



# **CERTIFICATE OF RESEARCH IN BUSINESS ADMINISTRATION**

**Effectuation and Foreign Market Entry (FME):**  
How do international SMEs make decisions to enter the Chinese market?

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## Abstract

**Purpose** – The purpose of this study is to examine the decision-making logic for international SMEs when entering Chinese market and how they made decisions.

**Design/methodology/approach** – Over the past two decades, Internationalization process theories (Johanson and Mattsson, 1988; Johanson and Vahlne, 1977, 2009) and effectuation approach (Sarasvathy, 2001, 2008) are combined to study decision-making logic under uncertainty and resource constraints. The research design includes multiple-case study of 4 international SMEs that have already entered the Chinese market and analyzes how they make decisions to enter the Chinese market.

**Expected findings** – Building on previous work by Sarasvathy et al. (2014) and Schweizer et al. (2010), we are expected to find that international SMEs usually adopt an effectuation approach to make decisions to enter the Chinese market. The intersection of effectuation and Uppsala model is networks. These networks can be used to gain knowledge and other resources, thereby reducing uncertainty and overcoming resource constraints during foreign market entry. Effectual decision-making logic can help international firms co-create opportunities to enter Chinese market.

**Originality/value** – This dissertation aims to advance the development of effectuation research by extending effectuation theory and the revisited Uppsala internationalization process model from developed economies to emerging markets such as China. We contribute to international business and management research by revealing effectual decision-making logic of international SMEs in entering the Chinese market.

**Keywords** Effectuation, Internationalization, Networks, Causation, Foreign market entry (FME), International SMEs, Decision-making logic, China

## 1. Introduction

Over the past two decades, the number of studies on the internationalization of small and medium-sized enterprises (SMEs) has increased dramatically. However, some scholars believe that the results of entrepreneurship and internationalization studies conducted in more developed economies may not be applicable to emerging markets (Bruton et al. 2005; Zhu et al. 2006/2007). There are two main explanations for this: institutional differences and resource constraints, partly due to different institutional contexts and histories (Nowiński & Rialp, 2013). If we consider markets other than developed countries, the explanatory power of internationalization theory is limited, whether it is traditional models (such as the Uppsala model), or models related to international new ventures (Liu et al. 2008).

China is one of the most highly complex markets, and the dramatic changes of the past few decades have often hindered the success of foreign companies investing in China. (Calabrò et al., 2023). China's economic environment is in a period of transition, characterized by poor information flow, a weak institutional framework, and ineffective law enforcement (Child/Lu 1996, Peng/Heath 1996). (Zhao & Hsu, 2007) use social network theory, an alternative framework, to explain the foreign market entry (FME) of Taiwanese SMEs investing in China. Their work points out that social capital embedded in social ties plays an important role in FME decisions. Particularly, it serves as a unique asset for SMEs that lack size advantages and means to enter foreign markets early. The host country's government effectiveness plays a relevant role for the market entry mode choice of foreign companies. Administrative and economic distance have a significant influence on market entry mode choice (Moalla & Mayrhofer, 2020).

Johanson and Vahlne's (1990) proposition states that the process of internationalization can be reasonably described as establishing relationships in foreign markets. The approach of effectuation is still in the early stages of development in literature. Since the beginning of the 21st century, the effectuation (Sarasvathy 2001) is a nascent approach in entrepreneurship and needs to take several steps forward to gain conceptual and empirical rigor development (Arend et al. 2015; Perry et al. 2012; Read et al. 2016). Framing the international market entry as an entrepreneurial process, some papers (Harms and Schiele, 2012) analyze the antecedents and consequences of causation and effectuation in the entry mode selection. SMEs' foreign market entry is conceived as an international business decisions (Chetty et al., 2024), which has non-predictive logic

(Galkina and Chetty, 2015). Some researchers integrate effectuation theory with the revisited Uppsala internationalization process model to understand the unintentional aspect of networking by internationalizing SMEs (Galkina and Chetty. 2015; Johanson and Vahlne. 1977, 2009; Chetty et al. 2015; Laine and Galkina. 2017). The effectuation approach is then transposed from its original field of entrepreneurship research to the context of internationalizing entrepreneurial firms. Internationalization is as an entrepreneurial process (Schweizer et al., 2010). Consequently, it contributes toward understanding the decision-making process for selecting and entering foreign markets (Chetty et al., 2015).

“In markets with high uncertainty..., we assume that past success does not guarantee future success because of the swift changes in resources and capabilities that are constantly required. SMEs that need to engage in networks in such environments would have to be discerning in their timing of entering the network” (Hilmersson et al., 2022).

In an uncertain market environment, action needs to be taken through experimentation rather than routine market screening (Daft and Weick 1984). The effectuation logic includes the use of chance through experimentation and following the principle of acceptable loss and means that entrepreneurs do not take unacceptable risks. (Sarasvathy 2001).

Therefore, on the one hand, there is insufficient research on international SMEs, especially on the individual-level of the key decision-makers in entering the foreign market (Ahi et al., 2017); on the other hand, the effectuation theory and the revisited Uppsala model which have been studied more for developed economies, lack research in the Chinese market context (Bruton et al. 2005; Zhu et al. 2006/2007).

Sarasvathy (2001, 2008) defines two sets of principles to describe two decision-making logics: "Causation" and "Effectuation". The research question of this dissertation is: which logic – a set of principles - do internationalizing SMEs use when entering the Chinese market. In this study, we used an individual-level analysis approach. That is, by studying the key decision-makers in a company, we can understand the company's behavior.

This dissertation aims to advance the development of effectuation research by extending effectuation theory and the revisited Uppsala internationalization process

model from developed economies to emerging markets such as China. International SMEs face uncertainty and resource constraints to enter the Chinese market. Alliances and precommitments, in contrast, reduce uncertainty and overcome resource constraints and barriers (Sarasvathy 2008).

Based on a qualitative study, we are expected to find that international SMEs usually adopt an effectuation approach to make decisions to enter the Chinese market. The intersection of effectuation and Uppsala model is networks. These networks can be used to gain knowledge and other resources, thereby reducing uncertainty and overcoming resource constraints during foreign market entry. Effectual decision-making logic can help international firms co-create opportunities to enter Chinese market.

Case study approaches were used in many other studies that incorporated effectuation into IE. Andersson 2011; Gabrielsson and Gabrielsson 2013; Galkina and Chetty 2015; Kalinic et al. 2014; Nummela et al. 2014; Sarasvathy et al. 2014; Schweizer et al. 2010). Our research design involves a multiple case study of 4 international SMEs in China. Semi-structured interviews were conducted with the top management of selected case companies, and the data collected will be triangulated with secondary sources.

We contribute to international business and management research by revealing effective decision-making logic of international SMEs in entering the Chinese market. We structure the remainder of the paper as follows. First, we review the relevant literature and theoretical background for our model and hypotheses. Second, we present the proposed research methodology and expected results of the multiple case study. Finally, the article ends with expected managerial implications.

## 2. Literature review and theoretical background

### 2.1 Causation and effectuation approaches: two logics of decision-making

Sarasvathy's (2001, 2008) approach on causation and effectuation is in its nascent stage of development in literature. Coudounaris and Arvidsson (2022) use 138 peer-reviewed articles on effectuation, causation, effectual/causal decision-making logics and related issues. Compared to Matalamäki (2017) and Karami et al. (2019), which reviewed the early literature from 2001 to 2016, the exponential growth of studies on effect theory in recent years (i.e., 2017 to the first quarter of 2020) indicates that researchers have

responded to the call by leading authors stating that effectuation theory is a field with great potential for further theoretical developments.

The effectuation approach was an attempt to describe the mindset of entrepreneurs and the way they handle the process of starting and running new ventures. Matalamäki's (2017) review of 81 academic journal articles indicate that it has already begun its transition toward the mature stage of development. The effectuation approach is increasingly being used to study the internationalization of SMEs (e.g. Chandra et al. 2015; Crick and Crick 2014,2016a; Galkina and Chetty 2015; Schweizer2015; Sarasvathy et al. 2014; Schweizer et al. 2010), the established companies (Matalamäki, 2017) and large firms (Coudounaris and Arvidsson, 2022).

Grégoire and Cherchem (2020) conducted a comprehensive sample of 101 effectuation articles published in JCR®-listed journals between 1998 and 2016. Some of these studies show that there is still a lively debate about effectuation approach (Arend et al. 2015; Perry et al. 2012; Readetal.2016).

Causation processes take a particular effect as given and focus on selecting the means to create that effect. In contrast, effectuation processes take as given a set of means and focus on selecting between the possible effects that can be created with such means (Sarasvathy, 2001). Sarasvathy (2008, p. 73) continues with the following summary:

“Effectuation does not begin with a certain goal; it begins with a given set of means and allows goals to emerge contingently over time from the varied imaginations and diverse aspirations of the founders and the people with whom they interact.” Causation logic is the logic of prediction in which the future can be predicted and then can be controlled. Effectual logic relates to decision-making under uncertain conditions in which the future can be controlled and therefore predicting it is not necessary (Sarasvathy, 2001; 2008). Effectuation also emphasizes the importance of effectual networks in which decision-making is shared with participating actors (Sarasvathy 2001). Four principles for each of them were defined by Sarasvathy (2001,2008) to describe these two logics of decision-making:

Four principles of effectuation:

- means-driven action,
- reliance on networks and strategic alliances,
- affordable loss, and
- leveraging contingencies

Four principles of causation:

- goal-driven action,
- reliance on competitive analysis,
- counting expected returns, and
- exploiting pre-existing knowledge

The principles of effectuation may help deepen our understanding of “the how to internationalize question including why, when, where and how fast to internationalise” (Sarasvathy et al., 2014, p. 84). Therefore, by discovering the principles that decision-makers use in their decision-making can help us to understand the decision-makers' “logic”, that is to say how they make decisions.

## 2.2 Effectuation and internationalization: effectual Uppsala model

According to the Uppsala model, Internationalization is an incrementally evolving process, in which a firm can thus enter foreign markets by gradually increasing its involvement (Johanson and Vahlne, 1977). The Uppsala model therefore represents neoclassical rational decision-making approaches (Chandler et al. 2011), which is related to causation logic. Due to risk avoidance and lack of resources and market specific knowledge, companies often enter neighboring countries through exports before targeting more distant markets and increasing their resource commitments by making investments (Calabrò et al., 2023). However, in their seminal article, Johanson and Vahlne (2009) note that the effectuation approach has much in common with the revisited Uppsala model. There are similarities between the entrepreneurial process and the process of internationalization because both occur under Knightian uncertainty, goal ambiguity, and environmental isotropy (Schweizer et al. 2010). Subsequently, an increasing number of studies have used effectuation approach to explain the phenomenon of internationalization. Schweizer et al. (2010) propose the entrepreneurial model of the internationalization process, which combines the revisited Uppsala model and the effectuation process. Later, Sarasvathy et al. (2014) suggest naming it the effectual Uppsala model and identify three characteristics of internationalization that they consider would benefit from effectuation. These include: cross-border uncertainty, limited resources and network dynamics. Sarasvathy et al. (2014, p. 76) state: “effectual variables such as who the founding entrepreneurs are, what they know, and whom they know will be important to IE [international entrepreneurship] research”. In addition, that the principles of effectuation may help

deepen our understanding of “the how to internationalize question including why, when, where and how fast to internationalise” (Sarasvathy et al., 2014, p. 84). Studies of Yang (2018), Servantie and Rispoli (2018), Weerakoon et al. (2019), An et al. (2020) and Chetty et al. (2015) show that SMEs sometime switch between causation and effectuation in their decision-making internationalizing. Our study focuses just on the decision-making logic of FME.

Chetty et al. (2015) compared the causation, effectuation and Uppsala internationalization process model which are relevant for the FME decision-making in Tabel I. Sarasvathy et al. (2014) points out that there are far more similarities than differences between them. We build on previous work by Sarasvathy et al. (2014), Schweizer et al. (2010) and Chetty et al. (2015), which highlight the central role of relationships to acquire resources and network dynamics. The intersection of effectuation and Uppsala model is networks. Networking is the central mechanism of effectual reasoning for co-creation of opportunity in an unpredictable setting (Read et al. 2016). The process of Internationalization can be legitimately described in terms of establishing relationships in foreign markets (Zhao and Hsu, 2007). Ellis’s (2000) work also suggested social ties in FME. Galkina and Chetty (2015) find how entrepreneurs build network with interested partners, instead of carefully selecting international partners according to predefined network goals. These networks can be used to gain knowledge (Johanson & Vahlne, 2015; Musteen et al., 2014; Sandberg, 2014), unexpected random information (Sharma and Blomstermo, 2003; Galkina and Chetty, 2015), other resources and pre-commitments with key partners (Bai et al., 2021; Sarasvathy, 2001), thereby reducing uncertainty and overcoming resource constraints during foreign market entry.

Therefore, the effectuation approach combined with the Uppsala model, also known as the "effectual Uppsala model" can be used to study internationalization question such as “foreign market entry (FME)”.

Categories	Causation	Effectuation	Internationalization process
Decision-making logic	Goal-driven focusing on outcomes	Means driven focusing on resources	Goal and means driven focusing on resources and process
Attitude towards the market	Firm and market are separate	Create the market through means driven approach	Create the market by gaining an insidership position in the network
Strategy	Competitive Exploitation of pre-existing knowledge	Collaborative Exploitation of contingencies	Collaborative Exploitation of pre-existing knowledge
Attitude towards unexpected events	Plan and market research to have detailed competitor analysis Prediction of an uncertain future	Open to surprises and benefit from them Control of an uncertain future	Open to surprises as well as plan and market research Prediction/control of an uncertain future
Context	Predictable because reduces risk	Uncertainty creates opportunities	Uncertainty reduction by collaborating with partners
Outcomes	Maximize returns	Affordable loss	Process model focusing on resources
Unit of analysis	Firm	Entrepreneur-individual	Firm

Table I. Comparison of causation, effectuation and Uppsala internationalization process model (Chetty et al., 2015)

### 2.3 FME in context of Chinese market

In the case of SMEs, the main entry mode decision-making approaches studied recently are effectuation and causation (Ahi et al., 2017). In contrast to effectuation approach research, which usually targets start-ups and small companies, most research on entry mode choice targets large companies. Transaction costs and Dunning's ownership-location-internationalization (OLI) model (Laufs and Schwens 2014; Nakos and Brouthers 2002) are used to study entry mode choice. But "With regard to SMEs' sensitivity to external challenges, it remains unclear how SMEs and their major actors (e.g., the CEO) make decisions in uncertain situations" (Ahi et al. 2017, p.1120).

Most studies have suggested that the entry mode decision first follows an effectuation approach (Chandra, Styles, and Wilkinson 2009; Evers and O'Gorman 2011; Sarasvathy 2001).

Foreign market selection (FMS) and foreign market entry (FME) are two important and different decisions for international SMEs. Entrepreneurs differentiate them during their internationalization process (Chetty et al., 2015). They tend to be more causal when they select a foreign market (as it is a problem of selection) and more effectual when they decide on foreign market entry (a problem of design) (Laine and Galkina, 2017). In terms of market selection, companies should first enter nearby peripheral markets, as they want to avoid the uncertainties associated with more distant markets. (Johanson and Wiedersheim-Paul, 1975). Our research focuses on the decision-making logic of FME for Chinese market. Sarasvathy suggests that the higher the uncertainty,

the more likely it is that the management team will apply some sort of effectuation logic in the decision-making process (Sarasvathy, 2001). According to Sarasvathy (2001, p. 252): “Effectuation emphasizes strategic alliances and pre-commitments from stakeholders as a way to reduce and/or eliminate uncertainty and erect entry barriers”. Relying on international partners and relationships to develop international markets is essential in effectual foreign market entry (FME) decision-making (Chetty et al., 2024). China is one of the most highly complex markets, and the dramatic changes of the past few decades have often hindered the success of foreign companies investing in China (Calabrò et al., 2023). China's economic environment is in a period of transition, characterized by poor information flow, a weak institutional framework, and ineffective law enforcement (Child/Lu 1996, Peng/Heath 1996). In China, 'relationship' (guanxi networks) is a cultural characteristic (Zhou et al., 2007), which is influenced by Confucian traditions and remains difficult to access for Western firms, which often have limited knowledge of Chinese culture (Huang et al., 2016). Relationship- and home-based networks in China are on the other side an important source of information and knowledge for SMEs to develop new organizational capabilities (Park and Luo, 2001). Foreign companies can build a broad range of guanxi networks for business opportunities, local resources or protection there (Zhou et al., 2007). Therefore, it is very appropriate, but has been neglected, to apply effectual Uppsala model to study the decision-making logic of international SMEs in entering the Chinese market. We hope that our research can fill this gap.

### 3. Proposed research methodology

Our research desire is inductive, as it does not intend to test any new propositions or hypotheses but rather aims to enhance the effectuation approach through use of qualitative, exploratory multiple-case study and semi-structured interviews. Here are the key aspects of the research design:

- Qualitative Methodology:

Our research adopts a qualitative methodology, which is suitable for exploring complex phenomena where quantitative measures may not capture the nuances of the subject matter (Eisenhardt, 1989). This methodology allows for in-depth understanding and insights into the experiences and perspectives of the participants (Denzin & Lincoln, 2011).

- Exploratory Nature:

Our research is exploratory, aiming to address a gap in the literature on the decision-making logic of international SMEs in entering the Chinese market, particularly in the context of effectuation and networking (Sarasvathy, 2001; Knight & Liesch, 2016). The exploratory design is appropriate for nascent theories, such as effectuation, where existing knowledge is limited (Eisenhardt, 1989).

- Multiple-Case Study Approach:

We utilize a multiple-case study design, which involves examining several cases to gain a broader understanding of the phenomenon (Yin, 2018). This approach allows for the comparison of different international SMEs and their decision-making logic in entering the Chinese market, providing richer insights than a single-case study would (Stake, 2010).

- Purposeful Sampling/ Data Collection:

Our data collection focuses on four international SMEs that have already entered the Chinese market. These enterprises have no more than 250 employees and are willing to participate in the research (Patton, 2015). This targeted selection ensures that the cases are significant and provide valuable insights into the research topic. We conduct face-to-face interviews with key decision-makers, such as CEOs and founders, as well as gathering secondary data from various sources, including company websites, brochures and press articles. This multi-source approach enhances the richness of the data (Yin, 2018).

- Semi-Structured Interviews:

The interviews are semi-structured. This interview format allows for flexibility in questioning while ensuring that key topics are covered, facilitating a deeper exploration of participants' experiences and perspectives.

- Thematic Analysis / Descriptive Coding:

We apply thematic coding to categorize and analyze the qualitative data collected from interviews (Braun & Clarke, 2006). We will develop descriptive codes based on themes identified in the literature, which were then used to analyze the interview transcripts.

- Audio Recording and Transcription:

To ensure accuracy and reliability, we need permission to audio record the interviews and transcribe them verbatim. This step allows for a detailed examination of the interview content and facilitates a thorough analysis of the data.

- Within-case and Cross-case Analysis:

Our analyses involve both within-case and cross-case displays. This means that we examine the data from each individual case (within-case) and then compare findings across different cases (cross-case) to identify patterns and themes (Yin, 2018).

- Manual Analysis / Field Notes and Comparative Tables:

This study utilizes field notes, matrixes, tables, and networks to visualize and organize the data (Miles & Huberman, 1994). These tools help us find patterns and themes in the qualitative data, facilitating a comprehensive analysis of the interviews.

- Validation Techniques / Feedback from Respondents:

To avoid validity problems related to multiple fieldworkers and separating data collection from data coding (Miles & Huberman, 1994), data collection and interview transcribing has been done by myself, the author of this article. After conducting the interviews, we send the transcripts back to the respondents for verification. This step allowed the participants to confirm the accuracy of the information and provided an additional layer of validation for the data analysis. Another important validation technique is to present preliminary findings at research seminars for feedback from independent scholars.

- Triangulation with Secondary Data:

To enhance the reliability of the findings, we employ data triangulation by comparing information obtained from interviews with secondary sources, such as company websites and press releases (Miles & Huberman, 1994). This method helps validate the data and provides a more comprehensive view of the firms' decision-making logic.

- Iterative Process:

Our analysis is an iterative process, where we as researchers move back and forth between the data and theory. This allows us to refine their understanding and ensure that the analysis is grounded in both the empirical data and relevant theoretical frameworks.

#### 4. Expected results and managerial implications

This dissertation discusses the effectual Uppsala model and its application to international SMEs in entering the Chinese market and presents several important managerial implications. These implications can guide decision-makers in formulating

effective strategies for internationalization. Here are the most significant managerial implications:

- **Adopt an Effectuation Approach:**

Managers should consider adopting an effectuation approach when entering foreign markets, particularly in uncertain environments like China. This involves leveraging existing resources, forming partnerships, and being open to experimentation. By focusing on what they can control and the resources they have, SMEs can navigate uncertainties more effectively.

- **Emphasize Networking:**

Building and maintaining strong networks is crucial for successful market entry. Managers should prioritize establishing relationships with local partners, suppliers, and customers. These networks can provide valuable insights, resources, and support, helping SMEs to better understand the market dynamics and consumer preferences in China.

- **Leverage Local Knowledge:**

Engaging with local partners can provide SMEs with critical knowledge about the Chinese market, including regulatory requirements, cultural nuances, and consumer behavior. Managers should actively seek out Chinese expertise to enhance their understanding and improve their market entry strategies.

- **Utilize Pre-commitments:**

Forming pre-commitments with Chinese stakeholders can help reduce uncertainty and facilitate smoother market entry. Managers should explore opportunities for strategic alliances or joint ventures that can provide access to resources and enhance credibility in the Chinese market.

- **Co-create Value with Local Partners:**

Managers should focus on co-creating value with local partners by developing products or services that meet the specific needs of the Chinese market. This collaborative approach can lead to more relevant offerings and improve the chances of success.

- **Conclusion:**

By implementing these managerial implications, SMEs can enhance their internationalization strategies and improve their chances of successful entry into the Chinese market. The combination of effectuation principles and the Uppsala model provides a robust framework for navigating the complexities of foreign market entry.

- Limitations and Future Research:

In summary, while this dissertation provides valuable insights into the decision-making logic of international SMEs in entering the Chinese market, it also has limitations related to context specificity, sample size, and the dynamic nature of internationalization. Future research should aim to address these limitations through comparative, longitudinal, and quantitative studies, as well as sector-specific investigations, to enhance the understanding of the effectual Uppsala model in various contexts.

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