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Internationalization of Small Ventures under “Lean Start-Up” and “Effectuation” Conceptualization.

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1 INTRODUCTION

It is acknowledged that the process of starting up a new venture in a foreign market is a very complex task. Especially in the initial stages an entrepreneur has to deal with the new market uncertainties and at the same time he has to come up with a product idea which is able to create customer's value. In this dynamic setting, innovation speed, customers' behaviours, product idea development, competition threat, governmental regulations, investors, suppliers, as well as many other environmental factors, have a considerable impact on the organization (Goktan and Miles 2011; Mulders and van den Broek 2012).

According to the traditional business literature, the most important of launching a venture is constructing a business plan. A business plan is considered as the blue print for business approach and management which should include both long term and short term business goals. It needs to clarify the anticipated opportunities of the product offered and finally the business plan should disclose the resources which will be employed to compete and achieve success in the business market (McKelvie, 2011). It is believed that a formal written business

plan reduced the chances of making mistakes in real market and forecast the amount of assets needed and helps to run the business smoothly (Chlander & McKelvie). But in most of the cases a venture founder relies on business planning based mainly on prediction and forecasting techniques for achieving success in their business, especially while entering into a new market. They develop their offerings without enough feedback from potential customers, as the customer behaviour is unknown to them and often they lack in access of customer feedback (Blank 2014; Kowal 2012). In this kind of scenario often a written formal business plans fails to operate a business successfully (Chlander, DeTienne, McKelvie & Mumford; 2008).

In recent years the entrepreneurship literature has developed new streams, which suggest alternative “logics” that organizations follow, different than the mainstream logics based on predictive control and causation (Wiltbank et al., 2006). Most of the alternative business approach and logic prefers experimentation over business planning, affordable loss rather than expected return, customer feedback rather than intuition and iterative design rather than traditional development (big design up front).

Sarasvathy (2001) proposes effectuation as an alternative to causation, to understand entrepreneurial behaviour and decision making; and another relatively new approach has been discussed in the entrepreneurship literature which is ‘the lean start-up approach’ (Ries, 2011). According to the traditional business model, a venture’s founders rely on business planning for business success which is focused on prediction and forecasting rather than customer feedback and experimentation. In contrast, the lean start up and effectuation prefers experimentation over business planning, flexible use of business opportunity rather than preset opportunities, customer feedback rather than intuition and iterative design rather than traditional development. Lean start up approach and effectuation can be explained as an

organizational learning process which aims to help businesses to succeed and grow gradually in a business landscape riddled with uncertainty by changing the way that products are designed and firms are built (Gehrich 2012). It minimizes the waste, cost and time to market by creating best possible chance for products to get into customers hands (Gehrich 2012).

Notwithstanding these claims, there is a research gap in understanding if the effectuation and lean start up approach have a superior survival/growth performance if compared with start-ups following a more conventional approach, based on forecasting and planning. This is particularly true for new ventures and for their decision to enter into foreign markets (Kumar, 2008). The decision to venture abroad is considered as one of the key entrepreneurial decisions as internationalization is one of the main growth avenues for firms (Schumpeter,1934). When a business start-up decides to enter into the international market, it becomes mandatory to decide about the internationalization strategies as well (Kamlesh and Kumar, 2008). This is particularly true for smaller firms, for which going abroad may represent a leap in terms of resources and risks. In recent years these alternative business approaches have attracted much attention of investors, technologists and entrepreneurs and it is believed that effectuation and lean start-up approach can help small start ups to succeed gradually through continuous organizational learning. Blank and Steve (2013) and Sarasvathy (2001) among the architects of lean start-up and effectuation movement, express similar thoughts that this approaches is able to reduce start-up failure and it can build a more entrepreneurial economy worldwide. But there is a big research gap in understanding of if and how these approaches may also be applied for the international growth of entrepreneurial ventures and how these will affect the internationalization process of it. Thus the aims of this research is to investigate how small entrepreneurial ventures can grow in a foreign market through effectuation and lean start-up approach, and how these approaches affect the decision

making process related to their internationalization.

Moreover the theory of effectuation can be fruitfully compared and integrated with the lean approach in order to achieve a better understanding of entrepreneurial firm's behaviour in their decision to internationalize. Though these two concepts belong to very different streams, but they have commonalities which have not been explored yet in literature. They both refer to the idea that an (international) new venture is not necessarily relying on forecasting and planning approaches to make decisions and enter into new markets; rather they can use organizational learning process like Lean Start-up and Effectuation. However, it is still under studies how the different schools of thought can be compared and eventually matched.

This study in fact aims to conduct an in depth research about how "lean start-up" and "Effectuation" may affect firm's decision making process when small firm decides to enter in a foreign market, and the way of combining the notions of Lean start-up and Effectuation to maximize the chances of start-up success through organizational learning.

1.1. Research Questions

This study aims to answer the following research questions to fulfil the research aim :

“Which is the prevailing decision making logics when a small firm enter a foreign market?”

How are causation, effectuation and lean start up logics used and possibly combined in the internationalisation of smaller firms?

Which approach provides better performances, in terms of international growth?”

2. METHODOLOGY

This section presents the methodology which will be used for this research. First, it will justify the use of mixed methods case study and then will discuss about the case sample, data collection, data analysis and personal interview process.

3.1. RESEARCH PHILOSOPHY

The study will be following the philosophy of positivism where only the “factual” knowledge gained through observation and measurement is trustworthy (Dudavaskly, 2011). The philosophy of positivism relies on experience as a valid source of knowledge; similarly this study will rely on entrepreneur’s experiences regarding their start-up internationalization. The study will be mainly depended on quantifiable measurements and observations that will lead to a statistical analysis.

3.2. RESEARCH METHODS

3.2.1. MIX METHODS RESEARCH APPROACH

This study aims to adopt case studies for the research activities. The case study method enables researchers to mix multiple methods for research data collection which is well known as mixed method research approach. The Mixed methods research approach allows researchers to mix research methods like; questionnaires, interviews, observation etc (Johnson et al, 2007). In this study the researcher will be following ‘Mixed Methods Research Approach’ for developing multiple case studies, which will rely mainly on positivist and qualitative view of the research process with the support of quantitative data and approaches to benefit the research project most.

3.3. QUANTITATIVE DATA COLLECTION

3.3.1. RESEARCH SAMPLE

The samples for the research will be selected from small companies which already went through the internationalization process. Company database like- Beauhurst.com and London.startups-list.com; will be used for the selection of the survey participants. The selection of entrepreneurs for the survey and interview will be based on few specific criteria-

1. Entrepreneurs who have established a company within past ten years.
2. Entrepreneurs who have already approached for the internationalization of their companies.
3. The company should already have customers.
4. The company should have already earned revenue.

For the research we will consider not only active entrepreneurs but ex-entrepreneurs who are not involved in active entrepreneurial activities anymore. Involving the ex-entrepreneurs will enable us to gather their positive as well as the negative business experience about how they dealt with a new market uncertainty. Moreover the four criteria's we set up will enable us to collect data from experienced entrepreneurs who have real experience of facing an uncertain market environment with their start-up business.

Our research aims to gather at least 100 valid questionnaires from the online survey.

According to Holloway (1997), sampling process should be continued until enough number of studies is gathered. So, we will spread and approach the survey to as many entrepreneurs as possible.

3.3.1.2. SURVEY QUESTIONNAIRE

The survey questionnaire will be developed based on the analysis of the literature review chapter on causation, lean start up, effectuation business approaches, market uncertainty and the research questions of this study.

3.3.1.3. Survey Data Analysis

In order to answer the research question, it is important to analyse the survey data to validate the given expectations based on entrepreneur's feedback on the online survey. The data gathered by the online survey will be first analyzed by specific software with the graph summary report to provide initial insights. Then SPSS software will be used to process the raw data from online survey to explore and convert it into quantitative data to do the statistical calculations.

3.3.2 Case Study

This study first aims to adopt the exploratory case study method for the research activities. Multiple case study method will be employed here to get a bigger picture of this complex phenomenon. The firms will be sampled according to theoretical sampling and the researcher plan to develop 3-4 in depth case studies, which will represent the starting point of the quantitative survey.

3.3.2.1 Personal interviews

Personal interviews are a way of collecting information about research subject that the researcher is unable to observe directly (Patton, 1990). It is very important data collection method for case studies, since "case studies are human affairs and human affairs should be reported and interpreted through the eyes of specific interviewees, as they can provide

important insights to a situation (Yin, 1994, p.85). In this study researcher will arrange personal interviews with carefully selected entrepreneurs based on survey results. These interviews will be semi structured, where interviewer will follow the interview guide to collect in-depth data about the internationalization process of start-ups but with a margin of flexibility.

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