

## **Trajectory of the Internationalisation of Small and Medium Enterprises and Effectuation Theory**

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### **Introduction**

Small and Medium Enterprises (SMEs) have been regarded as the most important sector of any economy. In this era of globalization, the internationalisation of the SMEs has become critical. At present, the studies on the internationalisation of the SMEs have attracted growing interests of the researchers. Several studies focused on SME internationalisation and its drivers in the last few decades. Among them, effectuation has emerged as an important theory for the creation of new ventures and it also plays a pivotal role in the internationalisation of the SMEs. In 2001, Sarasvathy introduced effectuation theory and it is now at the intermediate stage of development (Matalamäki, 2017). Primarily, effectuation theory explains two opposite logics (causation and effectuation) used by the expert entrepreneurs in decision making. Effectuation explains working on the means given to the effectuator and trying to explore possible effects from those means. The effectuator always tries to identify and exploit new opportunities in the entrepreneurial process. This section addresses hitherto under-explored area of internationalisation where effectuation is used in explaining the trajectory of the SME internationalisation.

There are five principles in the effectuation theory: the bird-in-hand principle, the affordable loss principle, the patchwork quilt principle, the lemonade principle, and the pilot-in-the plane principle (Sarasvathy, 2001). The bird-in-hand principle focuses on the means (identity, knowledge and network) and the inputs from the stakeholders who are actually committed. Here, the effectuator needs to decide what he/she can do with the available means those are under his / her control. The affordable principle depicts how much an effectuator can lose to start a new venture. In addition, he/she needs to focus on his/ her financial and psychological condition, when the effectuator thinks about affordable loss. Moreover, the affordable loss

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principle motivates the effectuator to choose stakeholders with geographical or socio-cultural proximity or from the same social network. In this principle, the important issue is “self-selected stakeholders” (Sarasvathy, 2022, p. 84). The patchwork quilt, also known as crazy quilt, emphasises on getting engaged with partners from the inception of the new venture. Moreover, customer into stakeholders is considered here and thus partnership becomes the major concern. The fourth principle, the lemonade principle, is the centre of the entrepreneurial expertise where effectuator tries to consider uncertainty or contingency as an opportunity. The last principle is the pilot-in-the-plane principle. Effectuator believes that if the future is in control then there is no need for prediction. Here, the key word is co-creation and new opportunities are co-created in the uncertain environment.

### **Effectuation and Causation**

Causation considers only about the specific possibilities and influences the entrepreneurs to choose means to get or create that certain effect (Sarasvathy, 2001). It is assumed that while an entrepreneur follows causation theory, he/ she is goal - driven while effectuation theory motivates an effectuator to be means - driven. In causation, the goal is predetermined and then means/ resources are selected to achieve the goal. On the other hand, effectuation emphasises the entrepreneurs to create/ determine the goals with available resources (Galkina & Chetty, 2015; Chetty et al., 2015). In effectuation, improvising gets more importance over planning (Nielson et al., 2017). That's why causation process is considered as static while effectuation process is regarded as dynamic (Westhead & Wright, 2013). Effectuator believes that opportunity can be identified or fabricated instead of given (Sarasvathy, 2001). Westhead & Wright (2013) identify that causation focuses on search & select while effectuation deals with creation & transformation. Read & Sarasvathy (2005) explain that causation is more concerned about the competition while effectuation helps to create market with customers, suppliers and prospective competitors. Sarasvathy (2001) and Lingelbach et al. (2015) argue that the use of effectuation logic helps the entrepreneurs to work in an uncertain environment while causation logic helps to work in a predictable environment. Here, causation depends on predictions while effectuation depends on control (Sarasvathy, 2001). In fact, Sarasvathy did not ignore causation all the time. She emphasises that causation is also important. Besides, Sarasvathy (2001) argues that both the theories might occur at the same time depending on different contexts, situations and actions. It means causation and effectuation

theories are not mutually exclusive. In fact, the entrepreneurs may switch between effectuation and causation to exploit the opportunities, especially when the situation demands (Nielson et al., 2017; Westhead & Wright, 2013). Prior research on effectuation theory mainly explains the principles of the effectuation theory in entrepreneurial decision making. The systematic review of the extant literature on effectuation might help to explore the effect of effectuation theory on SME internationalisation.

### **SME Internationalisation**

Traditionally, it is always believed that the entrepreneur's identity, his/her characteristics, perceptions, education, family background, etc. play important roles in the internationalisation process. Whether it is traditional SME internationalisation or born global internationalisation, the entrepreneur is the key focus area while his/her actions are certainly influenced by his/her characteristics, environment and networks. Here, effectual decision making plays an important role. Galkina & Chetty (2015) uses effectuation theory along with the Uppsala model to explain SME internationalisation process. Initially, the Uppsala model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) explains that firms usually go for internationalisation with low psychic distance where cultural similarities are available. Moreover, firms commit more resources while firms have more information about the foreign markets. Furthermore, the Uppsala revisited model (Johanson & Vahlne, 2009) focuses on the networks and relationships for internationalisation. Besides, Johanson & Vahlne (2009) commented that effectuation theory is consistent with the revised Uppsala model. In the internationalisation literature, born global firm (Knight & Cavusgil, 2004) or International New Venture (INV) firm (Madsen & Servais 1997; Oviatt & McDougall, 1994; Rialpa et al., 2005) is getting attention now-a-days. Born global firms internationalise within a very short period of their inception. It is found that networking and partnerships accelerate rapid internationalisation (Sekliuckiene & Maciulskaitė, 2013; Freeman et al., 2006).

Internationalisation becomes difficult without available resources (Luostarinen, 1980; Welch & Luostarinen, 1988) as lack of resources is the major barrier to internationalisation (Banu, 2019; Johanson & Wiedersheim-Paul, 1975). Some authors identified similarities between effectuation and bricolage as both the theories emphasise on resources for opportunity identification (Lingelbach et al., 2015). Entrepreneurial bricolage influences the entrepreneurs to use different combinations of resources to handle different challenges and to identify new opportunities

in the external environment (Westhead & Wright, 2013). In addition, network is a meaningful source of tangible and intangible resources in the resource constraint environment (Coviello & Munro, 1997; Oviatt & McDougall, 1994; Varela et al., 2015). In 1988, Johanson & Mattsson define internationalisation on the basis of relationships and networks. It is also explained how foreign network plays an important role in the SME internationalisation (Prashantham, 2004a; Prashantham, 2004b). Johanson & Vahlne (2009) use the term effectual network consisting of all the stakeholders. Moreover, Galkina & Chetty (2015) also focus on effectual network which helps to work in markets where network emerges and thus network becomes very important in both effectuation theory and the revised Uppsala model. Effectuation theory influences the decisions of an entrepreneur and it also includes the internationalisation decisions and patterns (Andersson, 2011). It is believed that effectuation theory might better explain the internationalisation pattern of the born global firms. Prashantham et al. (2019) presents effectual approaches to network building as follows:

**Table 1: Effectual Approaches to Network Building**

<i>The Principles of Effectuation</i>	<i>Effectual Network Building</i>
The bird-in-hand principle	Starting venture with known people
The affordable loss principle	Pursing a relationship despite knowing its downside
The patchwork quilt principle	Working with self-selected and committed stakeholders
The lemonade principle	Reviving old relationships or approaching new connections
The pilot-in-the plane principle.	Providing necessary resources or influencing others for being a part of any activity

Source: Prashantham et al. (2019)

Table 1 presents the corresponding effectual networking actions in the light of the five principles of effectuation theory. Effectual networks might motivate the entrepreneurs to go for early internationalisation while causation networks might take a longer time for internationalisation (Prashantham et al. 2019). Internationalisation with known people (the bird-in-hand principle), partner (the patchwork quilt principle), acceptable loss (the affordable loss principle), open to serendipitous opportunities in an uncertain environment

(the lemonade principle) and co-creation (the pilot-in-the-plane principle) encourage the entrepreneurs for quick initial entry to foreign markets in comparison to causal network building. Sarasvathy (2001) explains in her bird-in-hand principle that it is important for the entrepreneurs to know who he is, what he knows and whom he knows. “Who he is” deals with the identity of the entrepreneur, “what he knows” reflects knowledge while “whom he knows” is regarding network (Sarasvathy et al., 2014). These ideas are very important for the entrepreneurs to go for venture creation. In effectuation “who I know” is emphasised and it can be coined with networks and relationships (Chetty et al., 2015; Galkina & Chetty, 2015). Moreover, the effectuator focuses on the “size and breadth of networks” (Sarasvathy et al., 2014, p.73). Then, the patchwork quilt principle is about partnerships with self- selected stakeholders for resource acquisition (Prashantham et al., 2019). Chandler et al. (2011) argues that entrepreneurs get engaged with many relationships which might help them to share both risks and success. Effectuation theory emphasises on contingency plan instead of predetermined plan and it can be better explained in the internationalisation of the born global firms (Andersson, 2011).

Entrepreneurs who follow effectuation theory might have access to many markets within a short period of time with low risk (Andersson, 2011; Laskovaia et al., 2017). In addition, alliances with the customers & partners play an important role in resource acquisition, opportunity identification & exploitation (Laskovaia et al., 2017). It is believed that effectuation has positive influence on SME internationalisation as it might improve firms' performances in the emerging markets (Guili & Alami, 2020). Karami et al., (2020) presented a conceptual framework where the network is considered as the main mechanism which contributes to international performance. Moreover, rapid and early internationalisation of the born-global SMEs is influenced by networks and relationships (Andersson, 2011; Freeman et al., 2006; Sharma & Blomstermo, 2003; Zhou et al., 2007). Freeman et al. (2006) identified personal network as one of the key variables for the rapid internationalisation of the born global firms as personal network help to establish partnerships and alliances. They also emphasises on the adaptation of the relationships for meeting the changing demands of the partners. On the other hand, Zhou et al., (2007) identified social network as significant factor. It is evident that network positively influences the performances of the SMEs both in the local and international market. In the resource constraint and risky external environment, networks and relationships positively influence the early internationalisation of the firms. Researchers have studied entrepreneur's networks and environment

as important actors in the internationalisation field for decades. The theory of effectuation might help the researchers to explore the contributions of network in SME internationalisation.

## Conclusion

The scholars have long argued that networks and relationships play important roles in the internationalisation of the SMEs, along with the born global firms. Effectuation theory contributes to the internationalisation studies considering networks and relationships. In the born global research, networks and relationships are also highlighted in the early and rapid internationalisation of the new ventures. It is found that effectuation focuses on different perspectives and dimensions of internationalisation. New foreign market selection, entry mode, timing, performances in the international market, etc. are greatly influenced by effectuation. Usually SMEs & born global SMEs have limited resources. Networks & relationships might help them to survive & grow in this risky & uncertain environment. Few studies explained entrepreneurial decision making regarding SME internationalisation by using effectuation theory. This review might be used for understanding the research gap and provide an outline for future research. Integrating previous internationalisation theories, especially network model and resource based view (RBV) with effectuation theory might explain the trajectory of the SME internationalisation in a unique way. Moreover, empirical studies on the connections between SME internationalisation and effectuation might offer a greater insight about the role of effectuation in SME internationalisation.

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