2007. Internationalization and the Performance of Born-Global SMEs: The Mediating Role of Social Networks. *Journal of International Business Studies,* 38(4): 673-690.

Table 1: Logistic Regression Model: Foreign Market Entry Mode (Equity vs. Non-Equity)

Hypotheses		**Model 1** [a] **b** [b, c]	**Model 2** [a] **b** [b, c]
	Constant	-2.459 ***	-6.953 ***
	Controls		
	Firm size (number of permanent employees)	.009 ***	.015 ***
	Industry (0 = servcies; 1 = manufacturing)	-.870	-.836
	Technology (0 = low-tech; 1 = high-tech)	-1.311 **	-2.161 ***
	Resource restrictions	.242 *	.358 **
	Legal restrictions	-.140	-.230
	Share of foreign sales	.018 *	.014
	International experience	.006	-.007
	Independent variables		
H1	Given means		.630 **
H2	Affordable loss		-.536 **
H3	Partnerships		.971 ***
H4	Acknowledge the unexpected		-.377
Fit Indices			
	Model $\chi 2$	30.376 ***	57.118 ***
	Δ Model $\chi 2$ (vs. Model 1)	-	26.742
	R^2 (Cox & Snell)	.144	.254
	R^2 (Nagelkerke)	.257	.453

DV = Foreign market entry mode choice (0 = non-equity based; 1 = equity based)
a) n = 195
b) Unstandardized regression coefficients
c) Significance levels: *: $p \leq .05$; **: $p \leq .01$; ***: $p \leq .001$