

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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Research Question and Design

1

Research Question

Sarasvathy 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.

2

Research Aim

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.

3

Research Design

Case study approaches were used in many other studies that incorporated effectuation into IE. 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.

4

Expected Findings

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.

Understanding the Research Gap

Market Complexity

China presents unique challenges for foreign companies. Its transitional economy has poor information flow and weak institutional frameworks.

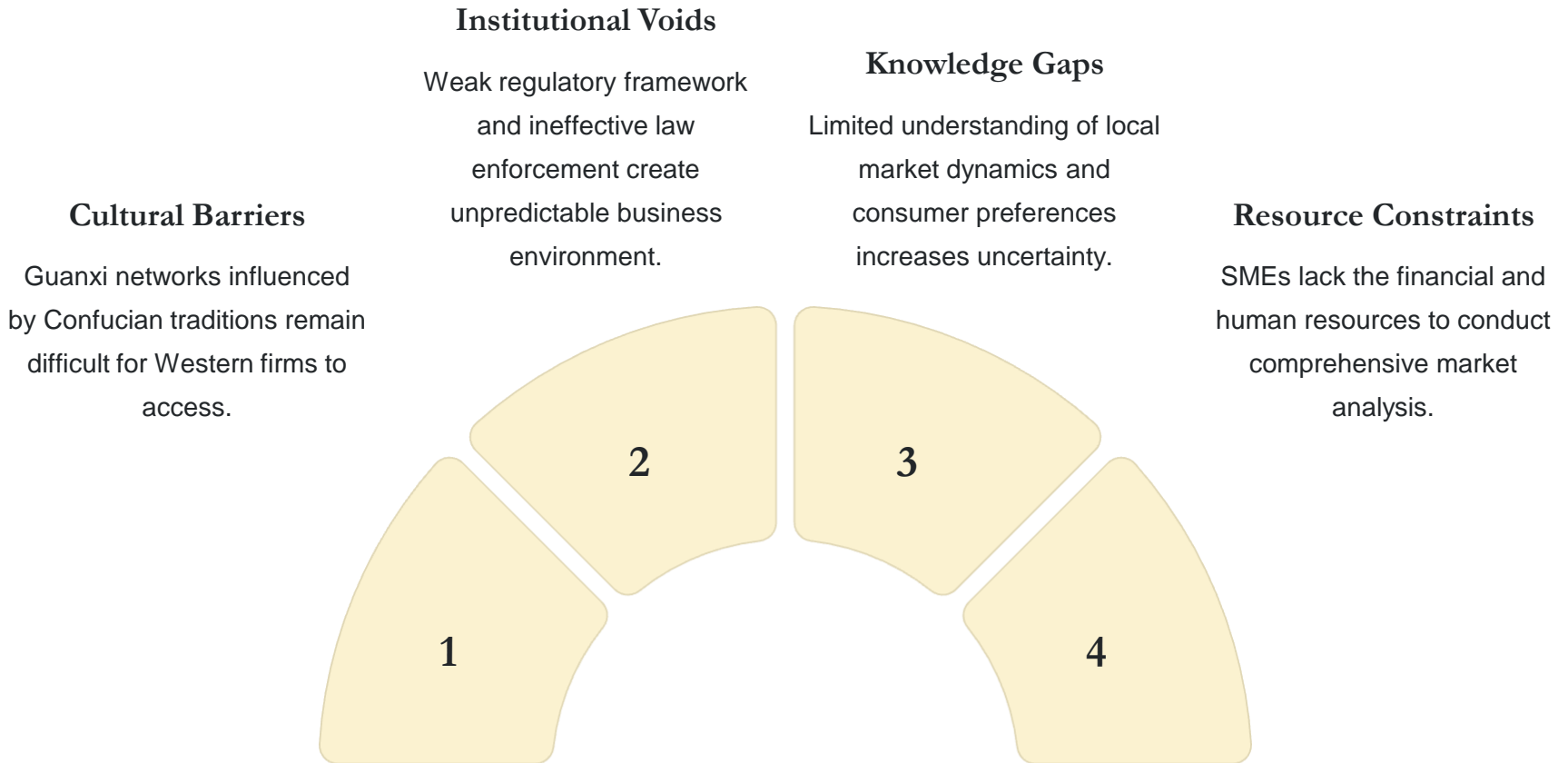
Theoretical Limitations

Traditional internationalization theories often fall short in emerging markets. Institutional differences and resource constraints reduce explanatory power.

SME Perspective

Research on individual-level decision-making in SMEs entering foreign markets remains insufficient, particularly for the Chinese context.

Chinese Market Entry Challenges for Foreign SMEs



Decision-Making Logic: Causation vs. Effectuation

Causation Logic

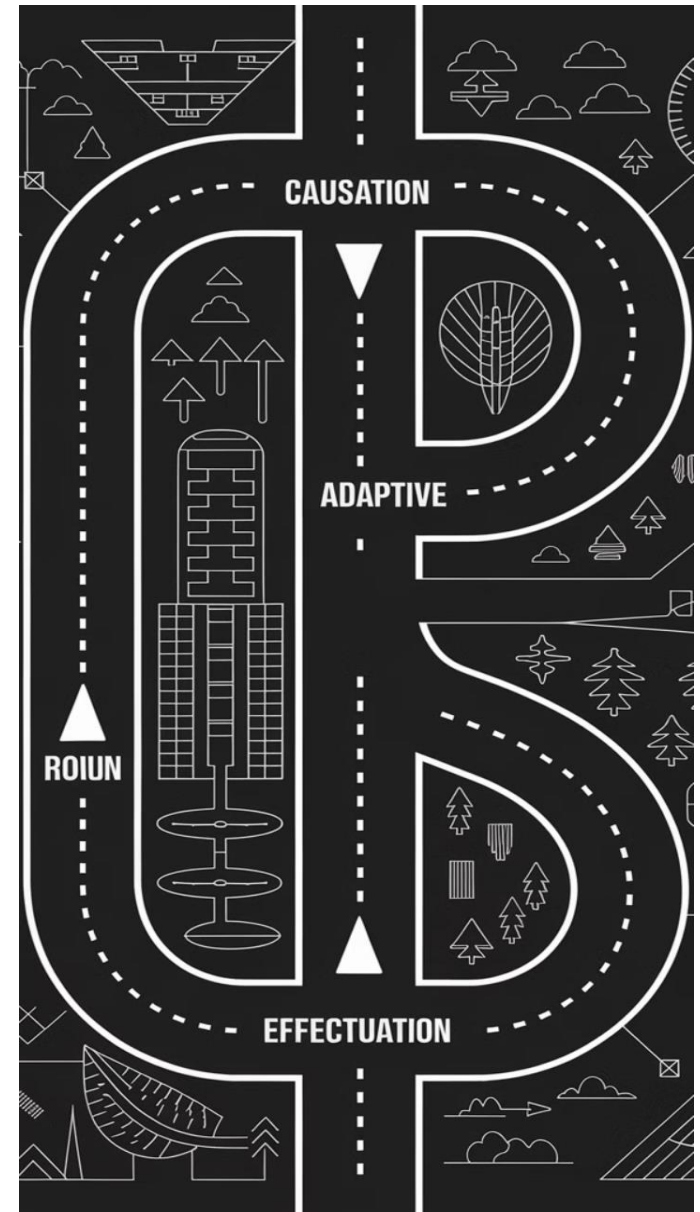
Focuses on predefined goals and selecting the optimal means to achieve them. This approach relies on competitive analysis, expected returns calculations, and exploiting pre-existing knowledge. It assumes the future can be predicted and controlled.

Effectuation Logic

Begins with available means and allows goals to emerge over time. This approach emphasizes networks, strategic alliances, affordable loss principles, and leveraging contingencies. It assumes the future can be controlled through action rather than predicted.

Key Distinction

"Causation processes take a particular effect as given and focus on selecting means to create that effect. Effectuation processes take means as given and focus on selecting between possible effects that can be created with those means." (Sarasvathy, 2001)



Four Principles of Effectuation in Chinese Market Entry



Means-Driven Action

Starting with existing resources, capabilities, and relationships rather than predetermined goals. SMEs entering China leverage their current expertise and connections as foundations for market development, allowing specific objectives to emerge through engagement.



Strategic Alliances

Building networks and partnership arrangements with Chinese stakeholders. These relationships provide vital local knowledge, credibility, and resource access that would be otherwise unavailable to foreign SMEs, helping navigate complex regulatory environments.



Affordable Loss

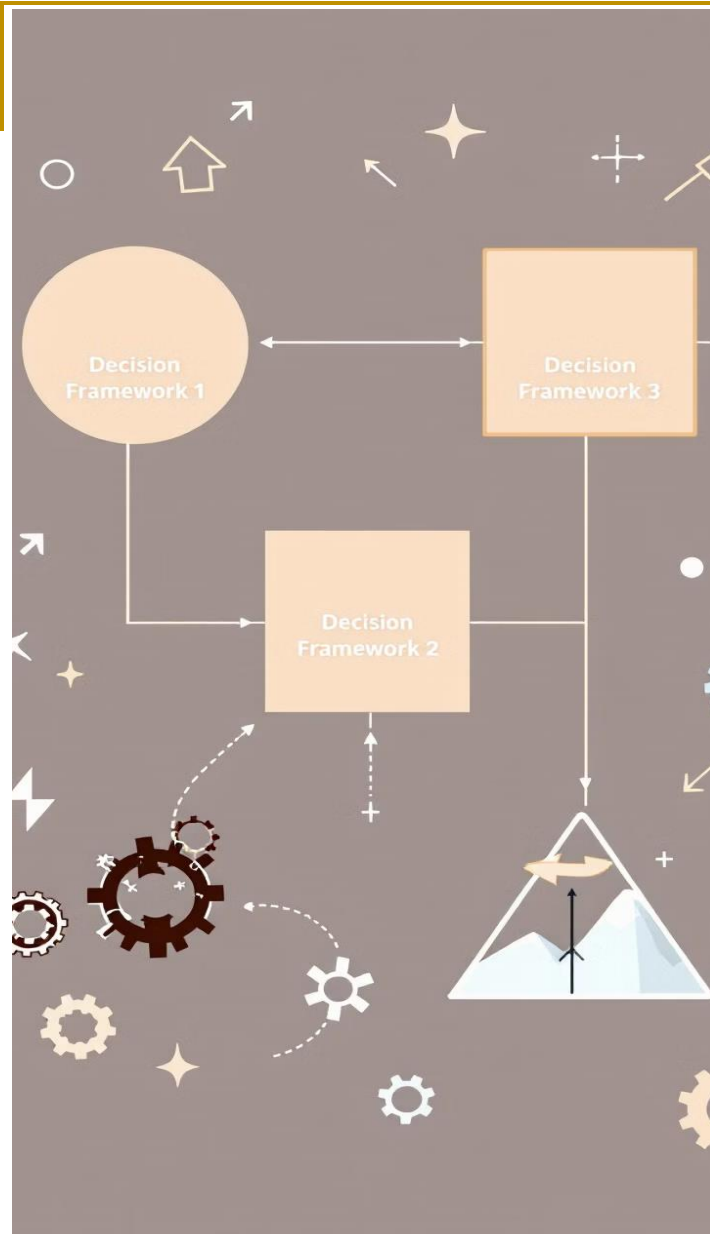
Limiting risk exposure by committing only resources that can be lost without threatening firm survival. This principle is particularly relevant in the unpredictable Chinese market, allowing for controlled experimentation without catastrophic consequences.



Leveraging Contingencies

Embracing unexpected events and turning them into opportunities. Rather than rigidly adhering to plans, successful SMEs remain flexible and adaptable to evolving market conditions, regulatory changes, and emerging partnership possibilities.

Decision-Making Model Comparison



Dimension	Causation	Effectuation	Uppsala Model
Starting point	Pre-determined goals	Available means	Experiential knowledge
View of future	Predictable	Controllable	Uncertain but manageable
Basis for action	Expected returns	Affordable loss	Incremental commitment
Attitude to others	Competition analysis	Strategic alliances	Network development
Attitude to contingencies	Avoid unexpected	Leverage contingencies	Learning from experience
Decision rule	Maximize potential returns	Limit downside potential	Balance opportunity and risk

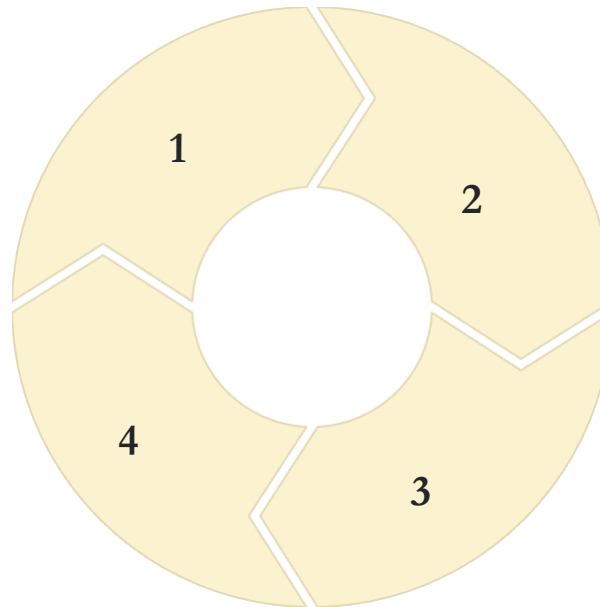
Networking: The Intersection of Effectuation and Uppsala Model

Relationship Building

Establishing and cultivating business relationships in foreign markets is central to both effectuation and the revisited Uppsala model.

Co-creation

Network partners actively participate in co-creating opportunities, particularly valuable in unpredictable environments.



Knowledge Acquisition

Networks provide access to market-specific knowledge, reducing uncertainty and overcoming the liability of foreignness.

Resource Access

Networks enable SMEs to overcome resource constraints by pooling resources with partners and stakeholders.

Research Methodology

1

Qualitative Exploratory Design

Employing qualitative methodology to explore the complex phenomenon of decision-making logic in international market entry. This approach allows for capturing nuances that quantitative measures might miss.

2

Multiple Case Study Approach

Examining four international SMEs that have successfully entered the Chinese market. Each case provides unique insights while allowing for comparison and pattern identification across different enterprises.

3

Semi-Structured Interviews

Conducting face-to-face interviews with key decision-makers (CEOs, founders) using semi-structured format to ensure flexibility while covering essential topics about market entry decisions.

4

Triangulation & Validation

Triangulating interview data with secondary sources (company websites, brochures, press articles). Transcripts are verified by respondents, and preliminary findings presented at research seminars for feedback.



Data Analysis Techniques

Thematic Coding

Applying thematic analysis to categorize qualitative data from interviews, developing descriptive codes based on literature-identified themes. This structured approach allows for systematic examination of decision-making patterns.

Cross-Case Analysis

Comparing findings across different cases to identify patterns, similarities, and differences in how SMEs approach Chinese market entry. This comparison reveals both common strategies and context-specific adaptations.

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Within-Case Analysis

Examining each SME individually to understand its unique internationalization journey, decision-making processes, and network utilization in the Chinese market context. This provides deep insights into firm-specific approaches.

Validation Procedures

Enhancing reliability through transcript verification by respondents, triangulation with secondary data, and presentation of preliminary findings at research seminars for feedback from independent scholars.

Expected Research Findings

1

Predominance of Effectuation

International SMEs entering the Chinese market likely rely more heavily on effectual logic than causation approaches. The high uncertainty, institutional complexity, and cultural distance of the Chinese market make prediction-based strategies less effective than control-oriented approaches.

2

Network Centrality

Relationships form the critical foundation for successful market entry. Rather than selecting partners based on predetermined criteria, SMEs likely build networks opportunistically with interested stakeholders, gradually expanding their presence through these relationships.

3

Hybrid Approaches

Some elements of causation logic may still appear, particularly in initial market selection decisions. SMEs may combine aspects of both logics, using causation for analytical elements and effectuation for implementation and relationship-building processes.

4

Contextual Adaptation

Successful firms demonstrate flexibility in adapting effectuation principles to Chinese cultural contexts. This includes understanding how to develop appropriate guanxi networks while maintaining alignment with home country business practices and ethical standards.

Managerial Implications and Future Research



Prioritize Relationship Building

SME managers should invest significant time and resources in developing authentic relationships with Chinese partners before and during market entry. These networks provide critical access to local knowledge, resources, and opportunities that cannot be obtained through formal market analysis alone.



Embrace Experimental Approaches

Rather than relying solely on predictive market analysis, managers should adopt flexible, experimental strategies when entering the Chinese market. This includes starting with small, affordable commitments and adjusting strategies based on emerging feedback and opportunities.



Leverage Pre-commitments

Securing pre-commitments from Chinese stakeholders before full market entry can significantly reduce uncertainty and create more favorable entry conditions. These early partnerships create legitimacy and open doors to broader network connections.



Future Research Directions

Scholars should explore sector-specific applications of the effectual Uppsala model, conduct longitudinal studies tracking network evolution, and develop quantitative measures to test effectuation principles across different emerging markets.

Thank you.

