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Causal foreign market selection and effectual entry decision-making: The mediating role of collaboration to enhance international performance[☆]

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ABSTRACT

Foreign market selection and entry are important decisions for internationalizing small and medium-sized enterprises (SMEs) because they involve uncertainty, and influence performance. While it is inherent in effectual foreign market entry (FME) decision-making to rely on international partners and relationships to develop international markets, causal foreign market selection and business relationships/networks have frequently been presented as alternative ways to expand abroad. We conceive SMEs' foreign market selection and entry as international business decisions and build on causal and effectual logic, and business network theory, to propose a model explaining SMEs' international performance. We contribute to international business and SME literature by uncovering two different paths (causal and effectual) to FME collaboration and international performance. FME collaboration mediates the relation between causal foreign market selection and effectual entry decision-making and international performance. Our theoretical explanation for the mediating mechanism through which international performance can be enhanced is the network approach.

1. Introduction

Understanding small and medium-sized enterprises' (SMEs') decision-making logic in the internationalization process is an important research topic (Vissak, Francioni, & Freeman, 2020), which can provide fruitful academic and managerial insights to enhance firms' international expansion and performance (Coudounaris & Arvidsson, 2021). Two main decision-making approaches to international expansion have been borrowed by international business scholars from entrepreneurship literature. On the one hand, effectual foreign market entry (FME) emphasizes the role of the entrepreneur in a decision-making context characterized by high uncertainty, limited means and resources, control over the future needs, partnerships, and a level of affordable losses or risks (Kalinic, Sarasvathy, & Forza, 2014; Perry, Chandler, & Markova, 2012; Sarasvathy, Kumar, York, & Bhagavatula, 2014).

On the other hand, causal foreign market selection, like other causation processes, focuses "on the predictable aspects of an uncertain

future", it assumes that if the future can be predicted it can be controlled, and it is appropriate when making decisions in more stable environments (Sarasvathy, 2001, p. 251). Causal logic implies predicting the future by analyzing the target market to decrease uncertainty and the establishment of goals in decision-making (Fisher, 2012; Sarasvathy, 2001). There is an ongoing debate in the entrepreneurship literature about causation and effectuation being paradoxical or complementary and whether they can be used simultaneously (Braun & Sieger, 2021; Galkina & Jack, 2021; Racat, Ricard, & Mauer, 2023; Smolka, Verheul, Burmeister-Lamp, & Heugens, 2018).

In parallel, influential international business literature has acknowledged the importance of business relationships and networks for internationalization (Johanson & Vahlne, 2003; 2006). Relationships and networks are expected to lead to opportunities, innovation, and performance as firms develop long-term cooperation with customers and partners abroad and become insiders in relevant networks (Johanson & Vahlne, 2009). Although this view seems particularly consistent

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with an effectual FME decision-making, where relationships and networks are seen as means of an entrepreneurial process (Sarasvathy et al., 2014), a “causal view of network building” (Prashantham, Kumar, Bhagavatula, & Sarasvathy, 2019, p. 7) is also acknowledged in entrepreneurship research and network research. Thus, we posit that the network approach is also consistent with causal foreign market selection as a way to expand abroad. Instead of considering the country and the

customer/relationship as alternative units of analysis and dichotomies in the selection of international markets (Andersen & Buvik, 2002), we suggest that causal foreign market selection may also need relationships to be successful in international expansion.

The broader entrepreneurship literature acknowledges that both effectuation and causation have a positive impact on new venture performance (Shirokova, Morris, Laskovaia, & Micelotta, 2021) but

Table 1

Relevant quantitative studies on the relationship between decision-making logic and international performance.^a

Authors	Objective	Focus	Explanatory variables	Mediating/moderating variables	Dependent variable	Sample	Findings
Bai et al., 2021	To research the mediating effect of social networking in the relationship between effectuation and international market performance	Effectuation	Non-predictive strategy and affordable losses	Social networking	International market performance	SMEs from Brazil, China, and Poland	Social networking mediates the relationship between non-predictive strategy and affordable losses and international market performance
Donbesuur et al., 2022	To explain how effectuation and causation approaches to international network formation individually and jointly contribute to post-entry performance under varying conditions of home market institutional support	Effectuation and causation	Effectuation and causation approach to international network formation	Home market institutional support	Post-entry financial and non-financial performance	INVs from Ghana	Greater uses of both effectuation and causation approaches to international network formation are associated with stronger post-entry performance. The joint effect of the two international network formation approaches on post-entry performance is amplified under conditions of low home market institutional support
Kusi et al., 2022	To study the effect of international experience and the decision-making logic on international brand orientation of internationalizing SMEs, and the impact of latter on financial performance	Effectuation and Causation	International marketing planning experience and international entrepreneurial experience	Causal decision-making logic and effectual decision-making logic	Financial performance	SMEs from Finland	Causal decision-making logic mediates the pathway of international marketing planning experience and international brand orientation, and effectual decision-making logic mediates the pathway of international entrepreneurial experience and international brand orientation. There is a positive significant relationship between international brand orientation and financial performance
Tolstoy et al., 2022	How effectual market creation affects the international performance of SMEs engaged in cross-border e-commerce	Effectuation	Effectual market-creation	International Networking, International marketing analytics	International performance	Swedish retail SMEs	Effectual market creation has a positive effect on their international performance, and this positive effect is also mediated by insidership in terms of international marketing analytics and international networking
Uzhogova & Torkkeli, 2022	To explore the effects of effectual decision-making logic on responsible business practices and the performance of internationalized SMEs	Effectuation	Effectuation flexibility	Responsible business practices	Competitive performance	SMEs from Finland	Responsible business practices in terms of local community and customer responsibility mediates the relationship between effectuation flexibility and competitive performance
Vuorio & Torkkeli, 2022	How the main entrepreneurial decision-making logics of effectuation, causation and bricolage capabilities are related to each other and how their combinations impact firms that internationalize earlier and late	Effectuation, Causation, Bricolage, and Network capabilities	Dynamic managerial capability portfolios	n.a.	Earliness of internationalization, international performance	SMEs from Finland	The capability portfolios of resource accumulator, balancer, and cautious differentiate early and late internationalization. And the portfolios of experimenting strategist, slack utilizer, and experimenter differentiate international performance

^a The literature review is based on two searches that are complementary. We first searched in Scopus with key words of effectuation/causation and international/internationalization. In addition, we went through papers that cite the seminal paper of effectuation and International Entrepreneurship by Sarasvathy et al., 2014 in *Entrepreneurship Theory and Practice*. We read the abstract for each paper and then selected the papers related to our focus.

neglects the international expansion of these new ventures. [Shirokova et al. \(2021\)](#) studied student entrepreneurs to analyze how country-level institutions moderate the relationship between effectuation and causation and new venture firm performance. [Smolka et al. \(2018\)](#) studied the synergistic effects of effectuation and causation in new venture performance of student entrepreneurs from various universities in 25 countries. The results from [Shirokova et al. \(2021\)](#) and [Smolka et al. \(2018\)](#) studies on new venture performance are mixed about whether blending effectuation and causation approaches can result in improved outcomes for the venture. Although [Smolka et al. \(2018\)](#) found that the combined use of causation and effectuation logics and the synergistic (interactive) effects of this blending increases venture performance, [Shirokova et al. \(2021\)](#) did not find a significant relationship between the interaction (synergistic effect) of causation and effectuation and performance, and they conclude that entrepreneurs may not benefit from using both logics concurrently. While these studies focus on very small new ventures (they have on average 3 employees and between 3.5 and 5.3 years old), which is often the case in the entrepreneurship literature on effectuation, we know little about how effectuation and causation are used in the context of mature internationalizing SMEs. We address this gap and limitation in the entrepreneurship and internationalization literatures.

In the International Business arena, relationships are conducive to international performance under the effectual FME logic, and the internationalization strategy has been proposed as a mediator in the relationship between causation and effectuation and international performance ([Coudounaris & Arvidsson, 2021](#)). Mirroring entrepreneurship research, most extant empirical studies on the relationships between effectuation and (i) internationalization efforts ([Chandra, Styles, & Wilkinson, 2015](#); [Chetty, Ojala, & Leppäaho, 2015](#); [Evers & O’Gorman, 2011](#); [Evers, Andersson, & Hannibal, 2012](#); [Galkina & Chetty, 2015](#); [Kalinic et al., 2014](#); [Nowinski & Rialp, 2013](#)), and (ii) performance ([Gabrielsson & Gabrielsson, 2013](#); [Sullivan Mort, Weerawardena, & Liesch, 2012](#)) are qualitative and their findings exploratory, and there is scarce quantitative research on the international performance implications of the causal and effectual decision-making logics.

This scarce quantitative research mainly focuses only on one of the logics (e.g., [Bai, Johanson, Oliveira, & Ratajczak-Mrozek, 2021](#); [Tolstoy, Hännell, & Özbek, 2022](#); [Uzhegova & Torkkeli, 2022](#)), or on a direct relationship between logics and international performance ([Vuorio & Torkkeli, 2022](#)), or on moderating effects to a direct relationship between both logics and international performance ([Donbesuur, Zahoor, & Boso, 2022](#)), or on SMEs total (not only international) financial ([Kusi, Gabrielsson, & Baumgarth, 2022](#)) or competitive ([Uzhegova & Torkkeli, 2022](#)) performance (see [Table 1](#)). Thus, we need more quantitative studies focusing on the specific mechanisms connecting both effectual and causal decision-making logics and international performance in SMEs. This will allow us to test theory and it will eventually provide more general findings to advance theory for SME internationalization.

While the literature on effectuation has grown rapidly in recent years ([Alsos, Clausen, Mauer, Read, & Sarasvathy, 2020](#); [Racat et al., 2023](#)) the concept and model continue to suffer from a lack of clarity. In their review of the effectuation literature, [Grégoire and Cherchem \(2020\)](#) conclude that its theoretical foundations are weak, and that effectuation lacks empirical validation to refer to it as a model, despite several empirical studies having validated causation as a model. Thus, there are several calls in the literature for research to test theory deductively in order to explore the relationships between effectuation and its consequences ([Racat et al., 2023](#); [Smolka et al., 2018](#)), to develop theoretical explanations for why some mediating variables might enable performance-inducing advantages of effectuation ([Grégoire & Cherchem, 2020](#)), and to examine in detail the black box of mediating factors that can transform the decision-making logic into firm performance ([Zhang, Li, Sha, & Yang, 2022](#)). In particular, our systematic search of the literature reveals that there are no studies connecting both the causal and effectual decision-making logic of SMEs’ FME, the network approach and international performance. This theoretical gap is

particularly significant as a network approach to foreign market selection and entry can be consistent with both effectual and causal perspectives simultaneously in the entrepreneurial process ([Donbesuur et al., 2022](#); [Prashantham et al., 2019](#)). Our study also aims to address this research gap.

Against this background, the purpose of our study is to provide explanations rooted in international entrepreneurship and business network theory for FME collaboration and its role in SMEs’ international performance. We add to the emerging stream of literature connecting international business with entrepreneurship (cf., [Chetty et al., 2015](#); [Yang & Gabrielsson, 2018](#)). Both international business and entrepreneurial decisions involve uncertainty ([Read, Dew, Sarasvathy, Song, & Wiltbank, 2009](#)), the SMEs’ foreign market selection and entry are decisions under uncertainty ([Harms & Schiele, 2012](#)), and “depending on the level of uncertainty surrounding any given decision that needs to be made, either causation (in case of low uncertainty) or effectuation (in case of high uncertainty) would be preferable” ([Smolka et al., 2018, p. 578](#)). Therefore, we build on effectual and causal logic, and business network theory, to propose a model explaining SMEs’ international performance. Since collaboration is fundamental in effectuation approach and in international business theory, we examine this construct to address the limitations of extant research connecting effectuation and networks as pointed out by [Sarasvathy et al. \(2014\)](#) and [Kerr and Coviello \(2019\)](#). In particular, they emphasize the lack of research about what entrepreneurs actually do with their networks. We extend our research to mature internationalizing SMEs to study how they use their networks in foreign market entries. We contribute to the international business and SME literature by uncovering that FME collaboration is the mechanism mediating the relation between causal foreign market selection and effectual entry decision-making and international performance. Our study confirms effectuation and causation as two distinctive pathways to FME collaboration, and the impact of the latter on SMEs’ international performance.

The remainder of this paper is organized as follows. First, we develop the rationale for our model and hypotheses. Second, we describe the methodology. Third, we test the model in a sample of Australian SMEs, and we present the results. We continue with a discussion of our findings and their theoretical and managerial implications. In the final sections, we present the study’s limitations and avenues for future research, and the conclusions.

2. Theoretical background

This section covers causation and effectuation theory from the entrepreneurship literature, FME collaboration, and the connection between international business and entrepreneurship literature.

2.1. Causation and effectuation theory

Firms using a causal approach believe that the future can be predicted, and thus start with intentions and develop formal business plans to achieve their goals ([Prashantham et al., 2019](#); [Sarasvathy, 2001](#)). In her seminal paper, [Sarasvathy \(2001, p. 245\)](#) defines causation processes as those that “take a particular effect as given and focus on selecting between means to create that effect”. The underlying logic of causation processes is that if the future can be predicted then it can be controlled, and thus the processes focus on facets that can be predicted when the future is uncertain ([Sarasvathy, 2001](#)). Thus, decision-makers conduct market research to gather information about the market and competitive analyses to predict what the future will be and then start with a goal and search for resources to achieve this goal. The effect of unexpected events can be reduced by predicting, planning, and focusing on goals ([Sarasvathy, 2008](#)).

The value of having formal business plans for new firms is debated in entrepreneurship literature because causation versus effectuation decision-making is a dilemma often faced by new firms. In their review

of the literature on the relationship between business planning and performance in new firms and established small firms, [Brinckmann, Grichnik, and Kapsa \(2010\)](#) conclude that planning increases performance. However, in their analysis they discovered that planning is more beneficial for mature small firms because it increases performance more than it attains for new firms. [Table 2](#) provides a summary of the comparison between causation and effectuation.

Effectual logic relates to decision-making in uncertain conditions ([Sarasvathy, 2001; 2008](#)). [Sarasvathy \(2001, p. 245\)](#) defines effectuation processes as those that “take a set of means as given and focus on selecting between possible effects that can be created with that set of means”. The underlying logic of effectuation processes is that if the future can be controlled then predicting it is not necessary, and thus the processes focus on facets that can be controlled when the future is unpredictable ([Sarasvathy, 2001](#)).

Throughout effectuation processes, the entrepreneurs and their partners transform what they can control, for example developing a new product ([Wu, Liang, Liu, & Su, 2020](#)), to reshape the market in unexpected ways and by exploiting contingencies ([Sarasvathy, 2001; Wiltbank, Read, Dew, & Sarasvathy, 2009](#)). By being flexible and collaborating with others the entrepreneur reduces uncertainty, and by interacting and collaborating with others co-creates goals and new resources and opportunities with committed partners ([Prashantham et al., 2019; Sarasvathy, 2001](#)). Entrepreneurs start collaborating with existing relationships such as their social networks and, at the same time, they are also open to serendipitous opportunities from potential partners. Through collaboration, entrepreneurs are able to acquire resources and create new markets for their products and services.

2.2. Collaboration in internationalizing SMEs

We use business network theory in our definition of collaboration as follows: “...markets are *networks of relationships* in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Hence, *insidership* in relevant network(s) is necessary for successful internationalization” ([Johanson & Vahlne, 2009, p. 1411](#)). The focal firm is at the center of this network of relationships, and could include the firm’s distributors, customers, suppliers, banks, universities, legal services, and institutional support agencies such as industry associations and research institutes ([Hilmersson, 2014; Schweizer, Vahlne, & Johanson, 2010; Singh, Chandrashekar, Hillemane, Sukumar, & Jafari-Sadeghi, 2022](#)). The firm’s environment consists of networks, and when the firm is inside the network it reduces uncertainty, and the firm gains access to new resources, knowledge and business opportunities which cannot be seen and accessed by non-members of the network ([Johanson & Vahlne, 2009](#)). As firms build their relationships they learn from their partners and develop trust and mutual commitment in these relationships. When the firms interact with partners, they exchange knowledge with each other and during the process they might develop new knowledge together. While new international business opportunities are conducive to innovation and international performance ([Bai, Johanson, & Martin, 2019; Glavas, Mathews, & Bianchi, 2017; Sousa, Li, & He, 2020](#)), increased knowledge will reduce international uncertainty about outcomes connected with each opportunity.

In contrast to the business network approach regarding mutual trust and commitment in relationships, transaction cost theory focuses on safeguarding against opportunistic behavior by partners ([Chetty & Agndal, 2007; Johanson & Mattsson, 1987](#)). Transaction cost theory assumes transactions involve different costs, such as cost of forming and monitoring partners and opportunity costs of mistakes ([Rindfleisch & Heide, 1997; Williamson, 1985](#)). While transaction cost theory emphasizes single transactions and considers bounded rationality to constrain the cognitive ability to make decisions because of limited knowledge ([Johanson & Mattsson, 1987; Rindfleisch & Heide, 1997](#)), business network theory assumes long-term stable relationships ([Johanson & Mattsson, 1987](#)) and that partners acquire new knowledge when they

Table 2
Comparison of causation and effectuation approaches.

Dimensions	Causation	Effectuation
External environment context	Fairly stable and low degree of uncertainty Contingencies are a problem as they disrupt plans Accept the environment as it is	High degree of uncertainty and complexity Open to contingencies as they create new opportunities Reshape and transform the environment
Prediction oriented	Formal business plans help to predict and prepare for the future. Emphasis on stability and can thus become rigid	Cannot predict the future so focus on what they can control to shape their future
Market research/ scanning and screening the environment	Competitor analysis and market research are important	Little information is available, and this information could be ambiguous because of the unknown opportunities
Goal setting	Starts with a goal and has a systematic formal written plan to achieve that goal	Starts with a vague goal which changes continuously as the firm interacts with the environment
Resources	Goal driven-has the resources, structures and routines to acquire information to develop business plans to achieve the goal	Means driven by starting with existing resources-Who am I? What do I know? Who do I know?
Collaboration	Formal contracts, transactional approach Deliberate search for strategic partnerships by targeting stakeholders with those who can bring value to the business Safeguards against opportunistic behavior from partners Culls poor performing relationships	Collaborates with others to increase resources Networks are an outcome of effectuation Starts with existing networks mainly social and then leveraging them to make other contacts Open to serendipitous opportunities to collaborate Self-selected partners become stakeholders ‘Crazy quilt’ open to form relationships with anyone who is interested to join the venture Mutual trust and commitment with partners for mutual benefit Select low risk partners Accepts the downside of relationships within reasonable limits, that is affordable loss
Learning	Slower sequential process of learning, planning, implementation and then evaluating outcomes	Faster learning process, encourages learning agility, experiential learning and imagination
Speed of decision-making	Have the time and resources to analyze and make measured decisions	Quick decision-making under uncertainty and with limited resources
Prior knowledge	Prior knowledge helps with planning and behavior in familiar and stable situations	May have prior knowledge. Exploits contingencies rather than pre-existing knowledge
Outcomes	Expected return on investment Increase market share through competitive strategies Monitor results by comparing predicted outcomes and expected returns	Create new markets jointly through cooperative strategies with partners Affordable loss, acceptable risk, instead of maximizing expected returns

Sources: Sarasvathy (2001, 2008), Wiltbank et al. (2006, Wiltbank et al., 2009); Read et al. (2009); Dew et al. (2009; Dew et al., 2011); Prashantham et al. (2019).

interact with each other. This new knowledge widens their cognitive ability to develop new ideas and opportunities (Chetty & Agndal, 2007).

In the context of internationalizing SMEs, the benefits of collaboration are confirmed in the extant literature (Hilmersson, 2014; Katsikeas, Skarmeas, & Bello, 2009; Schweizer et al., 2010; Singh et al., 2022; Zahoor & Al-Tabbaa, 2021). In particular, through collaboration with existing partners or social contacts, firms are able to find potential partners and thus reduce the costs of searching for them (Chetty & Agndal, 2007; Puthusserry, Child, & Khan, 2020; Schweizer et al., 2010; Wong & Ellis, 2002). Internationalizing SMEs learn from their partners and gain access to new markets.

However, the complexity of collaboration in internationalizing SMEs is also revealed in the literature by presenting the downside of collaboration. Networks that have strong relationships are too closed and can become overembedded and thus prevent new information from entering the network (Grabher, 1993; Uzzi, 1997), and group norms may inhibit receptiveness to new information and ideas (Nahapiet & Ghoshal, 1998). Several studies on internationalizing SMEs (Chetty & Agndal, 2007; Lindstrand, Melen, & Nordman, 2011; Pillai, Hodgkinson, Kalyanaram, & Nair, 2017) provide empirical evidence for the negative aspects of collaboration, such as SMEs being locked into poorly performing relationships and subsequently missing out on more lucrative opportunities with other partners.

2.3. Linking international business literature and entrepreneurship literature

While large internationalizing firms have prior knowledge and resources that they have developed over a long period of time, SMEs lack resources and prior knowledge that hinder them in their internationalization efforts (Paul, Parthasarathy, & Gupta, 2017; Wolff & Pett, 2000). In their review of the literature relating to context in SME internationalization, Child, Karmowska, and Shenkar (2022) highlight that because SMEs suffer from 'liability of smallness', which transpires as lack of resources, these firms are reliant on external networks to acquire resources and information for their internationalization. Child et al. (2022) argue that current international business theories have limitations concerning SME internationalization because they neglect the boundary condition of size of the firm. International business and entrepreneurship literature share common traits such as uncertainty and the importance of networks (Johanson & Vahlne, 2009; Sarasvathy et al., 2014). A central connection between effectuation theory and international business theory is networking (Galkina & Chetty, 2015). By integrating international business and entrepreneurship literature, we consider that causal and effectual approaches can help us gain insight on distinctive pathways to how mature internationalizing SMEs tackle uncertainty and lack of resources through FME collaboration.

Sarasvathy (2001) seminal paper on effectuation is positioned in entrepreneurship where she theorizes about entrepreneurial decision making for new ventures. Effectuation has subsequently been studied by scholars in the context of international entrepreneurship to capture the dynamics of new ventures that internationalize quickly (Evers & O'Gorman, 2011; Harms & Schiele, 2012; Sirén, Parida, Patel, & Wincent, 2019). In response to this emerging stream of literature in international entrepreneurship, Sarasvathy et al. (2014) use effectuation theory to provide their observations about international entrepreneurship research. Since their conceptual paper focuses mainly on bridging the gap between effectuation and international entrepreneurship, they neglect causation and mature internationalizing SMEs. However, they do suggest that future researchers should conduct more empirical studies for generalizability to connect effectuation with international entrepreneurship, and highlight the lack of research about what

entrepreneurs actually do with their networks. Our study addresses this limitation by going in-depth into both effectual and causal processes in collaboration to capture their behavior. Furthermore, by advancing beyond the early phases of internationalization to investigate how mature internationalizing SMEs use their networks for foreign market entry, we connect international business and entrepreneurship literature.

3. Decision-Making Logic, foreign market entry collaboration and international performance

3.1. Causal foreign market selection consequences

The decision-making logic of prediction implied by causation processes (Read et al., 2009; Wiltbank et al., 2009) is embodied, in our FME context, in a causal approach to foreign market selection. Thus, we label this approach "causal foreign market selection" and define it as the extent to which a logic of prediction is used in foreign market selection. The logic of prediction entails the use of market information and research, knowledge, planning, and forecasts and goals in foreign market selection decision-making. "Companies relying on defined goals would have a fixed plan concerning where to go (international market selection)" (Harms & Schiele, 2012, p. 98). These firms study the market by doing competitor analysis to identify their niche in the market and then plan how to enter the market (Engel, van Burg, Kleijn, & Khapova, 2017).

Firms possessing knowledge tend to use planning and a more systematic approach in developing their networks during the internationalization process (Chetty et al., 2015; Vissak et al., 2020). They do formal market research to systematically select their foreign markets and may use a market research company to do a feasibility study of the foreign market. They use published data to collect facts that help them with their decision to enter the foreign market (Brouthers & Nakos, 2005; Fraccastoro, Gabrielsson, & Chetty, 2021). They have acquired prior knowledge in foreign markets that they use to develop a formal set of procedures to determine whether it is worth entering the market (Eriksson, Johanson, Majkgård, & Sharma, 1997).

As Anderson and Buvik (2002, p. 355) state, "Some firms may as a first step select a country according to the traditional approach and then follow a relationship development process". Once they have identified the opportunity, they look for partners who have essential resources to accomplish the firm's goals (Donbesuur et al., 2022; Galkina & Jack, 2021). Firms might seek referrals or identify potential partners by being strategic about who they could collaborate with (Engel et al., 2017; Prashantham et al., 2019). They are selective in their choice of partners and avoid being locked into poorly performing relationships that are not fruitful in terms of acquiring resources (Vissa, Balagopal, & Bhagavata, 2012). Since they use their resources efficiently, they are willing to abandon unsuccessful relationships. Through this careful selection process and constant interaction with partners they build trust and get to know their partners' strengths and weaknesses (Galkina & Chetty, 2015; Johanson & Vahlne, 2009). This, in turn, decreases risks and uncertainties about their partners' behavior, increases resource sharing and commitment, and enhances relationships' performance (Katsikeas et al., 2009), and collaboration. Thus, a systematic approach in selecting markets (Papadopoulos & Martín Martín, 2011) leads to frequent FME efforts through strategic partnerships and agreements, joint opportunity creation and development, and a more effective development of networks and collaboration during the internationalization process. We posit:

Hypothesis 1. (H1): *Causal foreign market selection has a positive relationship with SMEs' foreign market entry collaboration.*

Firms that take a causal approach in their decision-making are focused on achieving their goals and are committed to their foreign markets and use their resources efficiently (Engel et al., 2017;

Prashantham et al., 2019). They have identified their market segments and done competitor analysis. They are making rational and informed decisions, and this could have a positive impact on their international success and performance (Ahi, Baronchelli, Kuivalainen, & Piantoni, 2017; Brinckmann et al., 2010; Brouthers & Nakos, 2005). They have put considerable resources into checking the feasibility of the markets, and the facts gained from market research have helped them discover new opportunities (Chetty, Karami, & Martín Martín, 2018) and gain knowledge about the market to reduce risk and uncertainty.

Since they have developed formal business plans carefully (Fisher, 2012), firms can make corrections by considering informed judgements to abandon ventures that are failing (Dimov, 2010). Firms use their prior knowledge to deal with uncertainty as they have learned to deal with missing information and from past failures and successes (Dimov, 2010; Eriksson et al., 1997). Prior empirical studies have found that a systematic selection and strategic approach to FME has a positive impact on performance (Brinckmann et al., 2010; Brouthers & Nakos, 2005; Martín Martín, Chetty, & Bai, 2022). Therefore, we propose that causal foreign market selection is a valuable approach to generating information and knowledge increasing the effectiveness of international decision-making, which may lead to international opportunity discovery and performance.

Hypothesis 2. (H2): *Causal foreign market selection has a positive relationship with SMEs' international performance.*

3.2. Effectual entry decision-making consequences

We focus now on the effects of effectual entry decision-making on small and medium-sized enterprises' FME collaboration and international performance. Effectuation processes imply a decision-making logic of control (Wiltbank, Dew, Read, & Sarasvathy, 2006; Wiltbank et al., 2009) that, in our FME context, is embodied in an effectual approach to entry decision-making. We name this process "effectual entry decision-making" and define it as the extent to which a logic of control is employed in FME decision-making. Firms that use effectuation in their foreign market entries start with existing resources and then create opportunities for a new venture through partnerships rather than starting with a goal and then looking for the appropriate resources to achieve this goal (Chetty et al., 2015; Sarasvathy et al., 2014; Vissak et al., 2020). When the firm lacks resources (Jiang & Rüling, 2019; Tolstoy, Nordman, Hånell, & Özbek, 2021), the future is unpredictable, uncertainty is high, and goals are ambiguous then firms use effectuation to make their decisions (Harmeling, Oberman, Venkataraman, & Stevenson, 2004; Lerner, Hunt, & Dimov, 2018; Welter & Kim, 2018). SMEs regard networks as a mean to acquire resources and thus focus on whom they can cooperate with to increase their resources and create new opportunities (Bai et al., 2019; Chetty et al., 2015; Vissak et al., 2020). They discuss business ideas with various people who might be able to cooperate such as future business partners, family and friends or chance encounters with people (Wiltbank et al., 2006). These easily accessible network partners join the new venture even before it has specific goals, and they jointly consider different possibilities that the firm can pursue (Dew, Sarasvathy, Read, & Wiltbank, 2009).

Firms lacking market knowledge tend to use effectual opportunity-seeking behaviors in developing their networks with whoever is interested in collaborating with the firm. For example, they are open to unsolicited approaches from potential partners, serendipity, and introductions from third parties (Chetty et al., 2015; Vissak et al., 2020). The emphasis is on transforming existing means through partnerships to incrementally adapt, for example existing products, or to co-create something new, such as a new product or new foreign market to shape the future (Deligianni, Voudouris, & Lioukas, 2017; Jiang & Rüling, 2019). Entrepreneurs are flexible, open-minded, and open to surprises and contingencies (Sarasvathy, 2001; 2004). Consequently, their mindset is to be alert to new opportunities (Sirén et al., 2019), which

could be unintentional entry into new foreign markets through an unexpected partnership (Galkina & Chetty, 2015; Mainela, Puhakka, & Puhakka, 2009).

In their study of internationalizing firms, Galkina and Chetty (2015) found that firms using effectuation approach are open to surprises and unexpected opportunities and unsolicited orders from countries they were not intending to enter. They found that firms select the partner first and then choose the country they would enter depending on this partner's access to foreign markets. For example, an unexpected meeting with someone might lead to entering a foreign market the firm had not initially intended to enter. Firms gather information about a particular market by talking to various people outside the firm to help them with the decision for their foreign market entries (Galkina & Chetty, 2015; Prashantham et al., 2019).

Based on their previous experience, firms following an effectual FME approach consider different contingencies by looking at different ways of entering markets (Sarasvathy et al., 2014). They enter their foreign markets quickly by creating new ways to connect with customers, for example, digitally as Tolstoy et al. (2022) and Daniel, Di Domenico, and Sharma (2015) found in their studies of online businesses. The emerging opportunities might mean that they have to look for new solutions to problems, often with business partners. Instead of searching and selecting existing products for possible solutions, firms are able to transform available resources to develop new solutions jointly with their customers and partners (Bai et al., 2019; Deligianni et al., 2017) and thus create new markets, such as entering foreign markets (Dew, Read, Sarasvathy, & Wiltbank, 2011). They uncover how other people anticipate the industry's future and imagine different possibilities of how the firm could change the industry (Dew et al., 2011; Sarasvathy, 2001; Wiltbank et al., 2009).

A corollary of the above is that a more effectual FME approach is conducive to an increased use of partnerships and agreements, collaboration with partners and customers, and the creation and development of relationships with firms and people. We formulate our third hypothesis as follows:

Hypothesis 3. (H3): *Effectual entry decision-making has a positive relationship with SMEs' foreign market entry collaboration.*

Internationalizing SMEs are more likely to use effectuation in situations of uncertainty, complexity and when pursuing ambiguous goals (Galkina & Atkova, 2020; Harmeling et al., 2004; Kalinic et al., 2014). These firms are proactive and willing to take limited risks and avoid wasting time and overstretched resources on formal market research and analysis (Sarasvathy, 2001; 2008). They cope with their existing resources through flexibility, experimenting, creativity and improvisation, and are open to serendipitous opportunities that emerge to increase their resources (Evers & O'Gorman, 2011; Sarasvathy et al., 2014). Effectuation allows firms to be flexible by considering different possibilities and outcomes, they easily shift their mindset to turn obstacles into opportunities to create new resources and new goals (Bai et al., 2021; Sarasvathy, 2001; 2004). Effectuation may lower information costs and speed up decision-making and seems to have a beneficial impact on new venture performance and growth (Grégoire & Cherchem, 2020).

Uncertainty in foreign markets can become an opportunity because the firm considers the affordable loss when making decisions, and this relates to an acceptable amount of time or money that they are prepared to lose (Chetty et al., 2015; Dew et al., 2009; Gabrielsson & Gabrielsson, 2013). Thus, firms avoid taking great risks in foreign markets that might incur huge losses that the firm is unable to absorb (Schweizer et al., 2010). Firms share the risks with their partners and gain any benefits from the opportunities that emerge from the venture (Read, Song, & Smit, 2009).

The firm's prior experience as well as their access to international networks are important resources in the internationalization process and thus influence the outcomes (Evers & O'Gorman, 2011; Prashantham et al., 2019; Sarasvathy et al., 2014). Since effectual FME implies lower

costs and efficient use of resources employed in international expansion, limited and shared risks and resources, and flexibility to leverage contingencies and emerging opportunities, we formulate our fourth hypothesis as follows:

Hypothesis 4. (H4): *Effectual entry decision-making has a positive relationship with SMEs' international performance.*

3.3. Foreign market entry collaboration and international performance

FME relationships imply the development of partnerships and agreements leading to business network insidership. There are different FME modes (Pan & Tse, 2000) and research on entry modes and SMEs reveals that SMEs lack resources and the capabilities to collect and process information (Bruneel & De Cock, 2016). Thus, SMEs most frequently rely on modes implying limited resource commitment, risk, and control (Laufs & Schwens, 2014) such as exports and contractual agreements. As Child et al. (2022, p. 14) state, "SMEs usually enter foreign markets via external means such as exporting, licensing, franchising, or supplying a global value chain. Their management of internationalization is also frequently externalized through the use of foreign agents...". Any entry mode requires some degree of collaboration with different firms, partners, and/or third parties during the FME process. Thus, in line with the network approach, we define FME collaboration as the extent to which, during FME efforts, relational aspects such as agreements, partners, customers and third parties are conducive to market entry.

Relationship building and enhanced cooperation with key foreign market partners and customers implies better knowledge about these actors (Bai et al., 2019), trust and mutual understanding, commitment and alignment of interests and priorities, and reduced liability of outsidership (Johanson & Vahlne, 2009). As a result, joint-project development in this context will benefit from knowledge synergies decreasing causal ambiguity and fostering an efficient deployment of competences required to leverage opportunities. Relationship building, international partners and cooperation are expected to lead to international performance (Racela, Chaikittisilpa, & Thourungroje, 2007; Yoon, Sung, & Ryu, 2020) through the identification and creation of new international

business opportunities. Therefore, we hypothesize:

Hypothesis 5. (H5): *Foreign market entry collaboration has a positive relationship with SMEs' international performance.*

Our hypothesized network model of causal foreign market selection and effectual entry decision-making appears in Fig. 1.

4. Methods

4.1. Sample

From the Dunn and Bradstreet database, we identified a population frame of 2,595 Australian manufacturing SMEs (i.e., not exceeding 250 employees) carrying out international business and representing well this type of firms. The firms in the population frame were randomized and over 18 % of them were randomly selected to carry out a pretest. The rest of the firms were used to collect the data and create a preliminary sample of 140 SMEs. Most of the sampled firms are small and the average time they have been operating is close to four decades, with more than 22 years involved in international operations. These firms generally use several international market entry modes and operate in close to 13 countries on average, with sales representing over 25 % of their turnover.

4.2. Questionnaire and data collection

The questionnaire was organized into three sections. The first one asked about the respondent (the founder of the firm or the executive in charge of international business); the second one collected information about the firm, and the third one focused on international business activities and opportunities, FME, relationships, and performance. Prior to the administration of the questionnaire, we carried out a qualitative pretest with different international business scholars to improve the readability and face validity of the questions.

We tried to stimulate firms' participation and increase the response rate by mailing a letterhead invitation introducing the research project. In the invitation, we also indicated the name of the market research firm that was going to carry out the data collection and assured the

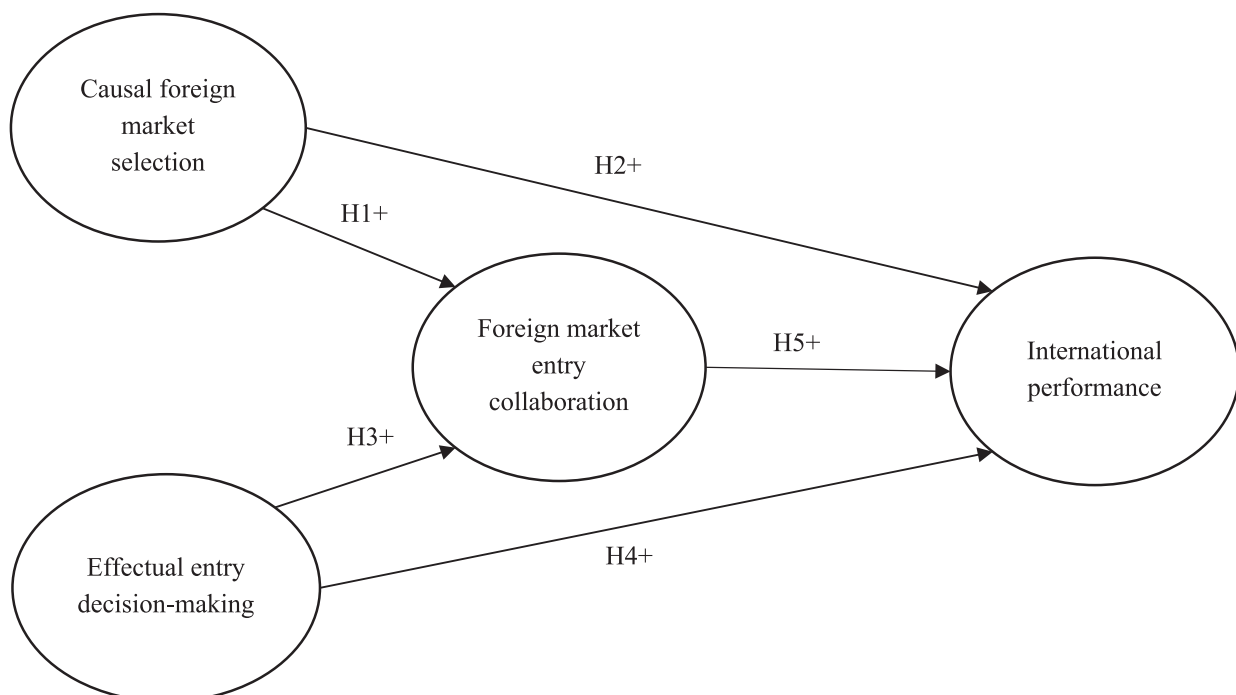


Fig. 1. A network model of causal foreign market selection and effectual entry decision-making.

confidentiality of the information provided. The market research firm used a computer-assisted telephone interview (CATI) technique to administer the questionnaire to the senior managers. It randomly contacted 966 firms. The interviews took 28 min on average, and we obtained 140 usable responses between January and April 2017.

4.3. Measures

We operationalized the four constructs included in our model based on extant seven-point scales and literature (see Table 3). While the formulation of the questions dealing with causal foreign market selection, effectual entry decision-making logic, and FME collaboration refers to activities undertaken regularly, the question dealing with international performance imposes a temporal constraint (the past three years). The constraint guarantees stability in the performance outcomes measured in the context of SMEs (where there is frequently more variation in annual performance than in more resourceful, large MNEs), and it is justified considering that (i) in the formulation of the question capturing effectual entry decision-making we asked managers to think about the firm's *main* foreign market entries (the data we collected about their main foreign markets indicate that these were selected early in the firms' internationalization process), (ii) in the formulation of the two other questions measuring the explanatory variables, as mentioned above, we focused on activities undertaken regularly ("Think of the way your firm finds or selects foreign market entry opportunities" for causal foreign market selection and "To what extent do you agree or disagree with the following statements about your foreign market entry efforts?" for foreign market entry collaboration), (iii) the firms are on average over 39 years old and their first market entry was carried out on average over 22 years from the time of the interview which confirms that the activities undertaken regularly that the respondent is considering started many years ago, and (iv) we excluded from the sample firms with less than four years of international experience (two observations) to avoid the inclusion in the dataset of any firm in which the international activities started recently. Accordingly, we have a final sample of 138 firms for analysis.

Causal Foreign Market Selection (CFMS). We used a Likert scale being 1 "strongly disagree" and 7 "strongly agree". Based on [Brouthers and Nakos \(2005\)](#) systematic international market selection scale, we asked managers to think about the way the SME finds or selects FME opportunities and the extent to which they agree or disagree with five statements reflecting whether: their international market research activities for selecting foreign markets are systematic and formal; they visit foreign markets before entry; they have specific criteria to assess foreign markets; they put considerable effort into researching foreign markets, and they use statistical sources to select foreign markets.

Effectual Entry Decision-Making (EEDM). We used as end points "Never" (1) and "Always" (7). We developed our scale from [Wiltbank et al. \(2009\)](#) scale of control vs. prediction logics. We adapted some control items to our FME research context and asked respondents to think about their firms' decision-making in their foreign market entries in terms of collecting information by talking with people they know to help them make the entry; developing a marketing approach thinking on possible courses of action based on their prior experience; managing foreign market development by creating new solutions for emerging opportunities, and learning about other people's expectations for the industry by imagining how the firm will change aspects of the situation.

Foreign Market Entry Collaboration (FMEC). Relationships are a suitable mechanism to cope with the uncertainty of FME, network insider-ship leads to new opportunities in the internationalization process ([Johanson & Vahlne, 2009](#)), and the selection of the exchange partners is the main decision problem of the relationship approach ([Andersen & Buvik, 2002](#)). Based on a Likert scale ranging from 1 "strongly disagree" to 7 "strongly agree", we inquired about relational aspects of FME. Specifically, we asked about the extent to which in FME efforts: the firm approaches potential partners actively to jointly shape the FME

Table 3

Operationalization of the constructs, descriptive statistics, item and construct reliability and average variance extracted.

Construct/ Items	Mean	S.D.	Standardized loadings	CR	AVE
Causal foreign market selection (CFMS)				0.87	0.57
Our international market research activities for selecting foreign markets are systematic and formal.	3.11	1.77	0.83		
We visit foreign markets on fact-finding tours before entry.	3.55	2.08	0.67		
We have specific criteria to help us determine whether a foreign market is worthwhile.	4.20	1.91	0.75		
We put considerable effort into researching foreign markets.	3.78	1.91	0.85		
Published statistical sources play a critical role in assisting us to select foreign markets.	3.06	1.64	0.66		
Effectual entry decision-making (EEDM)				0.82	0.54
When collecting information relating to a foreign market entry, you talk with people (outside your firm) you know to help you make this entry	4.88	1.86	0.70		
In developing a marketing approach for foreign market entry, you would think of possible courses of action based on your prior experience.	5.64	1.30	0.75		
In managing your foreign market development, you are driven by creating new solutions for emerging opportunities.	5.11	1.58	0.78		
In learning about other people's expectations for this industry, you imagine how your firm will change aspects of the situation they are forecasting.	4.25	1.67	0.69		
Foreign market entry collaboration (FMEC)				0.82	0.53
We approach potential partners actively to jointly shape the foreign market entry opportunity	3.93	1.96	0.71		
We jointly decide to develop opportunities with our partners on the basis of our competences.	4.81	1.89	0.83		
New international business opportunities are often created by collaborating with our partners or customers.	5.20	1.80	0.64		
Our expansion into foreign market(s) has been a result of our efforts to reach and develop relationships with the right people.	5.63	1.54	0.72		
International performance (INTP)				0.91	0.77
International sales volume.	4.40	1.53	0.90		
International sales growth.	4.38	1.63	0.92		
International profitability.	4.62	1.46	0.80		

Table 3
Operationalization of the constructs, descriptive statistics, item and construct reliability and average variance extracted (continued).

Construct/ Items	Mean	S.D.	Standardized loadings	CR	AVE
Firm age	39.54	26.79	1.00	1.00	1.00
Firm size	36.19	34.32	1.00	1.00	1.00
International experience	22.81	14.59	1.00	1.00	1.00
Industry	0.38	0.49	1.00	1.00	1.00
Entry mode (FDI)	0.26	0.44	1.00	1.00	1.00
Level of internationalization	0.26	0.27	1.00	1.00	1.00
Education	2.55	1.09	1.00	1.00	1.00
Geographic distance	3.85	0.31	1.00	1.00	1.00
Cultural distance	1.91	1.81	1.00	1.00	1.00

opportunity; the firm and its partners jointly decide to develop opportunities on the basis of their competences (Brettel, Mauer, Engelen, & Küpper, 2012); collaboration with partners or customers creates new international business opportunities, and efforts to reach and develop relationships with the right people have resulted in expansion into foreign markets.

International Performance (INTP). Perceptual multi-item scales measuring performance or international performance are a practical way to reliably and validly measure these constructs, and has been the approach most frequently followed in business and international business studies (e.g., Hult et al., 2008; Katsikeas, Morgan, Leonidou, & Hult, 2016). We employed a scale ranging between “completely unsuccessful” (1) and “completely successful” (7) and asked to evaluate the firm’s performance over the past three years in terms of three of the most employed indicators (e.g., Gerschewski, Rose, & Lindsay, 2015) in international performance scales: international sales volume, international sales growth, and international profitability. The formulation of the questions capturing the three exogenous constructs as referring to activities undertaken regularly creates, in samples of experienced firms and managers, a built-in time lag with international performance given that the latter only refers to the last three years.

Controls. We controlled the effect on the two endogenous constructs of several variables frequently used in FME, internationalization, and international business studies. Firm age and size can affect SMEs’ performance (Arend, 2014). Firm age (years since it was established) partials out the potential effect of SMEs experience. Firm size (number of employees) controls for the fact that smaller firms have more resource constraints than large firms, which can in turn have an impact on FME decisions and international performance. Considering that international experience may be more valuable in FME for less internationally experienced firms, we added a control for firms’ international experience (years since the firm started selling in international markets). We also controlled for the industry (light vs. heavy manufacturing) in which the SME operates.

Acknowledging that different entry modes may imply different levels of FME collaboration, and that high-control entry modes are associated with higher performance (Giachetti, Manzi, & Colapinto, 2019), we added a control for entry mode (FDI). Level of internationalization (proportion of international on total sales) can affect international results (Papadopoulos & Martín Martín, 2010), so we also controlled for this factor. Education is another variable that may have an effect on SMEs’ internationalization processes and performance, so we included a control for the respondents’ educational background (from secondary school to doctorate). Finally, differences between countries affect trust between small-firm partners (Couper, Reuber, & Prashantham, 2020) and create uncertainty in international business (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), which can in turn decrease the ability to predict in distant countries, enhance the use of effectuation, and affect FME decisions. Thus, we controlled for geographic distance (log-transformed average km between the capital of the three

main foreign markets and Canberra) and cultural distance (Hofstede’s scores on the traditional four dimensions).

4.4. Data analysis technique

We analyzed our data with partial least squares (PLS), a variance-based structural equation modeling (SEM) technique that is widely used in international business, marketing, and management research (Richter, Sinkovics, Ringle, & Schlägel, 2016; Sarstedt et al., 2022). PLS-SEM has few demands on scales, sample size and convergence (Henseler, 2010), and residual distributions, and it has also shown robustness against non-normality and multicollinearity (Hair, Hult, Ringle, & Sarstedt, 2014). Considering also its predictive-oriented estimation (Hair, Risher, Sarstedt, & Ringle, 2019), PLS-SEM is appropriate for this study, as the prediction of international performance through effectual and causal decision-making effects and FME collaboration can be the basis for developing relevant managerial implications. We used the software SmartPLS 4.0 (Ringle, Wende, & Becker, 2015).

4.5. Common method bias and endogeneity

Since the same respondents were going to provide rates for both the exogenous and endogenous constructs, we tried to minimize the potential impact of common method bias (CMB) when designing the questionnaire. Thus, as noted, our seven-point scales employed different end points. For instance, for causal foreign market selection we used “strongly disagree – strongly agree”; for effectual entry decision-making “never – always”, and for international performance “completely unsuccessful – completely successful”. In addition, we first asked about international performance and then about causal foreign market selection.

In the *post-hoc* stage, we followed the measured latent marker variable (MLMV) approach that is suggested for handling CMB in PLS models (Chin, Thatcher, Wright, & Steel, 2013). Specifically, at the end of the questionnaire we included a set of four items that reflected an underlying construct that is theoretically unrelated to the main constructs of our model (Please specify to what extent (1 = “Never”; 7 = “Always”) you use the Web when searching for advertising information: 1. When searching for advertising services in general; 2. When searching for advertising information relating to pre-specified advertising services; 3. When searching for information that compares online advertising with traditional advertising, and 4. When searching for the effectiveness of different advertising techniques). Then these measures were modeled as an MLMV to capture CMBs’ influence on structural paths by impacting each construct of the primary research model. By comparing the coefficient and *t*-value of each structural path, and the R^2 of the endogenous constructs derived from two models with and without the MLMV as CMB controls, CMB influences on the primary research model can be detected and corrected. As shown in Table 4, the coefficient and *t*-value of each structural path, as well as the R^2 of the endogenous constructs, present small and non-significant changes when comparing the models estimated with and without the MLMV. Thus, we conclude that CMB is not posing a significant challenge and may be seen as limited concern in our data.

To address endogeneity concerns in our PLS-SEM analyses, we followed the Gaussian copulas method suggested by Hult et al. (2018). This method enabled us to directly model the link between an endogenous variable and the regression error term with a copula, and it is useful when no well-recognized instrumental variable is available. Accordingly, we first used latent scores to assess the nonnormality of the explanatory variables by running a Kolmogorov-Smirnov test with Lilliefors correction, as the Gaussian copula method can only be applied to nonnormally distributed variables. The results suggested that EEDM ($p = .000$) and FMEC ($p = .000$) are nonnormally distributed, while CFMS ($p = .208$) did not pass the test. Then, we used the Gaussian copulas function of SmartPLS 4 to calculate copulas for EEDM and FMEC in

Table 4
Comparison of path coefficients, *t*-values and *R*² by MLMV approach and original PLS models.

Effects on endogenous variables	MLMV Estimates Path coefficients	Original PLS Estimates Path coefficients	MLMV Estimates <i>t</i> value	Original PLS Estimates <i>t</i> value	MLMV Estimates <i>R</i> ²	Original PLS Estimates <i>R</i> ²
Effects on FMEC						
CFMS	0.357	0.346	3.688	3.675	0.327	0.325
EEDM	0.324	0.311	3.361	3.321		
Effects on INTP						
CFMS	0.140	0.137	1.318	1.315	0.301	0.300
EEDM	0.026	0.023	0.240	0.210		
FMEC	0.288	0.288	2.709	2.683		

different models. The nonsignificant results of the copulas for EEDM and FMEC in all models suggested that these two variables are not endogenous. Thus, endogeneity is most likely not a serious concern in our study.

5. Results

The analysis of the path model included an estimation of the measurement model and an assessment of the structural model in sequence. As Table 3 shows, all indicators in the measurement model have significant loadings. The item reliability in all cases except four (CFMS2, CFMS5, EEDM4, and FMEC3) is over the suggested 0.7 benchmark. We kept these four indicators because their standardized loadings are still higher than the generally accepted threshold of 0.6 (Hair et al., 2014), and because both construct reliability and average variance extracted (AVE) of their constructs are satisfactory. Second, all the constructs present high values of composite reliability, ranging between 0.82 and 0.91 (Werts, Linn, & Jöreskog, 1974), and their reliability coefficients ρ_A (Dijkstra & Henseler, 2015) range between 0.71 and 0.88. Third, AVE values are over the cut-off point of 0.50 (Fornell & Larcker, 1981), which suggests that each set of indicators reflects one underlying construct. Finally, discriminant validity is strictly respected as the square roots of the variance shared between the reflective constructs and their measures (diagonal values in Table 5) are higher than their correlations with other constructs, and the heterotrait-monotrait (HTMT) ratio of correlations measure (values in italics over the diagonal in Table 5) shows that all the values are significantly lower than 0.85, thus supporting that discriminant validity has been established (Henseler, Ringle, & Sarstedt, 2015). Hence, the constructs can be considered reliable and valid.

The assessment of the structural model through a 10,000-sample bootstrap generates the coefficients of direct path relations and their significant levels (see Table 6 and Fig. 2). Thus, the model shows that causal foreign market selection is positively associated with FME collaboration (H1) ($\beta = 0.35, p = .000, f^2 = 0.11$), while its association with international performance is not significant (H2) ($\beta = 0.14, p$

$= .188$). Likewise, effectual entry decision-making is positively associated with FME collaboration (H3) ($\beta = 0.31, p = .001, f^2 = 0.10$), while its association with international performance is not significant (H4) ($\beta = 0.02, p = .834$). The geographic distance control is significantly related to FME collaboration ($\beta = 0.20, p = .013, f^2 = 0.05$), which suggests that distant foreign market entries require more collaboration during FME. The path between FME collaboration and international performance presents a positive and significant relationship (H5) ($\beta = 0.29, p = .007, f^2 = 0.08$), and the control level of internationalization is also significantly related to international performance ($\beta = 0.28, p = .002, f^2 = 0.08$). The Standardized Root Mean Square Residual (SRMR) fit index of our structural model is 0.074, which is considered a good fit (Hair et al., 2019). Moreover, the respective *Q*² predict scores of FME collaboration (0.07), and international performance (0.01) are greater than zero and, therefore, they suggest that the model has predictive validity (Shmueli et al., 2019).

We proceeded with mediation analyses to test whether FME collaboration mediates the relationship between the two exogenous variables and international performance. Following the PLS-SEM specific bootstrapping procedure suggested by, for example, Hair, Ringle, and Sarstedt (2012) and Nitzl, Roldan, and Cepeda (2016), we obtained a 95 % confidence interval (CI) for the indirect paths of CFMS → FMEC → INTP and EEDM → FMEC → INTP. If the interval for an indirect effect does not include zero, the mediating effect can be considered significantly different from zero with 95 % confidence. Hence, our results for the mediating effect test show that indirect paths of CFMS → FMEC → INTP and EEDM → FMEC → INTP are significantly different from zero (see Table 7). In combination with the non-significant direct paths of CFMS → INTP and EEDM → INTP when FME collaboration as a mediator is present ($p = .188$ and $p = .834$, respectively), we can conclude that FME collaboration fully mediates the influence of both causal foreign market selection and effectual entry decision-making on firms' international performance. (See Table 7).

Table 5
Correlation matrix of constructs (*N* = 138) and HTMT ratios.

Construct	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Causal foreign market selection	0.75	0.62	0.56	0.43									
(2) Effectual entry decision-making	0.47**	0.73	0.58	0.30									
(3) Foreign market entry collaboration	0.44**	0.44**	0.73	0.48									
(4) International performance	0.39**	0.24**	0.37**	0.88									
(5) Firm age	0.03	0.05	0.02	-0.09	1.00								
(6) Firm size	0.19	0.16	0.06	0.14	-0.01	1.00							
(7) International experience	0.12	-0.04	-0.04	0.10	0.14	0.14	1.00						
(8) Industry	0.06	0.04	0.14	0.04	-0.12	0.01	-0.06	1.00					
(9) Entry mode (FDI)	0.32	0.04	0.03	0.22*	-0.06	0.12	0.16	-0.06	1.00				
(10) Level of internationalization	0.22	0.02	0.07	0.33	-0.16	-0.04	0.22	-0.00	0.11	1.00			
(11) Education	0.16	0.01	0.12	0.04	-0.14	0.14	0.10	0.01	0.05	0.04	1.00		
(12) Geographic distance	-0.07	-0.11	0.11	-0.07	-0.02	0.06	0.08	0.03	0.07	0.32	-0.04	1.00	
(13) Cultural distance	-0.05	-0.06	0.02	-0.08	0.14	-0.01	0.01	0.07	-0.19	-0.06	-0.03	0.05	1.00

p* < .05; *p* < .01 (level of confidence, two-tailed tests).

Diagonal values in bold are the square roots of the variance shared between the constructs and their measurements. Over the diagonal, the HTMT ratio in italics assesses constructs' discriminant validity.

Table 6
Endogenous variables: direct effects, effect sizes, and explained variances.

Effects on endogenous variables	Direct effect	t value (P value)	f^2	R^2	Adjusted R^2	
Effects on FMEC						
CFMS	0.35	3.68 (0.000)	0.11	0.15	0.27	
EEDM	0.31	3.32 (0.001)	0.10	0.14		
Firm age	0.01	0.10 (0.924)	0.00	0.00		
Firm size	-0.07	0.88 (0.381)	0.01	0.00		
International experience	-0.05	0.49 (0.624)	0.00	0.00		
Industry	0.19	1.3 (0.258)	0.01	0.03		
Entry mode (FDI)	-0.18	0.93 (0.353)	0.01	0.00		
Level of internationalization	-0.06	0.79 (0.431)	0.01	0.00		
Education	0.08	1.08 (0.281)	0.01	0.01		
Geographic distance	0.20	2.50 (0.013)	0.05	0.02		
Cultural distance	0.02	0.32 (0.747)	0.00	0.00		
Effects on INTP						
CFMS	0.14	1.32 (0.188)	0.02	0.05		0.23
EEDM	0.02	0.21 (0.834)	0.00	0.00		
FMEC	0.29	2.68 (0.007)	0.08	0.11		
Firm age	0.06	0.95 (0.343)	0.01	0.01		
Firm size	0.10	1.09 (0.278)	0.01	0.01		
International experience	0.02	0.31 (0.760)	0.00	0.00		
Industry	-0.02	0.09 (0.926)	0.00	0.00		
Entry mode (FDI)	0.27	1.32 (0.188)	0.02	0.05		
Level of internationalization	0.28	3.09 (0.002)	0.08	0.09		
Education	-0.06	0.77 (0.439)	0.01	0.00		
Geographic distance	-0.06	0.75 (0.451)	0.05	0.00		
Cultural distance	-0.02	0.29 (0.775)	0.00	0.00		

n.s. = not significant; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ (based on a two-tailed Student $t(9999)$ distribution).

6. Discussion and implications

6.1. Discussion and theoretical contributions

Our study explains FME collaboration and its role in SMEs' international performance from an effectuation and causation perspective and business network theory. This study allows us to capture the context of size of firm, maturity and foreign market entry and the outcome of FME collaboration. Thus, it differs from the stream of literature pertaining to effectuation and causation in entrepreneurship, which predominantly relates to new venture formation, and international business theories which relate to large firms and neglect the context of SMEs.

Our main theoretical contribution to the international business and SME literature is to uncover the mediating mechanism between the decision-making approach for foreign market selection and entry and international performance. Our study reveals that collaboration mediates the influence of both causal market selection and effectual entry decision-making on firms' international performance. While Smolka

et al. (2018) found that small new ventures that use a combination of effectuation and causation tend to realize better performance, we go deeper to gain new insights by studying both the direct link between effectuation and causation and performance and the indirect link through collaboration. We add the business network approach as a theoretical explanation for the mediating role played by FME collaboration in the context of mature internationalizing SMEs. Specifically, since collaboration is driven by both effectuation and causation in foreign market selection and entry, the business network approach (Johanson & Vahlne, 2009) connects the two decision-making logics with SMEs' international performance.

Our findings also add to, and refine, the received literature which has generally argued for a direct effect of the decision-making logic on venture performance (cf., Zhang et al., 2022). While extant research suggests that both causation and effectuation are positively associated with new venture performance (Smolka et al., 2018), we go further by explaining the mechanism through which causal and effectual decision-making logic can enhance SME's international performance. Our study reveals that when firms use a causal approach to make decisions about foreign market selection then this has a positive impact on FME collaboration. Although previous studies (Brinckmann et al., 2010; Brouthers & Nakos, 2005) have found a significant direct relationship between constructs of causation processes and international performance, our study provides new insight by introducing the indirect relationship, mediated by FME collaboration.

While context is important because it can provide alternative explanations for a phenomenon and contribute to theory building and generalization, it is often neglected or ignored in international business research and entrepreneurship research (Kerr & Coviello, 2019; Michailova, 2011). Changing the context provides interesting new insights about causation and effectuation and their connection with performance. Since previous studies have covered other contexts, such as effectuation and R&D (Brettel et al., 2012), we add mature SME internationalization, foreign market entry and decision-making logic. Furthermore, changing the context determines how firms behave and this enhances the generalizability of effectuation approach and refinement and expansion of the concept. In an international business context, our explanation is that strategic partnerships and agreements, networks and collaboration are important in FME. This builds on Johanson and Vahlne (2009) conceptualization for all types of firms and implicitly SMEs that international business happens in a networking setting. However, we provide empirical evidence to test and validate this conceptualization for mature internationalizing SMEs. We connect this international business literature with effectual and causal logics and provide empirical evidence to distinguish between causal and effectual approaches to collaboration and the role of collaboration as a mediator for SMEs' international performance.

Furthermore, previous studies such as Read et al. (2009) in their meta-analysis of effectuation and new venture performance, and Laskovaia, Shirokova, and Morris (2017) and Smolka et al. (2018) on new ventures formed by student entrepreneurs from multiple countries, have found a significant relationship between effectual decision approach and firm performance. However, our study shows that there is no significant direct relationship with international performance. One explanation is that our study involves older and more established SMEs compared to these studies focused on young new ventures. Another explanation is that although our study captures the underlying logic for the firm's effectual decisions about foreign market entries, such as talking with people the firm already knows, thinking of possible actions, creating new solutions and imagining change in the industry, the firm needs to enact this logic by collaborating with others to implement its FME. Forming partnerships is the essence of effectuation and we use business network theory to explain the relational mechanism through which effectual entry decision-making has an impact on international performance.

Our contribution to the effectuation literature is that we extend the

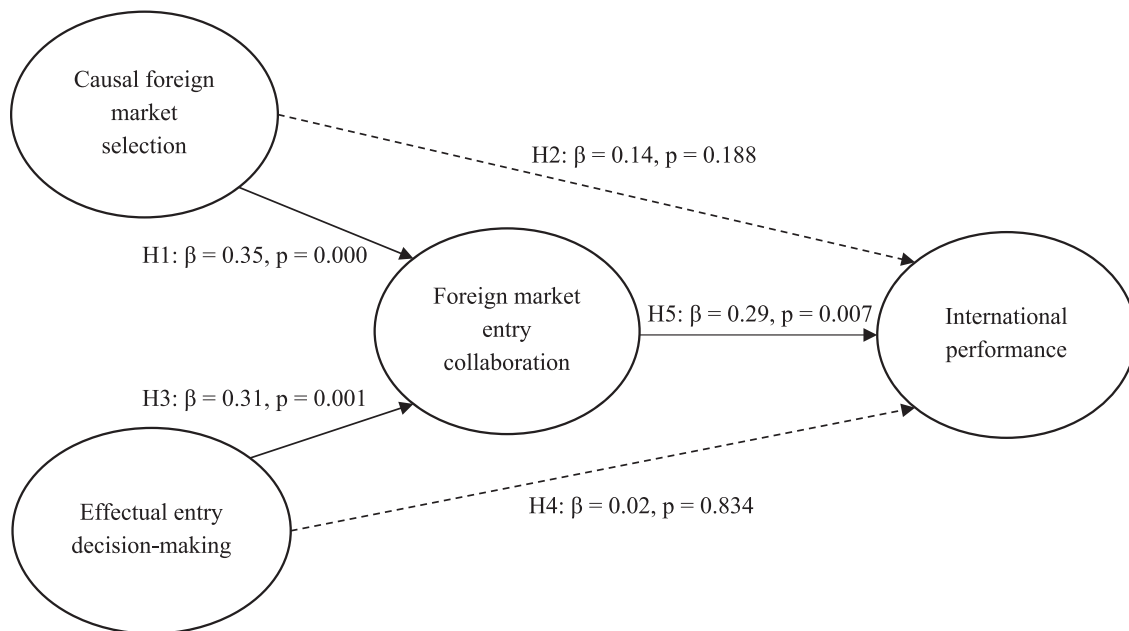


Fig. 2. Structural model results.

Table 7
Summary of mediation tests.

Coefficients of direct paths	Indirect effects	Point estimate	Percentile bootstrap 95 % confidence interval ¹	
			Lower	Upper
CFMS → INTP 0.14 (n.s.)	CFMS → FMEC → INTP	0.100	0.016	0.203
EEDM → INTP 0.02 (n.s.)	EEDM → FMEC → INTP	0.086	0.013	0.180

n.s. = not significant.

¹ The number of bootstrap samples is 9,999.

current literature (Galkina & Atkova, 2020; Galkina & Chetty, 2015; Galkina & Jack, 2021; Prashantham et al., 2019) connecting effectuation and networking. In their review of the literature on effectuation and networks, Kerr and Coviello (2019, p. 370) conclude that the literature is “fragmented, incomplete and constrained by a lack of construct and contextual clarity”. Our study contributes by being specific about the context of mature internationalizing SMEs, causal foreign market selection and effectual entry decision-making logics, and their association with business network theory and FME collaboration as the mediator. Galkina and Jack (2021) in their qualitative study, show how entrepreneurs (individual-level) combine effectuation and causation logics for hybrid networking to develop opportunities. We extend this literature by providing empirical validation from a quantitative study at firm-level to elaborate on the mechanisms through which the two decision-making logics have an impact on collaboration to implement the FME and ultimately international performance.

Prashantham et al. (2019) and Donbesuur et al. (2022) distinguish between causal and effectual approaches to building networks. We add to the debate in the literature about causation and effectuation being paradoxical or complementary and whether they can be used simultaneously (Braun & Sieger, 2021; Galkina & Jack, 2021; Racat et al., 2023; Smolka et al., 2018). Our study shows that causation and effectuation can be complementary through FME collaboration, and they are used simultaneously during FME. Our empirical study contributes to the effectuation literature by addressing a significant gap because of the lack

of empirical validation for effectuation (Grégoire & Cherchem, 2020), integrating causation and effectuation in one model, and establishing a connection with performance (Braun & Sieger, 2021; Racat et al., 2023; Smolka et al., 2018).

In their review of the effectuation literature McKelvie, Chandler, DeTienne, and Johansson (2020), recommend that researchers determine what is being measured, such as whether they are measuring causal and effectual or causal versus effectual. Our study measures causal foreign market selection and effectual entry decision-making, which is also consistent with Smolka et al. (2018), and Sarasvathy (2001; 2003), that entrepreneurs often use effectuation and causation in conjunction with each other. As discussed above, our model and findings suggest that both decision-making logics can be combined and used simultaneously by SMEs in foreign market selection and entry. Specifically, our empirical results point to a slightly stronger direct effect of causal foreign market selection than of effectual entry decision-making on FME collaboration (see Table 6), with effect sizes (0.11 vs. 0.10) indicating a small effect in both cases. There is also a stronger indirect effect of causal foreign market selection on international performance. Thus, we add to the debate in the literature about whether and how effectuation and/or causation leads to better international performance (Donbesuur et al., 2022; Vuorio & Torkkeli, 2022).

6.2. Practical and policy implications

There are at least three managerial and two policy implications of our findings that are relevant for international business. First, practitioners need to consider the FME context when making decisions. When there is high uncertainty, and the future is unpredictable then they need to use effectual logic (Peng, Liu, Jiao, Feng, & Zheng, 2020) in their FME collaboration decisions, and when the foreign market is familiar and predictable then firms could use causal logic. Since our study shows that geographic distance also matters when firms collaborate in FME, we suggest that practitioners should use causal logics to collaborate more intensely with firms in foreign markets that are predictable and geographically close, and effectual logics to collaborate with firms in foreign markets with greater geographic distance and high uncertainty to limit the risk and cost of collaboration.

Second, practitioners should be mindful that some relationships could be formed in a causal way by strategically selecting partners based

on a predetermined goal while others can be formed in an effectual way with easily accessible partners to acquire resources and co-create new opportunities for FMEs. Practitioners could be flexible and instead of perceiving *causal* versus *effectual* as contrasting logics when forming relationships, they should combine *causal and effectual logics* to adopt hybrid forms of collaboration depending on the degree of uncertainty. Through these relationships they could plan to pursue their goals, and concurrently increase their resources by forming partnerships and agreements when entering foreign markets.

Third, since FME collaboration is important for enhancing international performance, practitioners need to invest time and resources to develop their capabilities to collaborate. Practitioners need to be competent in developing both domestic and international partnership agreements. For example, they could leverage their domestic networks by piggybacking with partners in their domestic market who are already doing business in the foreign market. Practitioners need to use effectual entry decisions carefully, so that they do not go into too many different foreign markets that could overstretch their resources. Practitioners should avoid sticking with rigid plans, as they need to be flexible and open to new opportunities especially if uncertainty is high and they lack knowledge. Effectuation provides the chance to develop new opportunities by transforming or creating something new jointly with partners.

Fourth, policy makers should organize training sessions to educate SMEs about different types of FME collaboration and how to collaborate to improve their international performance. Policy makers could facilitate networking events where SMEs can widen their network, as they are exposed to brokers who make introductions to third parties, and these events can also provide the opportunity for SMEs to meet people in an *ad hoc* and random manner. In addition, policy makers could organize trade missions to various countries to help with fact finding tours and trade fairs for SMEs to meet potential business partners.

Finally, supporting organizations could use their expertise to develop templates with specific criteria to help firms select their foreign markets systematically. They could assist firms with market research by providing easily accessible published statistics relevant for different countries. In addition, on the supporting organizations website there could be factual information that firms could use to evaluate the feasibility of entering foreign markets. For example, country reports with general information about the culture, institutions, and business practices, and lists of potential agents and distributors per industry. This information would help to reduce risk and uncertainty and provide SMEs with confidence on how to make decisions and collaborate in foreign markets.

7. Limitations and future research

There are some limitations that offer future research opportunities. A limitation is that we use cross-sectional data from one country. Future studies should use longitudinal research designs to test our model and other country contexts. Certain cultures have distinct ways of collaborating (Jansson, Johanson, & Ramström, 2007) and this could influence their decision-making as well as international performance. In addition, different economic contexts such as developed versus emerging markets also imply different uncertainty and unpredictability which may, in turn, have implications in terms of prevailing decision-making logics and market selection approaches (Child et al., 2022).

Our study is limited to SMEs, and this provides the opportunity for future researchers to study large firms and large multinational corporations (MNCs) to test our model. Most of the existing literature on effectuation and performance involves small new ventures (Laskovaia et al., 2017; Read et al., 2009; Smolka et al., 2018), and thus future studies that include large and older firms and multinational enterprises could provide new insights and empirical validation to our model and refine and expand the concept of effectuation. It would be interesting to know whether there are direct links between constructs of effectuation and causation processes and international performance, and whether

there are different roles for FME collaboration in less explored research contexts.

Further, our model can be tested in different industry contexts, in particular service industries and digitalized industries. There are online opportunities for creating new relationships and the literature (Tolstoy et al., 2022; Watson, Weaven, Perkins, Sardana, & Palmatier, 2018) suggests that this is transforming the ways to collaborate. Future researchers could study the structure of the relationships, for example the strength of the relationships and whether they are strong or weak, and their connections with the causal and effectual decision-making logic and international performance in FME and other empirical settings. In addition, while the unit of analysis in our study is the firm, future research could consider individual-level decision-making or multiple levels by combining the individual-level and firm-level. Effectuation theory originally studied entrepreneurial decision-making logic at the individual-level, however, several studies now include the firm-level.

Our study uses geographic distance, cultural distance, and international experience as control variables, which provides the opportunity for future researchers to explore this further. Developing a theoretical model that incorporates these variables to test their potentially moderating effects on the relationship between the decision-making logic, FME collaboration, and international performance might provide interesting theoretical insights. While existing literature has highlighted the role of strategy and orientations in driving international performance of SMEs (e.g., Wales, Beliaeva, Shirokova, Stettler, & Gupta, 2020), we acknowledge that this is beyond the scope of our study. Since the relational aspect is central for our study, we wanted to avoid over-complicating the model. However, this provides the opportunity for future researchers to study the effects of strategy and orientations on international performance of SMEs.

The existing literature, such as Perry et al. (2012) and Harms and Schiele (2012), advises that causation and effectuation should not be considered as polar opposites in a continuum. Chetty et al. (2015) found that in selecting and entering foreign markets, SMEs do not consider effectuation and causation as dichotomous approaches but interlink them as substitutes in their decision-making approach. These arguments are consistent with the causal foreign market selection (causation) and effectual entry decision-making (effectuation) constructs, which represent both logics in our paper. While we study causal foreign market selection and effectual entry decision-making, future researchers could use similar constructs in other contexts, such as MNCs, large firms', new ventures, and born digital firms' internationalization. As regards large firms, researchers could unravel whether leveraging the two logics will depend on whether these large firms have grown in size. The rationale being that in MNCs and large firms, the organization structure and decision-making process becomes complex because it involves more individuals.

Further, it is possible that some of the items reflected in our effectual entry decision-making construct will be undertaken whether the firm is expanding effectually or causally. This is consistent with the conceptualization and empirical evidence from the existing literature suggesting that their occurrence will be higher when the firm uses a predominantly effectual approach. Future research should explore the determinants (international experience, perception and cognition, uncertainty, etc.) of the frequency of occurrence of causal foreign market selection and effectual entry decision-making.

8. Conclusions

Internationalizing SMEs often have to make decisions under uncertainty and when they lack relevant information, and this has an impact on international performance. While effectual and causal decision-making processes have attracted interest from scholars, the extant literature is sparse regarding quantitative studies that connect effectuation, causation, and international performance. Our study connects causal and effectual logic from the entrepreneurship literature, and

business network theory, to develop and test our conceptual model explaining mature SMEs' international performance. Our findings reveal that both causal and effectual logics can be combined when SMEs select and enter foreign markets and, thus, the decision-making process is not necessarily causal versus effectual. We contribute to international business and SME literature by presenting two indirect pathways to international performance from effectuation and causation through FME collaboration. Our study shows that FME collaboration is the mediating mechanism connecting causal foreign market selection and effectual entry decision-making with international performance.

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CRedit authorship contribution statement

Sylvie Chetty: Methodology, Conceptualization, Funding acquisition, Resources, Writing - original draft, Writing - review and editing. **Oscar Martín Martín:** Conceptualization, Data curation, Formal analysis, Funding acquisition, Investigation, Methodology, Writing - original draft, Writing - review and editing. **Wensong Bai:** Formal analysis, Methodology, Software, Visualization, Writing - original draft, Writing - review & editing.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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