

Effectuation and causation: Two decision-making logics of INVs at the early stage of growth and internationalisation*

*Mariola Ciszewska-Mlinaric, Krzysztof Obloj, Aleksandra Wasowska***

The purpose of this study is to explore what decision-making logic (effectual or causal) is dominant in the new venture internationalisation process and what influences its changes over time. To this end, we present a case study of a Polish international new venture (INV) operating in the audiobook industry. The study's findings reveal that decision-making logic at the early stage of company growth and internationalisation cannot be assigned to one type of logic, but rather may shift from effectuation to causation and vice versa. Moreover, we argue that INVs may apply two logics simultaneously, depending on the characteristics of the problem space.

Key words: international new ventures, internationalisation, decision-making, effectuation, causation, international entrepreneurship (JEL: F23, M16)

* Manuscript received: 26.04.2015, accepted: 28.06.2015 (0 revision)

** Mariola Ciszewska-Mlinaric, PhD, (corresponding author), Assistant Professor, Kozminski University, Department of Strategy, Jagiellonska 57/59, 03-301 Warsaw, Poland. E-mail: mariolac@kozminski.edu.pl.

Krzysztof Obloj, PhD, Professor, Kozminski University & University of Warsaw.

Aleksandra Wasowska, PhD, Assistant Professor, University of Warsaw.

Introduction

The phenomenon of small and medium-sized companies' involvement in international activities soon after their inception has attracted the attention of researchers since the early 1990s. These entities are most often referred to as international new ventures (Oviatt/McDougall 1994), born-globals (Knight/Cavusgil 2004), global start-ups, or instant internationals (Rialp et al. 2005). Although the term born-globals is probably most commonly used, recent research evidence suggest that most of these companies are essentially regional rather than global (Rugman/Almódovar 2011). Therefore, in this study, the term international new venture (INV) is used. Following Oviatt and McDougall (1994: 49), we define an INV as a “business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”.

The growing field of international entrepreneurship (IE) research integrates entrepreneurship and international business in order to explain the process of “discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services” (Oviatt/McDougall 2005: 540), undertaken, *inter alia*, by new firms acting on international markets early in their life cycles. Past research that examined the determinants of early internationalisation process indicated the importance of macro, industry and firm level variables (Zahra/Korri/Yu 2005). Among the factors inducing or enhancing early internationalisation are: smallness and openness of the domestic market (Luostarinen 1994), niche product (Luostarinen/Gabrielsson 2004), access to international networks (Knight/Cavusgil 1996), and prior international experience of founders and decision-makers (Madsen/Servais 1997).

Although important contributions to IE have been made, there are still knowledge gaps in IE research; surprisingly, one of the most significant of these is related to the role and behaviour of entrepreneurs in the internationalisation process. Zahra et al. (2005) suggested applying a cognitive perspective in IE research to increase the understanding of entrepreneurs' motivations, thinking and decision-making processes, and their subsequent identification and exploitation of opportunities in international markets. In the last few years, a number of researchers have shared a similar opinion, and the shift within IE studies toward cognition-based research, incorporation of the bounded rationality of decision-makers, and effectuation theory is evident. Jones et al. observing the recent emergence of effectuation theory in IE research, “look forward to rich debate on how it relates to cognitive processes and the development of knowledge and capabilities for entrepreneurial internationalisation” (Jones/Coviello/Tang 2011: 643). Schweizer, Vahlne, and Johanson (2010) believe that “an effectuation process view, with its stress on the exploitation of contingencies, can strongly contribute to our understanding of the internationalisation of firms as a by-product

of efforts to improve the position of the firm in its network” (Schweizer et al. 2010: 368).

First exploratory studies suggest that in early development INVs follow effectual decision-making logic (Andersson 2011). Prior research also reveals that the decision-making logic may change in time (Kalinic/Sarasvathy/Forza 2014), often as a result of critical events such as a change of key decision makers and search for external funding (Nummela/Saarenko/Jokela/Loane 2014). Moreover, Nowiński and Rialp (2013) suggest that INVs from transition economies of Central and Eastern Europe use effectuation and bricolage to overcome resource limitations. Gabrielsson and Gabrielsson (2013) support this view, and their study based on a multiple case studies of high-tech born globals from Finland indicates that the effectual logic may compensate for the deficiencies of resources and capabilities, thus enhancing rapid internationalisation. They call for further studies on the role of effectuation in new venture internationalisation.

This paper aims at understanding the decision-making logic used by INVs in the internationalisation growth process by focusing on a case study of a young firm operating in a newly established industry (audiobooks). The following research questions are addressed:

- 1) What decision-making logic (causation or effectuation) is applied by INVs at the early stages of growth and internationalisation? Why?
- 2) What factors influence the decision-making logic applied by INVs?

We seek to make three important contributions to the IE field. First, we hope to contribute to a better understanding of the decision-making logic applied by entrepreneurs in the early stages of the growth and internationalisation process of INVs. Second, we want to shed light on the dynamics of change in decision-making logic during the life-cycle of a new venture. Third, as previous research on INVs has been conducted mostly in small and open economies, such as Denmark, Sweden, Finland, Israel, and Taiwan (Gabrielsson/Kirpalani 2004), INVs originating from emerging economies still represent an understudied area (Yamakawa/Peng/Deeds 2008); thus, we seek to fill this gap in this study by focusing on a firm from a medium-sized emerging economy.

The article proceeds as follows. First, we discuss the theoretical framework in which we integrate the decision-making literature and IE. In the next section, we detail the research method and present empirical evidence of the decision-making logic underlying the key decisions of the INV under study. Finally, we conclude with a discussion of the research implications and limitations of our findings.

Decision-making logic and international entrepreneurship

To enhance theory building within IE, Zahra et al. (2005) discussed potential ways to apply a cognitive perspective in IE research to increase our understand-

ing of how entrepreneurs think, act and make decisions in the process of identifying and exploiting opportunities. They call for scholars to reconsider the rationality of the actor by including the concepts of bounded rationality, cognitive biases and cognitive styles in their studies.

Recently, IE researchers turned to effectuation theory, developed in the entrepreneurship field (Sarasvathy 2001), to shed new light on international entrepreneurs' behaviour and their decision-making processes. Effectuation theory resonates deeply with the concept of bounded rationality, especially under conditions of high uncertainty and future unpredictability. It challenges the concept of the strictly rational and well-informed entrepreneur who follows the formal, rational decision-making procedures promoted in textbooks (i.e., procedures presupposing that action is a result of formal analysis and optimal decision). In a sense, effectuation theory presents a more refined differentiation between linear decision making (based on analytical reasoning and factual analysis) and nonlinear decision making (based on intuition, creativity, insight and emotions) (Groves/Vance/Choi 2011; Obloj/Obloj/Pratt 2010).

Building on arguments representing two contrasting ideas of rationality (i.e., unbounded rationality vs. bounded rationality), Sarasvathy (2001: 245) proposed causation and effectuation logics of decision making, defined as follows: "Causation processes take a particular effect as given and focus on selecting between means to create that effect. Effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means". These two logics are characterized by different sets of principles. The causation principles are (1) maximization of the expected returns and focus on optimal decision, (2) competitive analysis, (3) exploitation of pre-existing knowledge, and (4) focus on predictable aspects of uncertain future. The effectuation principles are (1) affordable loss and focus on experimentation, (2) strategic alliances and stakeholders (to reduce/eliminate uncertainty and build entry barriers), (3) exploitation of contingencies, (4) focus on controlling an unpredictable future (Sarasvathy 2001).

The effectuation process begins with means and resources, determined by "who (the entrepreneur) is, what he knows and whom he knows" (Kalinic et al. 2014). As new stakeholders emerge, bringing new visions, goals and resources into the equation, the means are transformed into 'who we are, what we know, and whom we know'. Therefore, the new venture strategy formation is based on the interaction between the entrepreneur and his social network. Effectuation theory complements other streams of IB literature explaining the phenomenon of internationalisation of SMEs and INVs (Kalinic et al. 2014). Resource-based theories identify resources and capabilities to obtain competitive advantages. The organization learning approach and network approach specify how firms gain access to or create these resources and capabilities, as well as how firms may reduce uncertainty (e.g., to reduce uncertainty resulting from the psychic distance, compa-

nies have to acquire market knowledge). Effectuation theory adds to the existing theoretical explanations by dealing specifically with those situations in which it is not possible to acquire resources and capabilities or to reduce the level of uncertainty. In such cases, companies have to learn how to act under conditions of inherent uncertainty, based on the resources and capabilities at their disposal.

Sarasvathy (2001) implies that the logic applied by decision-makers results from their beliefs and perceptions of the future phenomena. If decision makers perceive the future as predictable, they will tend to apply a causation logic; if not, they will apply an effectuation logic. Linking effectuation with existing theories, Sarasvathy argues that it resonates with Mintzberg's (1994) argument that strategic planning is not strategy formation and that decision making is not necessarily related to analysis and predictions but rather to action and synthesis, as well as with Weick's (1979) enactment theory, which states that actors in organizations are involved in making retrospective sense of their actions.

Effectuation theory proposes that successful new entrants in a new industry use effectuation rather than causation processes and that, in early stages of their life cycle, they are involved in building alliances rather than in long term planning, forecasting, or competitive analysis (Sarasvathy 2001). Effectuation decision-making logic enables entrepreneurs to transform uncertainty into opportunity (Sarasvathy/Dew 2005).

These propositions regarding effectuation theory are in line with the discussion of strategy formation in born globals that has recently been presented by Rialp-Criado, Galvan-Sanchez, and Suarez-Ortega (2010). They suggest that the strategy formation process and decision-making logic evolve along the different phases of born globals' development, beginning with emergent and entrepreneurial strategy (i.e., effectuation logic) and evolving to more rational/analytical planning (i.e., causation logic) at later phases of firm development. However, this shift of the decision-making logic (and strategy formation process) is not a one-time event, but rather a long-term process during which the decision-making logic fluctuates between effectuation and causation (Saarenketo et al. 2012). Also, Andersson (2011) suggests that successful international entrepreneurs are able to shift between decision-making logics, applying either effectuation or causation processes; however, he links these shifts to the unpredictability or predictability of the situations they face. In addition, Groves et al. (2011) discovered that, contrary to the popular notion that entrepreneurs favour nonlinear thinking, entrepreneurs and senior managers share similar preferences with respect to the balanced use of linear and nonlinear modes of decision making.

In this paper, we aim toward a better understanding of the decision-making logic applied by INVs. Toward this end, we will analyse the portfolio of strategic decisions in three main stages of INVs' development (Gabrielsson/Kirpalani/Dimitratos/Solberg/Zucchella 2008; Rialp-Criado et al. 2010): (1) pre-start

up/venture creation; (2) pre-internationalisation (international preparation); and (3) post-internationalisation (international entry development and growth).

Research method

In our study, an emerging theory of effectuation is overlapped with a relatively new field (IE) and applied to a new setting (emerging economy). Since the study is aimed at developing idiographic explanations, we adopt a single case-study approach, allowing for deep contextualization and providing “the opportunity for greater depth and richness, and case-related explanations” (Piekkari/Welch 2011: 187). We do not follow the replication logic that is inherent to multiple case-study designs; instead, the single-case study design will allow us to present “a thick description, reflecting different views of the organization, and to identify relationships between key concepts in the study” (Piekkari/Welch 2011: 186).

For the purpose of examining the decision-making logic of an INV, we have chosen as the case company a Polish provider of audiobooks. In 2012 (its fourth full year of operations), this company had nine employees and FSTS slightly below the 20% level.

In the case development, we use semi-structured interviews with the founder, CEO, and employees of the company. Six interviews, each lasting from 30 to 90 minutes, were conducted in November 2012 and January 2013 at the company’s headquarters. All interviews were recorded and transcribed verbatim. Interviews covered wide subject areas, such as major milestones of the firm, industry information, technology and production issues, the process of internationalisation and relations with stakeholders. We asked the informants to examine timeline of specific events, decisions and developments to limit potential subject bias. We also examined archival data, such as internal documents provided by the company, press releases and recordings of presentations delivered by the founder at various events.

Based on the collected data, case description was written regarding the company’s history and key decisions made in different phases of its growth process. For analysis, we used an explanation-building strategy (Yin 1994), matching theory with the empirical findings.

Decision-making logic of INVs: A case study of Audioteka

Audioteka was founded in February 2008 and signed its first contract with a publishing house three months later. On November 6, 2008, the company launched an internet service offering 120 audiobooks. In 2009, one of Audioteka’s audiobooks, along with the company’s first mobile application (Symbian), was pre-installed on 250,000 Nokia mobile phones. In 2011, the company entered the Czech Republic’s market. That year, the company’s annual turnover exceeded EUR 500,000. In 2012, Audioteka was the biggest platform of audiobooks in Poland and the Czech Republic and was preparing for further interna-

tional expansion. In the company's history, three phases of growth can be identified (see Table 1).

Table 1: Key decisions in the company growth

Phases of company growth	Key decisions
<i>Pre-start up / venture creation phase (2007-2008)</i>	<ul style="list-style-type: none"> • The idea to start an audiobook business (2007) • Foundation of the company with K2 (02.2008)
<i>Pre-internationalisation (international preparation) phase (2009-2010)</i>	<ul style="list-style-type: none"> • First pre-installation on mobile phone (06.2009) <ul style="list-style-type: none"> ➔ Shift to mobile • First super production of audiobook (09.2009) • Withdrawal of the cofounder (05.2010)
<i>Post-internationalisation (international entry development and growth) phase (2011 to present)</i>	<ul style="list-style-type: none"> • First entry into foreign market – Czech j-v (11.2011) • Strategic investor (Giza) (11.2011) • Choice of Bulgaria and resignation (2011/2012) • Application for cars - cooperation with one of the major car manufacturers (2012/2013) • Subsidiary in France (2012/2013) • Preparation for new markets – Spain and Brazil (2012/2013) • New CEO (11.2012)

In the following sections, we present a set of key decisions made by the company in different phases of its growth, coupled with the analysis of the applied decision-making logic.

Phase 1: Pre-start up/venture creation

Although Audioteka was formally established in February 2008, the idea to start the business dates back to 2007, when the sound engineer, who worked at the time in Polish national television and radio, met his future business partner, a passionate “practitioner” of start-ups. The former proposed the idea to sell audiobooks from the Polish Radio archives as collections on CD, while the latter quickly saw the potential to refine and commercialize the idea in purely digital form and took the leading role in the new business creation. Audioteka was soon to become the third start-up in the career of this 30-year-old entrepreneur, who held degrees in mathematics, economics, and computer science.

In the late spring of 2007, the leading founder discussed the business idea with another close colleague, the CEO of K2 Internet SA, the largest digital marketing agency in Poland. Initially, K2 was approached as a potential technology supplier; however, the K2 was more interested in becoming a partner in this new

venture than in being its IT supplier. As a result of subsequent negotiations, K2 took a 50% stake in the new venture. Thus, the first investor (K2) was brought into the business accidentally, in that sense that the entrepreneurs had not been actively seeking investors at the time. Several months later, in February 2008, Audioteka was established. The entrepreneur states that starting the business with K2 was one of his best decisions for Audioteka's growth, as it provided the new venture with a pool of resources – initial capital, necessary IT competencies, an office space, the established reputation of the partner, and the business experience of K2 managers:

The decision to start this business together with K2 was the best decision I have ever made in the life of Audioteka. They gave us an incubator, and were able to focus on our business; we had great flexibility and access to funds on hand.... We felt like we were in a nest.

The following several months were devoted to content development and establishing relationships with publishing houses. The founder spent long hours attempting to convince publishers that audiobooks would not destroy the traditional book market. The company launched its internet portal in 2008 with just 120 titles, and four years later it offered over 3000 titles.

This early stage of the company's development was characterized by a high level of uncertainty resulting from the newness of both the company and the audiobook industry. In 2008 the audiobook market did not exist in Poland and the first publications on *Video-on-Demand* (VoD) had just appeared. The entrepreneurs developed the business idea with the assumption that the logic behind VoD (providing access to movies through the Internet) could be applied to audiobooks (selling audiobook files through a website). The founder also noted that the timing of the business was essential for its future success:

Audiobooks are fascinating phenomenon... Audioteka could not have been created a few years earlier... we hit three great waves of mobility: technological mobility, human mobility and content mobility. As consumers, we want to have access to everything, quickly, and exactly when we want and... we are ready to pay for this.

Initially, the main resources that the founding entrepreneurs could invest in the new business was their experiential knowledge; the sound engineer had professional experience in sound recording, and the leading entrepreneur already possessed business experience in start-ups and a network of relationships. His start-up experience armed him with business knowledge important for the later development of Audioteka. From his first start-up (telemetry and wireless data communication technology), he had learned that telecommunications companies were powerful and, as both partners and customers, could give scale to the business. The key lesson he learned from his second start-up (TV production) was that in order to succeed in a content-based business, one needs to control either

the content (intellectual property) or the distribution channel. Both of these lessons were applied to Audioteka; at the beginning of 2013 the company was a combination of both content and a distribution channel, and establishing relationships with telecoms was an important element of its strategy.

The logic of decision making in this phase was *effectual*. The idea to start the business (opportunity recognition) was driven by the willingness to experiment with VoD logic in an emerging audiobook market. Initial resources (knowledge and experience in sound recording and start-up creation, the personal networks of entrepreneurs, and an established company as a strategic partner) allowed the founders to focus on controlling some aspects of the future in order to lower the uncertainty resulting from the newness of both the market and the firm.

Phase 2: Pre-internationalisation (international preparation)

An important event in Audioteka's history, which triggered a significant change in the firm's growth orientation, was cooperation with Nokia. In June 2009, the firm's mobile application, along with one of audiobooks, was preinstalled on 250,000 Nokia e52 phones. Retrospectively, the entrepreneur indicated how the personal network helped him to establish cooperation:

I knew a guy, who knew another guy, whose company developed dedicated applications for Nokia. And he introduced me to Nokia.

The idea to cooperate with a bigger partner from the mobile/telecommunication industry was a conscious choice, defined at the very beginning of the firm's existence. The past experience of the leading entrepreneur (gained in his first start-up) guided his conviction that mobile producers and operators have power that could be used to increase the visibility of the audiobook business and reach new users. The financial risk of this decision was not enormous. Audioteka offered an audiobook and financed (using the EU funds) the development of the dedicated Symbian application for the Nokia mobile phone. In turn, Audioteka's logo was used in all promotional/marketing activities of the Nokia e52 model.

The success of the cooperation was spectacular, encouraging the entrepreneur to deliberately push the business' cooperation with other mobile producers and operators. Applications for iPhone and Android were soon developed, and cooperation with key operators (Orange, T-mobile, Play) was established. At the beginning of 2013, Audioteka was the owner of one of the highest-earning applications in the Polish App Store.

Thus, the strategic shift to mobile devices occurred. The experience with Nokia e52 helped to build the company's legitimacy in a world of mobile operators and producers, allowing it to establish new partnerships and invest in mobile applications on its own. This triggered further change in the product/business definition. The leading entrepreneur redefined the business by recognizing that the Audioteka business was not only about selling and producing audiobooks in Po-

land (which depends on local content and relationships with local publishers), but rather about offering platform solutions to audiobook publishers (building its own, dedicated distribution channel of audiobooks via Internet service, mobile applications and later car applications). He stated:

Audioteka is a very special mix of these two things – a mix very difficult to characterize and copy. A lot of very good content without a very good and efficient platform does not create value. A very good and efficient platform without rich content does not create value either.

The entrepreneur also learned that, in comparison to the company's own marketing campaigns it was more effective to join partners (mobile operators/producers) in their marketing activities. Additionally, such cooperation allowed the company to change consumers' perceptions of its products:

The cooperation with such players as Nokia, HTC, Samsung, Apple, T-Mobile, Orange and Play has built our PR-marketing position and given audiobooks a fashionable and ultra-modern content image. Even in 2008, it was perceived as a product for the blind... but we managed to promote it as fashionable and modern content for mobile people, using mobile technologies.

Relationships with mobile operators (B2B) were perceived by the founder in a very pragmatic way, as a means to enlarge the end-client base (i.e., they are seen as a driver of B2C relations). Over the years, the quality of the relationships also evolved. At the beginning it was the entrepreneur who was actively searching for cooperation opportunities, at times waiting months for an answer, but currently the initiation of the cooperation is much easier; occasionally, mobile operators even call the entrepreneur to request a joint project. The change in these relationships was also due to uncertainty faced by the mobile operators and producers:

Telecoms have deep pockets. They face the shift from the voice transfer to multimedia. They do not know exactly what to do, or how, so they listen to such "freaks" as me and buy my vision.... They noticed that pre-installation of audiobooks makes a difference. If people have two similar mobile phones, they choose the one with an audiobook. And that is the value we add.... The big guys – GSM operators, mobile phone producers – today they want us!

The super-production of audiobooks (the use of special audio effects and well-known actors reading the text) was the second key decision in this phase. The leading entrepreneur believed that an audiobook super production would capture the attention of the media and the general public, effectively promoting this new means of connecting with literature. The title chosen for the first super production, launched in September 2009, was a best seller in the Polish traditional book market and was particularly popular among Audioteka's target audience, defined

as young (around 30 year-old), well-educated men. Since then, the company has invested in several other super productions. The deliberate choice to combine audiobooks with show business generated a great deal of publicity and media coverage for Audioteka since many celebrities, actors and musicians were involved. One of the important premises of this decision was the founder's previous experience in the TV production business, where he had learned the importance of content ownership and show-business rules.

The third critical decision in this phase was with the departure of the sound engineer, the other founder of Audioteka. The shift toward mobile devices and the growing ambitions of the leading entrepreneur resulted in increasing differences in the partners' views on the future of the company, culminating in the eventual withdrawal of the second partner. The slowly emerging international vision and the necessity created by the leading founder to invest more energy and money (including private funds) were in stark contrast to the attitude of the sound engineer, who wanted to "play it safe at home". One of the firm managers stated:

All the big projects involving cooperation with big partners have been initiated by Marcin [the lead entrepreneur]. He thinks about Audioteka in global terms.... I think it was a consequence of their different thinking. They were simply on different planets. The one was interested in having a small business, where he could work till the end of his life, having a stable monthly income. The other thought completely differently, dreaming about building a big business.

The decision to part with the sound engineer was also supported by K2. The strategic partner shared the founder's ambition "to conquer the world", while the other entrepreneur did not agree with the idea. Finally, in May 2010, the two founders decided to part.

In the early stages of the company's development, all key decisions were initiated and undertaken by the leading entrepreneur. The role of the second founder was the supervision of everyday operations, with a particular responsibility for content development. The strategy and growth options were discussed only with a strategic partner (K2), but this did not lead to any strategic turnaround. The logic characterizing decision making in this phase was *causal*. The goal to initiate cooperation with a big player from the telecommunications industry in order to attract more users was formulated at the very beginning of firm operations, as a result of the pre-existing knowledge (past experience) of the founder. However, it took the founder several months to find a desirable contact. Also, in case of super production, causal logic was applied. On the basis of pre-existing experiential knowledge (importance of content ownership, show-business rules and publicity; lack of desired results from traditional advertising), the goal to increase the visibility of audiobooks was pursued. The entrepreneur decided to invest in the first super production by lending the business his private money.

The positive outcomes of both decisions both accelerated the domestic growth (more cooperation with mobile operators/producers; more super productions) and opened up/generated new growth options (and means), which appeared in the next phase.

Phase 3: Post-internationalisation - international entry development and growth

Audioteka's "global vision" did not materialize in the venture creation phase. At that time, there was no plan for international expansion, and technological solutions developed at the beginning were not suitable for that goal. Retrospectively, however, the founder admitted that going global was his private ambition:

Somewhere deep inside I wanted it to be this way. Did I believe it would? It would be a lie if I said it was... written down. But there was a big hope: 'what if?' And it did happen.

The radical change happened when the business was redefined from simply selling audiobooks to offering access to audiobooks (i.e., being a platform). Following the contract with Nokia and other telecom operators, the founder understood that the company's growth was driven by not one, but two business enablers - the platform and the content:

Audioteka provides both technology and audiobooks (content). So we take care of both: constant technology development and content development (permanent recordings of the latest bestsellers).

This changed his perception of the transferability of the company's advantage abroad:

At first sight, Audioteka is not a scalable business – we sell audiobooks in Polish. So what is scalable here? Nothing. But the notion that... our product is not an audiobook but a platform was eye-opening. We "just" have to add content. It turned out to be possible. In the end, it's relatively easy.

In late 2011, Audioteka launched its service in the Czech Republic. Audioteka entered its first foreign market through a joint venture with a local partner, a major book distributor. The entrepreneur explained that:

The Czech Republic was a deliberate choice.... First, there is a partner who finances the company.... Second, it's close, and I knew we would have to travel there.... Third, it's a small country but... it has a great reading culture.

The main task in the preliminary phase of the Czech expansion was content development – establishing contacts with local publishing houses, acquiring copyrights and creating a catalogue of audiobooks. This content was then made available through the Internet portal and mobile applications. In the case of the

Czech Republic, the platform was a simple ‘clone’ of the Polish solutions, developed at a relatively low cost by K2.

The Czech partner took responsibility for financing the growth in the local market and for managing the relationships with publishers. The entrepreneur compared the role of the local partner to that of a ‘Sherpa’ who guided the company through unfamiliar territories “on the way to the top – the leading audiobook platform in given country”. Therefore, the chosen entry mode mitigated both the financial and the operational risks of foreign expansion. Although the entrepreneur initiated the contact with the Czech partner, he retrospectively noted that he was lucky to quickly find the right company:

I attended many conferences, and at one of them... there were people from the Czech Republic. I was a speaker; everyone saw me on stage, so it was easy to talk to people. I came up to one guy and he put me in contact with another guy, who was the owner of the largest book distributor in the Czech and Slovak Republics, and basically it worked.... We went to visit him in January; in November we set up a joint venture, and after a year it broke even.

Thus, the decision to enter the Czech market was based on the criteria of market proximity (i.e., low travel costs) and market size (i.e., culture with a high level of reading). The mode of entry (joint venture) was chosen following the risk-minimization principle. The proactive behaviour of the founder (attending conferences and events) enabled him to recognize the opportunity (finding a partner in the Czech Republic).

Shortly after creating the partnership in the Czech Republic, the founder decided to expand to Bulgaria as well. The decision to enter the market was opportunity-driven. The founder was contacted by a Bulgarian partner who was willing to provide the rich content (i.e., a number of audiobooks) and join forces with Audioteka in Bulgaria. The founder decided to follow this opportunity, which he perceived as a replication of the low-risk ‘Sherpa’ model developed in the Czech Republic. This time, the criteria of market size and proximity were not crucial, as the market potential in Bulgaria was difficult to evaluate. The Bulgarian partner guaranteed an easy entry to the market, and the founder decided to seize this opportunity.

The preparations for the expansion in Bulgaria coincided with a crucial step in the growth of Audioteka: the entry of international VC. In 2011, Audioteka started to look for an investor who would give a financial boost to the international expansion. In late November 2011, the company signed a contract with Giza Polish Ventures, which was founded by the Israeli venture capital fund Giza Ventures. This fund focuses on early stage companies and technology startups. The VC invested 2 million PLN (440,000 EUR), in exchange for a 20% stake in Audioteka. A few months later, the Bulgarian expansion project was

abandoned, as new, more attractive opportunities emerged in the form of expansion into Western markets (France and Spain). In light of these new opportunities, the expansion into the small, middle-income Bulgarian market lost its appeal.

The opportunity for Western expansion began with a small event. In 2012, a businessman interested in recording the audiobook version of the Torah approached Audioteka. In a casual small talk with Audioteka's content manager, the businessman mentioned having business contacts with one of the major car manufacturers in the world. Aware of the founder's dream to create a car application for audiobooks, the Audioteka content manager told him about the discussion. The founder recalled:

She [the content manager] gave me his [the businessman's] business card and said: "Not sure if it's going to work out. He seems a little crazy." Four days later we were in Paris, presenting Audioteka to one of the major car manufacturers.

The businessman turned out to be the owner of a company developing, among other projects, IT applications for the car manufacturer. He introduced the founder to the senior managers of the car manufacturing corporation and helped to convince them that Audioteka was a viable company. Following this meeting, the companies signed a contract according to which the Audioteka application would be pre-installed in the car manufacturer's vehicles in selected markets. The contract specified that Audioteka would provide its services in the markets indicated by the car manufacturer, beginning with France and Spain.

As a result, the company started to build its operations in France. At first, the entrepreneur attempted to establish contacts with French publishing houses from Audioteka's Polish headquarters. These attempts were unsuccessful, however, as French publishers were unwilling to provide content to the unknown company, which was registered in Poland and operated on Polish servers. Audioteka overcame these barriers by recruiting a French manager with experience in the publishing industry.

The decision to enter the French market was therefore driven by the relationship with the car manufacturer, as well as the general belief that the company had the means to compete in Western markets. However, the entrepreneur had to adapt the means (by recruiting a French manager, whose salary was expected to be a significant financial burden on the company), when, after initial attempts, he was unable to establish contacts with French publishers. The entrepreneur perceived the decision to recruit the French manager as 'risky'; thus, when preparing the contract, he asked for advice from both 'internal' partners – Giza and K2.

Following the agreement with the car manufacturer, Audioteka started to prepare for its expansion into Spain. Having exchanged a few emails with Spanish

publishers, the founder realized that doing business in Spain would only be possible if one actually spoke Spanish. Through the personal network of one of the VC partners, Audioteka hired a young translator as a country manager responsible for Spain. By the end of 2012, Audioteka's IT and mobile applications had been translated to Spanish, and the company had a catalogue of more than 300 Spanish audiobooks.

As the main field of interest of the Spanish country manager is Brazilian culture, he suggested the idea of entering the high-potential Brazilian market to the founder of Audioteka. The founder was enthusiastic about this idea and at the end of 2012 the manager started to contact publishers in Brazil.

The decision to enter Spain was also driven by the relationship with the car manufacturer. This time, again, Audioteka had to adapt its means (by recruiting a Spanish-speaking country manager) in order to establish contacts with Spanish publishers.

The event concluding the period under study was the resignation of the founding entrepreneur from the position of CEO responsible for the Polish market. In November 2012, Audioteka appointed a new CEO in charge of the Polish market. The new CEO was a 26-year-old graduate of the Warsaw School of Economics, who had worked since 2010 as Account Manager of Audioteka and was responsible for system development. Since resigning as CEO, the founder has been mainly involved in international expansion, while the new CEO, a young manager with strong analytical skills, was in charge of domestic operations. The new CEO said that:

[The entrepreneur] has never run this business in an analytical way, has never made decisions based on data.... He just looked at things and made decisions. So this is a different approach. I am trying to understand our strategy and make decisions or change some decisions... If the company is going one way and I see in the data that this is not a good direction, I consult on it, for example, with Giza.

The entrepreneur explains that:

Audioteka is entering a difficult phase; we are transforming a start-up into a regular enterprise. So we have to give this enterprise a structure. To do this, I would need to have different competencies. I'm an entrepreneur, not an executive, and I really find the executive job boring. So I've hired a guy who is better than I am, and he is now the chief executive of the Polish company. This way, I can do my job... in the foreign countries.

In the third phase of the company's growth, in which domestic growth and international expansion were followed simultaneously, two logics of decision making were applied. In domestic operations, the decision making was based on a causal logic, resulting from the entry of VC and the subsequent hiring of a new

CEO with high analytical skills. However, the decision-making process in international growth was based on effectual logic. At the starting point, the entrepreneur did not have a clear goal of going international. Instead, he had an ambition of creating something ‘big’; in his words, ‘there was this hope: what if?’. His decision-making process was based on exploiting contingencies; that is, turning unpredictable events into positive surprises.

Although the decision to make the first entry into a foreign market was complemented by elements of market analysis and cost calculation (typical for causal reasoning), it was predominantly based on effectual logic. The fact that Audioteka essentially ‘copied and pasted’ its Polish business model into a neighbouring country, with minimal product adjustment or resource adaptation, may be interpreted as a ‘means-driven’ strategy. To reduce uncertainty, Audioteka partnered with a local company through a joint-venture. This mode of entry may be seen as a low-risk growth option (in terms of both finance and operations).

The decision to expand into the Bulgarian market was again effectual; it was means-driven (this time without the ‘causal’ element of market analysis) and based on the uncertainty reduction principle (partnership with a local partner).

The decision to partner with a major car manufacturer was based on effectual logic, as it was not originally planned, but rather shaped by the change in the perception of the company’s business model from content-driven to platform-driven. The subsequent decisions to enter France and Spain were also driven by effectual logic, as they resulted from the previous commitments made to the partner.

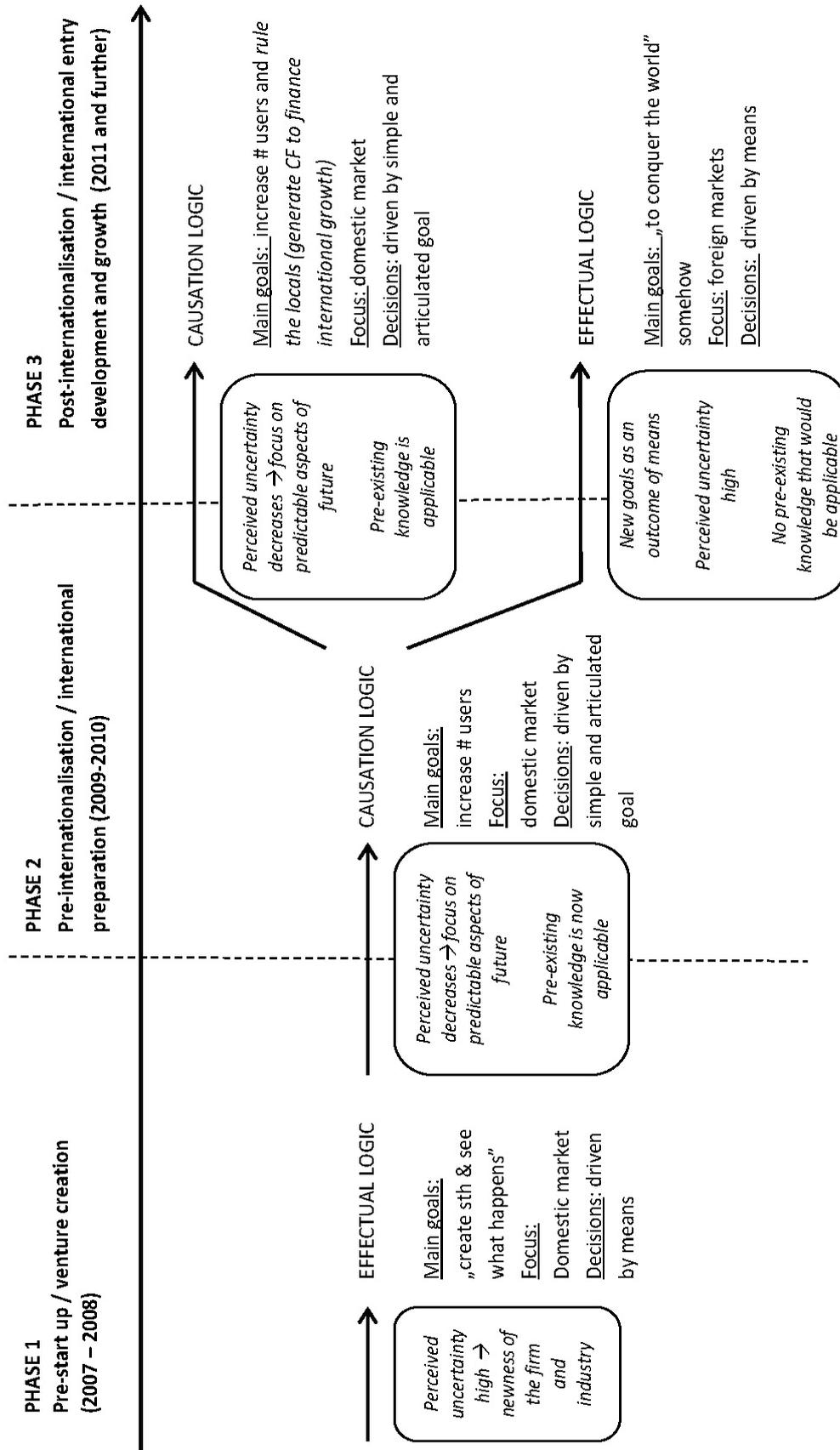
Discussion and conclusions

We have examined the decision-making logics of an INV over three phases of its growth: pre-start up/venture creation, pre-internationalisation (international preparation), and post-internationalisation (international entry development and growth) (see Figure 1).

In the first phase, the logic of decision-making was effectual. The entrepreneur started the business with who he was, what he knew, and whom he knew. His strategies were not specific-goal-driven but rather means-driven. Although his strategy was not based on specific, measurable objectives included in a detailed business plan, this does not imply that he did not have any goals or vision. Rather, he had a vague goal: to replicate VoD logic in the emerging audiobook market and see what would happen next.

In the second phase, the decision-making logic was mostly causal. The initial high uncertainty level (resulting from the newness of the company and industry) decreased in tandem with an increase of market knowledge/understanding of the rules. The main goal (to establish broader visibility of audiobooks and attract more users) was clearly defined and accomplished by decisions based on the

Figure 1: Decision making logic in the firm growth



founder's pre-existing knowledge (i.e., importance of content ownership, entertainment business rules as a means of generating publicity, and the significance of relationships with telecoms for enlarging the client base). The market acceptance of the decisions reinforced the domestic growth direction (and the causal logic in this area), but also unexpectedly – generated a redefinition of the business, leading to exploration of new options (international growth).

In the third phase, in which the company built its international presence and strengthened its position on the domestic market, two logics were applied simultaneously. The decisions associated with domestic growth (management of home-country operations, change in ownership structure through the entry of VC) were based on causal logic, whereas the internationalisation process of the company was based on effectual logic. At first (before partnering with the car manufacturer), both decisions on market selection and mode of entry choice were means-driven, not goal-driven. Even if the company's resources and capabilities required adaptation, they were adapted (i.e., recruitment of the French manager and the Spanish-speaking country manager) only after initial trials and based on existing means. Having established a relationship with the car manufacturer, the company agreed to enter the markets indicated by the partner. Therefore, the decisions on market selection, resulting from the contract with the car manufacturer, were based on "pre-commitment" to the partner. The decisions on the entry mode were also predominantly means-driven and based on uncertainty-minimization principles. These switches between causal and effectual logic underline the subjective nature of entrepreneurship and support Foss et al.'s (2008) call to take this issue more seriously into account in the effort to develop theories to explain the nature and dynamics of entrepreneurial behaviour. Entrepreneurs, as evident from our analysis, can use different rationalities depending on the characteristics of the problem and the state of the venture. The heterogeneity of problems they face in different stages of the new venture life cycle requires heterogeneity of approaches to decision-making and execution. Therefore, we offer the following propositions:

Proposition 1. *The decision-making logic of an INV may change over time, shifting from effectual to causal (and vice versa). These logic shifts depend on the characteristics of the problem space (i.e., perceived uncertainty).*

Proposition 2. *An INV may follow both effectual and causal logic at the same time, depending on the characteristics of the problem space. When making decisions on internationalisation, entrepreneurs are more likely to follow effectual logic. The probability that they will do so increases when entrepreneurs do not possess prior international experience.*

Previous research has recognized the importance of networks in the internationalisation process of INVs. The network perspective assumes that the firm may use resources controlled by other firms, which can be acquired via its network

position (Johanson/Mattson 1988). As INVs typically lack resources to control assets through ownership (Oviatt/McDougall 1994), they internalize a minimal proportion of assets, relying instead on alternative governance mechanisms such as network structures. Moreover, networks may present new ventures with access to international market opportunities (Welch/Luostarinen 1993) and influence their choice of markets (Freeman/Cavusgil 2007). Many INVs ‘dance with gorillas’, i.e., cooperate with MNCs, (Prashantham/Birkinshaw 2008) in order to gain access to the global marketplace and technological competencies.

Our study sheds new light on the role of network partners in the decision-making process of INVs. The findings suggest that network partners act as ‘effectual stakeholders’ (Sarasvathy/Dew 2005), providing resources (i.e., new means) and shaping new goals. Specifically, knowledge brought by network partners may be instrumental in reducing uncertainty. It has been argued that new ventures typically have a “high ratio of assumption to knowledge” (McGrath/MacMillan 1995: 4). In our study, the entrepreneur looked to network partners (K2, VC) to verify his assumptions with an external source, thus reducing uncertainty of the problem space. Partners located in the foreign markets (e.g., Czech company, French manager) played the role of local ‘Sherpas’, guiding the entrepreneur through unfamiliar territories. These considerations may be summarized as follows:

Proposition 3: *Network partners act as ‘effectual stakeholders’, reducing the level of uncertainty faced by an INV.*

Previous research has argued that VC funds enhance the internationalisation of new ventures (Fernhaber/McDougall-Covin 2009), bringing international knowledge and reputation. They typically play the role of an active investor, using high bargaining power in relationships with new ventures to influence their strategies. George, Wiklund, and Zahra (2005) reveal that VCs increase the propensity of SMEs to take risks and go global. Carpenter et al. (2003) note that VCs have a positive influence on new venture internationalisation only if they have international knowledge. Some researchers consider VCs to be a part of new venture human resources (Florin/Lubatkin/Schulze 2003).

While our study generally confirms prior research on the role of a specific type of network partner (VC) in the decision-making process of an INV, it also brings novel findings. It reveals that VCs may not only bring new goals and resources but may also affect the INV’s decision-making logic simultaneously in two directions. First, VC in the examined case is, as predicted by theory, driven by the ‘maximization of expected returns’ rather than by the ‘affordable loss’ principle. This leads to the implementation of analytical tools (competitive analysis, BSC, managerial accounting), and the development of a formal strategic plan, based on exploitation of pre-existing knowledge and predictable aspects of an uncertain future (Sarasvathy 2001).

Second, from the point of view of ‘well-established’ partners (VC, K2), effectual logic on the part of the entrepreneur is an asset. Thus, instead of pushing entrepreneurs towards more causal decision-making logic, these partners allow them to venture into uncertain (foreign) markets. In other words, it is implied that VCs may insist on causal logic in recognized/well-known areas of the business (where the uncertainty is relatively low) and support (or at least accept) effectual logic in new areas that are underexplored and characterized by high uncertainty.

Sarasvathy (2001) argues that neither of the two decision-making logics is inherently better, since their effectiveness depends on the characteristics of the problem space. Under conditions of risk (i.e., when there are enough data to estimate the probability of different outcomes), causal logic is more appropriate. Under conditions of uncertainty (i.e., when data are not available, as is the case when the product/market is new), entrepreneurs should instead use effectual logic. Considering the fact that venturing into foreign markets falls into the second category, an INV following effectual logic may perform better. This conclusion is also in line with the ‘learning advantage of newness’ hypothesis (Autio/Sapienza/Almeida 2000), suggesting that INVs face less cognitive complexity and structural rigidity (since they have less time-based routines) than their “older” competitors, and therefore they recognize and respond rapidly to new opportunities. One of the sources of the ‘learning advantage of newness’ is exploratory (i.e., entrepreneurial-based, as opposed to experiential) learning. We summarize these conclusions in the following propositions:

Proposition 4: *Entry of a VC triggers the shift of the decision-making logic of an INV from effectuation to causation, especially in well-recognized fields (such as domestic markets) characterized by low uncertainty.*

Proposition 5: *A VC may accept effectual logic (based on ‘entrepreneurial expertise’) as an asset when going international (i.e., venturing into a new field characterized by high uncertainty).*

Our research has practical implications both for entrepreneurs wishing to venture abroad and for VCs focusing on INVs. As companies grow, they often lose their ‘effectual approach’, which is linked to the entrepreneur himself. This may occur because uncertainty decreases as the company grows and matures and pre-existing knowledge increases. As a result, the entrepreneur gets ‘bored’ and seeks another challenge, such as a new venture, and/or ceases to be the main decision-maker (e.g., by resigning from active participation in managing a company). Our findings reveal that with the company’s growth and the entry of VC, causal logic is adopted, but only for the domestic market (for which the new CEO, willing to follow this logic, is hired). Foreign markets are perceived as “new ventures” and continue to be managed by the entrepreneur, who follows effectual logic.

From a practical point of view, in order to retain an entrepreneur (whose ability to use effectual logic can be seen as an asset), it seems necessary to clearly define management responsibilities and roles, thereby providing new challenges (underexplored options) for an entrepreneur on the one hand, while on the other introducing a professional manager in charge of known areas, as in the present case. We believe this may lead to an interesting conclusion for VCs (“smart money” guys): instead of imposing causal logic on all areas of INVs’ activities, it may be more effective to differentiate activities as known and unknown space, in which different decision-making logics should be applied.

References

- Andersson, S. (2011): International entrepreneurship, born globals and the theory of effectuation, in: *Journal of Small Business and Enterprise Development*, 18, 3, 627-643.
- Autio, E./Sapienza, H.J./Almeida, J.G. (2000): Effects of age at entry, knowledge intensity, and imitability on international growth, in: *Academy of Management Journal*, 43, 5, 909-924.
- Carpenter, M./Lazonick, W./O'Sullivan, M. (2003): The stock market and innovative capability in the New Economy: the optical networking industry, in: *Industrial and Corporate Change*, 12, 5, 963-1034.
- Freeman, S./Cavusgil, S.T. (2007): Toward a Typology of Commitment States Among Managers of Born-Global Firms: A Study of Accelerated Internationalization, in: *Journal of International Marketing*, 15, 4, 1-40.
- Fernhaber, S.A./McDougall-Covin, P.P. (2009): Venture Capitalists as Catalysts to New Venture Internationalization: The Impact of Their Knowledge and Reputation Resources, in: *Entrepreneurship: Theory and Practice*, 33, 1, 277-295.
- Foss, N.J./Klein P.G./Kor Y.T./Mahoney J.T. (2008): Entrepreneurship, subjectivism, and the resource based-view: toward a new synthesis, in: *Strategic Entrepreneurship Journal*, 2, 1, 73-94.
- Gabrielsson, M./Kirpalani, V.H.M. (2004): Born globals: How to reach new business space rapidly, in: *International Business Review*, 13, 5, 555-571.
- Gabrielsson, M./Kirpalani, V.H.M./Dimitratos, P./Solberg, C.A./Zucchella, A. (2008): Born globals: Propositions to help advance the theory, in: *International Business Review*, 17, 4, 385-401.
- Gabrielsson, P./Gabrielsson, M. (2013): A dynamic model of growth phases and survival in international business-to-business new ventures: the moderating effect of decision-making logic, in: *Industrial Marketing Review*, 42, 8, 1357-1373.
- George, G./Wiklund, J./Zahra, S.A. (2005): Ownership and the Internationalization of Small Firms, in: *Journal of Management*, 31, 2, 210-233.
- Florin, J./Lubatkin, M./Schulze, W. (2003): A social capital model of high-growth ventures, in: *Academy of Management Journal*, 46, 3, 374-384.
- McGrath, R.G./MacMillan, I.C. (1995): Discovery-driven planning, in: *Harvard Business Review*, 73, 4, 44-54.

- Groves, K./Vance, C./Choi, D. (2011): Examining Entrepreneurial Cognition: An Occupational Analysis of Balanced Linear and Nonlinear Thinking and Entrepreneurship Success, in: *Journal of Small Business Management*, 49, 3, 438-466.
- Johanson, J./Mattsson, L.G. (1988): Internationalisation in industrial systems: A network approach, in: Hood, N./Vahlne, J.-E. (Eds.): *Strategies in global competition*, London: Croom Helm, 468-486.
- Jones, M./Coviello, N./Tang, Y. (2011): International entrepreneurship research (1989-2009): A domain ontology and thematic analysis, in: *Journal of Business Venturing*, 26, 6, 632-659.
- Kalinic, I./Saravathy, S./Forza, C. (2014): Expect the unexpected: implications of effectual logic on the internationalization process, in: *International Business Review*, 23, 3, 635-647.
- Knight, G.A./Cavusgil, S.T. (1996): The born global firm: A challenge to traditional internationalization theory, in: Cavusgil, S.T. (Ed.): *Advances in international marketing*, 11-26.
- Knight, G./Cavusgil, T. (2004): Innovation, Organizational Capabilities, and the Born-Global Firm, in: *Journal of International Business Studies*, 35, 2, 124-141.
- Luostarinen, R. (1994): *Internationalization of Finnish Firms and their Response to Global Challenges*, UNU World Institute for Development Research, Helsinki.
- Luostarinen, R./Gabrielsson, M. (2004): Finnish perspectives of international entrepreneurship, in: Dana, L.P. (Ed.): *Handbook of research on international entrepreneurship*, Cheltenham: Edward Elgar, 383-403.
- Madsen, T./Servais, P. (1997): The Internationalization of born globals – An evolutionary process, in: *International Business Review*, 6, 6, 1-14.
- Mintzberg, H. (1994): The Fall and Rise of Strategic Planning, in: *Harvard Business Review*, 72, 1, 107-114.
- Nowiński, W./Rialp, A. (2013): Drivers and strategies of international new ventures from a Central European transition economy, in: *Journal for East European Management Studies*, 18, 2, 191-231.
- Nummela, N./Saarenko, S./Jokela, P./Loane, S. (2014): Strategic decision-making of a born global: a comparative study from three small open economies, in: *Management International Review*, 54, 4, 527-550.
- Obloj, T./Obloj, K./Pratt, M. (2010): Dominant logic and entrepreneurs firms' performance in a transition economy, in: *Entrepreneurship Theory & Practice*, 34, 1, 151-170.
- Oviatt, B./McDougall, P. (1994): Toward a theory of international new ventures, in: *Journal of International Business Studies*, 25, 1, 45-64.
- Oviatt, B./McDougall, P. (2005): Defining international entrepreneurship and modelling the speed of internationalization, in: *Entrepreneurship Theory & Practice*, 29, 5, 537-553.
- Prashantham, S./Birkinshaw, J. (2008): Dancing with gorillas, in: *California Management Review*, 51, 1, 6-23.
- Rialp, A./Rialp, J./Knight, G.A. (2005): The phenomenon of early internationalizing firms: What do we know after a decade (1993-2003) of scientific inquiry?, in: *International Business Review*, 14, 2, 147-166.

- Rialp-Criado, A./Galvan-Sanchez, I./Suarez-Ortega, S.M. (2010): A Configuration-holistic Approach to Born Global Firms' Strategy Formation Process, in: *European Management Journal*, 28, 2, 108-123.
- Rugman, A.M./Almodóvar, P. (2011): The Born Global Illusion and the Regional Nature of International Business, in: Ramamurti, R./Hashai, N. (Eds.): *The Future of Foreign Direct Investment and the Multinational Enterprise (Research in Global Strategic Management, Volume 15)*, Emerald Group Publishing Limited, 251-269.
- Sarasvathy, S.D. (2001): Causation and Effectuation: Toward a Theoretical Shift From Economic Inevitability to Entrepreneurial Contingency, in: *Academy of Management Review*, 26, 2, 243-288.
- Sarasvathy, S.D./Dew, N. (2005): New market creation through transformation, in: *Journal of Evolutionary Economics*, 15, 3, 533-565.
- Schweizer, R./Vahlne, J.E./Johanson, J. (2010): Internationalization as an entrepreneurial process, in: *Journal of International Entrepreneurship*, 8, 4, 343-370.
- Weick, K. (1979): *The social psychology of organizing* (2nd ed.), McGraw-Hill, Inc.
- Welch, L.S./Luostarinen, R.K. (1993): Inward-Outward Connections in Internationalization, in: *Journal of International Marketing*, 1, 1, 44-56.
- Yamakawa, Y./Peng, M.W./Deeds, D.L. (2008): What Drives New Ventures to Internationalize from Emerging to Developed Economies?, in: *Entrepreneurship: Theory and Practice*, 32, 1, 59-82.
- Yin, R. (1994): *Case study research: design and methods*, London: Sage.
- Zahra, S.A. (2005): A theory of international new ventures: A decade of research, in: *Journal of International Business Studies*, 36, 1, 20-28.
- Zahra, S.A./Korri, J.S./Yu, J.F. (2005): Cognition and international entrepreneurship: implications for research on international opportunity recognition and exploitation, in: *International Business Review*, 14, 2, 129-146.