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The role of munificence and hostility dimensions on decision-making logics of internationalising SMEs: A comparative study

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Abstract

The study identifies patterns in decision-making logics in the context of SME's internationalisation in munificent and hostile business environments through case study research. The analysis reflects a hybrid causal and effectual decision-making logics by internationalizing SMEs and the study identifies that perceptions of SME's resource position trigger a shift in decision-making logic. We move beyond the standard convention that effectuation is a proactive and emergent approach to encounter uncertain environments and rather advance a view to support the co-existence of causal and effectual logics in SME internationalisation decision-making. The study broadens current understandings on the drivers of effectuation and causation beyond SME's response to uncertainty and the prior international experiences of decision-makers and concludes by providing grounded propositions for further empirical testing.

Keywords: internationalisation decision, munificence-hostility, SME, decision-making

INTRODUCTION

The strategic management and entrepreneurship literatures describe different approaches to decision-making in the face of hostility, which varies between emphasizing the significance of planning, control and other approaches which signify a more adaptive and flexible means to decision-making such as bricolage, improvisation and effectuation (Sarasvathy, 2001; Baker and Nelson, 2005). Although there is a voluminous literature on SME internationalization (see reviews by Jones et al., 2011, Terjesen et al., 2016), there remain limited analysis on the types of decision-making approach employed to plan and implement the internationalisation process (Nummela et al., 2014; Elbanna et al. 2017).

The purpose of this study is to identify the decision-making logics in munificent and hostile business environments in the context of SME's internationalisation. Munificence arises when resources are available and accessible to organizations in a particular business context (Castrogiovanni, 1991). We examine how SME's decision-makers' logics vary in response to SME's ability to secure its resource needs in the home country, both being under-researched contexts and hence the study responds to calls for process-context fit studies (Elbanna et al., 2017).

The conflicting and limited research on how munificence and hostility affects SME's internationalisation decision-making led to an inductive study, which focuses on examining causation and effectuation (Sarasvathy, 2001) as examples of rational planning and flexible intuitive decision-making logics. As decision-making is context dependant (Elbanna and Child, 2007; Child et al. 2017), decision-makers are likely to shift from one logic to another or often combine the two logics (Read and Sarasvathy, 2005), therefore, a process approach investigating internationalisation was deemed useful identify which decision-making logics are adopted under munificence-hostility conditions and why a particular logic is adopted over another. Through a process approach to case study research, the study addresses the following questions: what decision-making logic decision-makers in SMEs adopt under munificence and hostility conditions? What are the antecedents of shifts in decision-making logic? To answer the research questions, we employ qualitative methods to analyse decision events of internationalizing SMEs and through the analysis of SME's effectual and causal decision-making over-time, the study establishes that decision-makers employ hybrid decision-making logics which shift from one dominant logic to another. We explain the shifts emphasizing the

role of decision-making perception of munificence and hostility dimension in affecting SME's resource position.

The study contributes to internationalisation and decision-making literatures by examining how the munificence-hostility dimension of business context affects SME's decision-making during SME's internationalisation process and further identifies how SMEs combine effectual and causal logics in fundamental decisions along their internationalisation process, rather than using one or the other logic exclusively.

The remainder of this article is organized as follows: First, an elaboration on the theoretical underpinnings is presented. Next, the research methodology is described and in the penultimate section, we discuss the findings, and the implication to researchers and avenues for future research is presented in the last section.

THEORETICAL BACKGROUND

Over the past few decades, entrepreneurship research assumed that decision-makers within small entrepreneurial set ups adopt rational-goal driven behaviour (Perry et al., 2012); recently a parallel school of thought emerged to examine effectuation (Alsos et al., 2016). Causation and effectuation represents two distinct frameworks, while the first focuses on planned and rational normative approach, the later adopts a flexible and experimental strategies (Fisher, 2012). Effectuation logic has its root in cognitive science (Chandler et al., 2011) while causal approach emanates from the principles of neo-classical economics which advocates rational behaviour (Stigler, 1956).

Several factors affect the internationalization of firms which include uncertainty, competitiveness factors as well as resource deficiencies and differences in capabilities (Yalya et al., 2019). These conditions affect the decision-makers' perceptions in making internationalization decisions. The effectuation theatrical lens has been recently applied to examine the internationalisation-de internationalisation of ventures (Crick et al., 2018) and in examining antecedents to internationalization speed (Prashantham et al., 2019). Existing studies on internationalising firms are underpinned by effectuation approach, for example the discussions on networks and how entrepreneurs leverage the capabilities of start-ups through 'what' they know and 'who' they know (Anderson and Warren, 2014; Yang and Gabrielsson, 2017). It has been long acknowledged that during the internationalisation process decision-makers decide and action decisions in the face of uncertainty, liability of smallness and

foreignness in international markets (Sarasvathy, 2001). Existing literatures provides limited and contradicting views of how decision-makers in SMEs undertake decisions (see review by Terjesen et al., 2016; Elbanna et al., 2017) and the focus has been on examining decisions under conditions of hostility when organisations are challenged to secure resources and information from the external context (Hammond, 2000). Scholars therefore call for a better understanding of the decision-making tools in management literature in general and SME literature in particular (Elbanna et al., 2017; Stoain et al., 2017).

It is established that the pursuit of internationalisation opportunities requires decision-makers to assess their ventures access to resources (Wiklund and Shepherd, 2005) as decision-makers act as an anchor between the environment and their organisations (Weick 1988). Dickson et al. (1997) classically argued that access to financial resources enable resource intensive expansion strategies and effectual behaviour. The institutional support SMEs receives influences ease of doing business and through institutions, specific mechanisms and structures are in place to influence SME's growth beyond domestic home countries (Peng et al., 2009; Finchelstein, 2017). The study uses insights from resource theorising (Barney et al. 2011) and institutional theory (Scott, 2005) to argue that decision-makers' perception of the resource positions of their ventures influences decision-making logics.

METHODOLOGY

Research setting and approach

The study adopts a qualitative case study design through a process research approach (Langley, 1999) to analyse SMEs through an embedded approach to case study design interviewing members of the middle and top management teams, the research also documents the internationalization process as a sequence of events to describe how things changed overtime (Jones and Coviello, 2005; Van De Ven, 2007) and to identify and analyse a list of events to determine decision-makers' use of effectual and/or causal decision-making logics. The analysis pays close attention to the influence of context, particularly, munificence and hostility in triggering the adoption of either or both logics. The multiple case study design facilitates within-case variation over time and cross-case variation (Gollier, 2011).

Multiple case study design offers the advantage over single-case or ethnographic studies, allowing for a balance between having a rich and detailed insight and the ability to identify recurring patterns and themes. Since effectuation has been recognized as a nascent

theory, qualitative methodology is appropriate for this stage of the theory development (Edmondson and McManus 2007). The present study adopts an embedded approach to case study design (Yin, 2013) to avoid bias which result from relying on the single perspective (Nummela et al., 2014). Furthermore, the qualitative multiple case study design provides a contextualised insight on how and why decision-makers adopted specific decision-making logic. Attention to detail, nuance, and interdependency provides a holistic perspective on the phenomenon being studied, and reveals a comprehensive picture of its nature in totality (Verschuren 2003). In addition, it is a strong methodological strategy for the research of sparsely investigated issues and theory development (Eisenhardt 1989; Eisenhardt and Graebner 2007). The nature of the study is inductive as it does not intend to test any new propositions or hypotheses, but rather aims to extend the extant theory of causation-effectuation. Theoretical sampling will be applied to identify a set of organisations that meet certain criteria. These will be, firstly, size (the firm selected should employ between 10 and 250 employees) and its turnover (not larger than EUR 50 mln) to ensure it falls into the EU SME category (European Commission, 2015).

Data triangulation is attained by comparing information obtained during the interviews with information from the secondary sources and adopting an embedded case study research design (Huber and Power, 1985). The data analysis will follow a qualitative, iterative and inductive content analysis approach (Corbin and Strauss, 1990; Gioia et al., 2013) and the textual data will be interpreted through systematic coding and identifying of themes and patterns. The analysis will be complemented with field notes and secondary data (Miles and Huberman, 1994).

Data coding and analysis

The data is coded in two stages: first, a list of internationalisation events for each SME case was created, and then each of the events was coded for decision-maker's adoption of effectual or causal logic. Decision events were defined as actions or decisions taken by the senior management team to implement their internationalisation decision. Therefore, events were identified taken into account the perspective and intentionality of the management team. Examples include: introducing the company's product to new international market, deciding selection of distributors, approval of clients, identification of partners and international markets to serve. Although it is established that individuals recall significant events correctly (Chell, 2004), we have attempted to mitigate potential retrospective bias by adopting embedded

approach interviewing multiple key informants (Huber and Power, 1985). Therefore, lapses by the senior decision-maker were likely to be offset by other participants/informants (Golden, 1992). The time of occurrence of each event was recorded; consequently, a list of chronologically ordered events was compiled for each case to ensure particularity and accuracy (Belli, 1998). NVivo10 software was used;

The present research follows Sarasvathy et al. (2008), Dew et al. (2009) and Chandler et al. (2011) in differentiating between effectuation and causation on four dimensions. The coding scheme included two theoretical categories; effectuation and causation based on effectuation theory and each category included four dimensions. The events identified for each SME case were coded based on the primary interview data and supplementary data provided by the SME, to perform within-case analysis, the event sequences were analysed in depth by following a process research procedure (Langley, 2009).

Studies standardly focus on the influence of uncertainty and entrepreneur's experience on adopting effectual-causation logics (Sarasvathy et al., 2008; Dew et al., 2009; Townsend et al., 2018), the present study attempts to examine the influence of SME's exposure to munificence-hostility dimensions (the extent to which an SME is able to secure its resource needs from the external business context) on the decision's maker's choice of which logic to adopt when they decide upon their internationalisation decisions. The key sources of munificence included SME's ability to secure its resource needs to materialise on its internationalisation plans as a result of receiving generous manufacturing subsidies from the institutional context. Hostility on the other hand emerged as SMEs struggled to secure their resource needs as they tended to rely on founder's limited resources to realise their survival and growth plans. Additionally, SMEs operating in hostile context encountered institutional voids and unstable political and economic conditions which magnified hostility when evaluating decision alternatives.

To investigate within-case variations, we examined the use of effectual and causal decision-making logics over SME's internationalisation. Overall, in munificent context, decision-makers adopted causation most dominantly in the initial and early days of their internationalisation as they were mandated to internationalise to support the Country's national vision and strictly complied with the government's international orientation. As SMEs gained experiential knowledge and progressed through their internationalisation ventures overtime, they reverted to effectual logic to safeguard the granted benefits. Decision-makers reverted to

bricolage behaviour to make do with the alternative available. For SMEs operating in less munificent-hostile business context, the situation was reversed. The analysis of cross-case variation indicates that SME's initial resource position was associated with differences in the use of causation and effectuation across the sampled cases.

Munificence-hostility dimension emerged as key influence on SME's use of effectual and causal decision-making during the internationalisation process. Munificence led SMEs to mostly adopt causation during the early days of their internationalisation. The causal logic initially enabled the entrepreneur and team members to formulate clear goals and their efforts were strategically targeted at selecting and attracting the means to reach that goal, such as hiring team members with the required expertise, protecting trademark, negotiating contracts to secure long-term exporting orders and subsequently negotiating contracts with suppliers. These goals and directed activities explain the observed increase in causal logic in the early years of SME's internationalisation. Effectuation gradually started to be the dominant logic in subsequent decisions to expand their markets and distributors. At a specific point of time encountered a turning point when causal logic started to diminish in favour of effectual logic where they relied on experimentation to leverage existing contacts to penetrate new international markets. Following a casual time for some time enabled the SME to expand its existing knowledge and experience of internationalisation, the increased knowledge could thereafter be deployed to enable the same SME to adopt effectuation logic later on. Adopting causal model after some time helps firms to get experience and knowledge to be used as a basis for effectuation later on. By contrast, operating in a hostile context led to SME's adopting effectual logic in the early years of their internationalisation and then turning to causal logic. Effectual logic acted as a shield to encounter hostility contexts and as SMEs accrued benefits, they reverted to risk-averse causal-rational logic to preserve the accrued benefits.

Changes in entrepreneur's and management team perception of environmental munificence lead to changes in decision-making logics during SME's internationalisation process. Decision makers adopted a casual logic to exploit alternative options when the business environment was less hostile and munificent. Decreases in perceived munificence and increased sense of hostility led decision-makers to adopt effectual logic and exploration of internationalization options without specific clear vision or pre-determined targets. Perceptions of resource position during internationalisation triggered a change of decision-making logics. Resource positions was influenced by access to government's financial subsidies which created perceived munificence conditions, therefore, decision-makers initially

adopted causal logic to implement pre-determined internationalisation plans, and as they progressed and developed as experienced exporters, concerns over continuing receiving the subsidies caused a shift towards effectual logic to explore potential opportunities.

A major resource position led SMEs to initially adopt causal logic to implement plans to be national exporters to support the country's national vision/international orientation.

The present study synthesises explanations for the shift in the adoption of decision-making logics during SME internationalisation and proposes that the shifts were driven by munificence-hostility contexts and the resultant resource position at a certain point of time. The results establish that decision-makers employed causation and effectuation logic in the context of their internationalisation, however, the adoption of particular logic over another depended on their resource position and the perception of environmental munificence-hostility during internationalisation. In munificent context, decision-makers firstly adopted causation logic and a rational systematic approach, they started with a planned internationalisation strategy and looked at different means to realise it, they have then reverted to bricolage behaviour and effectuation logic to make do with whatever resources they have at their disposal on the fear of losing the granted benefits extended under the institutional support scheme. Following a causal logic for some time allowed the SME to expand its knowledge and experience and facilitated the shift to effectuation logic thereafter. On the other hand, in hostile and less munificent business context, decision-makers started with the means, and consequently searched for an internationalisation goal, they initially adopted effectuation logic and extensively relied on intuition line of thinking. As they advanced through their internationalisation, they gained experiential knowledge which enabled them to switch to causal-planned line of thinking. As they operated in hostile contexts, they had to preserve their resources given the constrained conditions they operate within; causal-planned logic represented a safeguard against losing the gains they realised during their initial internationalisation stage.

Discussion and conclusion

The present process study advances theorising of internationalisation decision-making under munificence-hostility contexts in the following ways: firstly, we find that decision-makers follow a hybrid logic that uses both effectual and causal logics over time depending on the stage and time of their venture's internationalisation. Secondly, the findings support and elaborate on the context-dependence of entrepreneurial decision-making during the SME's

internationalisation process; in particular, the study broadens current understandings on the drivers of effectuation and causation beyond the classical thinking linking decision-making logics to uncertainty and prior entrepreneurial experiences. Therefore, the study identifies that SME's resource position are conditions which influence SME's decision-making logics. Thirdly; the findings provide useful insights derived from process research on decision-making under munificence-hostility conditions which cannot be derived from cross section research.

The findings reflect that decision-making in SMEs follows a hybrid logic that combines elements of planning and flexible decision-making logics, this finding contrasts with the view that effectuation and causation are mutually exclusive and identify that decision-makers responded to the company's external context to frame their internationalisation decisions (Brettel et al., 2012). The shift between logics is the result of shifts over decision-makers' perception of contextual munificence-hostility during the internationalisation process. The overall pattern which emerged from the analysis identify that flexible-effectual decision-making is more prominent in hostile business contexts during the earlier stages of internationalisation with a transition to more planning based decision-making over time as the SME's experiential knowledge expand.

In hostile environment, the internationalization process lacked a strategic orientation (Frishammar and Andersson 2009) and decision-makers undertook decisions under conditions of hostility and goal ambiguity (Gabrielsson and Gabrielsson 2013). They have employed intuition and effectuation logics in attempts to capitalise on the existing network connections and limited resource base. In hostile contexts, decision-makers adopted effectuation logic because they attempted to leverage contingencies (Sarasvathy, 2008). Effectuation logic explains the SME's occasional unintentional internationalisation (Kalinic et al. 2014; Sarasvathy et al. 2014). Decision-makers' reliance on existing network connections was a central aspect of the effectual process in the early days of their internationalisation as they relied on *effectual networks* (Sarasvathy and Dew 2005: 542). As effectual networks were unstructured and as the process lacked a defined goal, reliance on effectual networks increased SME's uncertainty and risk (Chandler et al. 2011).

In munificent context, decision-makers adopted a goal oriented reasoning of causal rationality, laid pre-determined internationalisation plans and selected resources to attain these goals. They adopted a causal predictive logic of reasoning and strategically chose their foreign partners and target markets according to the fit to the firm. The business context acted as a

macro foundation for the internationalisation process, and then as they progressed and accumulated increased level of experiential learning in internationalisation, they reverted to effectual logic to safeguard realised success. The munificent context enabled SMEs to secure institutional resources which increased its means to achieve the intended goals, while in hostile context, the business context acted as an impediment to SME's internationalisation. Decision-makers adopted an analytic and ruled based mechanism for decision-making (Hodgkinson and Healey, 2011) and pursued logical choices based on conscious deliberation. Given the systematic and structured nature of rational decision making, it could often delay decisions (Elbanna, 2006), interestingly, decision-makers were not slow and the process was not effortful given the clear mandate to align with State's international orientation and management's established goals. Although they followed a causation decision-making logic and were rational in their thinking, they did not follow a 'wait and see' type of thinking (Bourgeois and Eisenhardt, 1988).

The present study identifies that the surrounding business context largely prompted decision-makers in hostile contexts to adopt effectuation and intuition as they had to mitigate the risks of liability of smallness and foreignness in international contexts, during the initial stages of internationalisation and they shifted the logic as they progressed and acquired experiential knowledge, while in munificent context, given the determined paths and goals identified, decision-makers adopted a causation and rational decision-making to navigate through their internationalisation process, then shifted to effectuation logic as they progressed into their internationalisation to safeguard the benefits drawn from the surrounding munificent context. The study formally identifies the significance of institutional context in shaping SME's decision-making process and highlights the significance of turning points in SME's internationalisation decision-making process. As international decisions are simple functions of the experience and prior pattern of behaviour of the entrepreneur and the organisation, international experience is suggested to be an important determinant of the decision to internationalise (Dichtl, et al., 1990) and the turning point of as when the decision-maker decides to re-shift his logic.

The empirical findings expand the understanding of conditions stimulating effectuation and causation logics and therefore contribute to theory development on internationalisation decision-making. As Perry et al. (2012) identify, the next stage of theory development of effectuation theory requires studies that attempt to explore a more fine-grained understanding of the origins of effectuation. The present study deviates from the norm of examining effectual

logic in light of static conditions such as entrepreneurial experience and uncertainty at the time of founding a venture and highlight the interplay between business context, SME's resource positions and accumulated experience and knowledge to advance understanding of shifts between decision-making logics in the context of SME internationalisation. As internationalisation decisions are linked to discovering opportunities, we explicitly make the relationship between SME's thrive to search for opportunities and effectual logic in hostility conditions and identify that the same may not be valid in munificent context until SMEs become experienced inter-nationalisers.

As SME's internationalisation progressed over time, SMEs encountered varying levels of risk and the changes required decision-makers to adjust their decision-making logic. Decision-maker's perception of the extent the business context is munificent or hostile explained why the conditions interrupted and re-set their logics during SMEs internationalisation. Thus, adopting a process approach helped to explore a more fine-grained understanding of the influence context on decision-makers adopted logics. When resources were insufficient, decision-makers widened the scope of their thinking and options and consequently adopted an effectual line of thinking in the early stages of internationalisation. Interestingly, this finding is in conflict with prior research which identify that resource constraints are associated with narrowing alternatives and planned restricted behaviours (Crick and Spence, 2006; Kaul, 2012).

By investigating patterns in SME's effectual and causal decision-making in depth over time, the study extends research on internationalisation decision-making and establishes that decision-makers typically employ hybrid decision-making logics and shift from one dominant logic. The shifts are explained by identifying the role of munificence-hostility in shaping SME's resource positions. We move beyond the classical convention that effectuation is a proactive and emergent way to exert control over uncertain business environment (Sarasvathy, 2008; Smolka et al., 2016).

The present study proposes the following three propositions and sketches the below theoretical model for further empirical investigation.

P1: In the context of SME internationalisation, decision-makers adopt hybrid decision-making logics of causation and effectuation

P2: In the context of SME internationalisation, decision-makers in munificent business context adopt a causal decision-making logic during early years of internationalisation and then re-shift to effectual logic to minimise the risk of losing the benefits they draw from the external context. The shift to effectual logic is enabled by SME's increased experiential knowledge.

P3: In the context of SME internationalisation, decision-makers in hostile business context adopt effectual decision-making logic during early years of internationalisation and then re-shift to causal logic to minimise the risk they encounter as a result of resource-constraint conditions. The shift to casual logic is enabled by SME's increased experiential knowledge.

Limitation and suggestions for future research

Whilst we found evidence for the hybrid use of effectual and causal decision-making in the context of SME internationalisation, we focused on exporters as they were eligible recipients of government subsidies in the two contexts, future research may explore SMEs adopting different internationalisation modes employing different business models. Additionally, we see an opportunity for future research to explore the effect of SME's accumulation of slack resources as a result of operating in munificent context on shifts in decision-making logics. We also hope to inspire future research to examine the influence of munificence-hostility dimensions on changing SME's decision-making logics to the speed and outcomes of internationalisation.

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