



## International market entry

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# International Market Entry: How Do Small and Medium-Sized Enterprises Make Decisions?

Ali Ahi, Gianpaolo Baronchelli, Olli Kuivalainen, and Mariella Piantoni

## ABSTRACT

*Choosing the right international market entry mode is of utmost importance for an internationalizing firm. However, there is a lack of analysis concerning the decision-making process (DMP), specifically with regard to small and medium-sized enterprises (SMEs). The authors study the DMP among SMEs intent on entering international markets and how it affects each firm's international market development strategy. Using six cases based in Finland and Italy, the authors develop a model of the SME DMP. Their results imply that the DMP evolves and goes through various phases. By focusing on the postentry phase, this study enhances knowledge on decision-making frameworks by linking the traditional international marketing literature related to initial entry mode with "mainstream" international business literature. Furthermore, the study reveals that SMEs adopting a more rational DMP are more likely to succeed in foreign markets, and consequently, it demonstrates the importance of real options reasoning as a theoretical lens for making entry mode decisions in the context of SMEs.*

**Keywords:** international market entry, market entry strategy, decision making, small and medium-sized enterprises, entry and expansion modes

Selecting the mode of international market entry is, alongside the market entered, among the most important decisions an internationalizing firm has to make. These two topics are among the most popular research topics in international marketing and international business (e.g., Buckley 2002; Dow and Larimo 2009;

Malhotra, Agarwal, and Ulgado 2003), and a plethora of studies explain the factors affecting the decision on mode of international entry. However, there is a notable lack of analysis of the decision-making process (DMP) in practice (Aharoni, Tihanyi, and Connolly 2011; Brouthers and Hennart 2007; Nemkova et al. 2015). Ji and Dimitratos (2013) claim, for instance, that while strategic DMPs of some kind seem to exist in internationalized firms, the area remains mostly unexplored in the international marketing literature, even though export decision making, for example, is seen as one of the key drivers of a firm's success (Tantong et al. 2010). As Hennart and Slangen (2015, p. 119) note, "we lack detailed knowledge of how entry mode decisions are actually made," and to gain this knowledge we need to "scrutinize the decision process preceding foreign entries" and the expansion into foreign markets in

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the postentry phase. This issue is more accentuated in the context of small and medium-sized enterprises (SMEs; see, e.g., Rialp, Rialp, and Knight 2005; Schweizer 2012), there being a paucity of empirical research on how the decision makers in SMEs make decisions when they internationalize (Chetty, Ojala, and Leppäaho 2015; Nummela et al. 2014; Zahra, Korri, and Yu 2005) and when they select entry and postentry modes for the different markets in which they are operating.

The purpose of our study is to respond to the call in previous literature for more research on the DMP behind the choice of entry mode (Brouthers 2013; Hennart and Slangen 2015). We define an entry mode as “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country” (Root 1977, p. 5). We further refer to the decision-making mode as the “method and logic” used by managers in SMEs when analyzing a decision to internationalize into a new market or “to expand the scope of their existing international business” (Child and Hsieh 2014, p. 599). A further aim is to enhance understanding of how the DMP eventually affects the firm’s international market development strategy—in other words, in the postentry phase—and the possibility of changing the entry mode in the future.

Our study contributes to the literature in various ways. First, drawing on previous research, we argue that three multidimensional constructs characterize different decision-making modes. The current dominant stream of literature has adopted an effectuation–causation logic (Nummela et al. 2014; Sarasvathy 2001). We take a more nuanced view of the decision-making mode by considering rationality as a key concept. With a view to narrowing a gap in the literature, we propose a conceptual framework of different decision-making modes (Child and Hsieh 2014) and their implications, which takes the form of four testable propositions. This information will increase awareness of the strengths and weaknesses of different decision-making modes and their use during the internationalization process. This is of great importance to SME managers responsible for international marketing activities, who play a key role in initiating international operations, often starting with exporting.

Second, instead of focusing only on the initial entry mode, we also consider the postentry phase, during which, we argue, a company may adopt a different decision-making mode than was used or chosen in the initial phase. We suggest that different decision-making modes affect firms’ subsequent operations, something not studied in detail to

date (cf. Hennart and Slangen 2015). Furthermore, these modes also affect decision-making-mode evolution in different ways. We thus provide a more integrated picture of the DMPs of SMEs operating in international markets and contribute to the international marketing literature by studying not only how decisions are made (e.g., Nemkova et al. 2015) but how that process changes.

Third, we highlight the importance of rationality in the choice of entry mode, as well as in the postentry phase (Aharoni, Tihanyi, and Connelly 2011; Dean and Sharfman 1996). We extend the notion of rationality to explain the DMP with regard to planning comprehensiveness (i.e., managers’ approach to planning), the learning process, and time frame. This enables us to study a DMP beyond the effectuation–causation dichotomy. In addition, we suggest that the different entry mode decision-making logics have performance implications because they affect firms’ ability to adjust their entry modes after entry. Consequently, we contribute to decision-making theories by providing evidence on the outcomes of DMPs (cf., e.g., Nemkova et al. 2015), and we especially highlight the role of real options reasoning (e.g., Child and Hsieh 2014) as a theoretical lens for making entry mode decisions in the context of SMEs.

## **BACKGROUND**

### **Decision-Making Process in SMEs**

Decision making is one of the most important parts of management work, and in the context of international marketing, effective decision making is becoming increasingly critical to success (Katsikeas, Samiee, and Theodosiou 2006; Nemkova et al. 2015; Sharfman and Dean 1997). Various decision-making styles, models, or modes have been presented in the literature, the primary common reference point being the extent to which they are related to rationality (Aharoni, Tihanyi, and Connelly 2011; Child and Hsieh 2014). Rationality is defined as “the reason for doing something and to judge a behavior as reasonable is to be able to say that the behavior is understandable within a given frame of reference” (Butler 2002, p. 226). Rational decision making is often understood as consisting of steps. These include setting managerial objectives, then searching for information to develop a set of alternatives that will later be compared and evaluated to enable the company to make the best choice. The selected option is implemented and subjected to follow-up and control (e.g., Dean and Sharfman 1996).

Within the international marketing context, in particular when export decisions are analyzed, decision theory has

been used as a platform (Nemkova et al. 2015), from two different perspectives: normative and descriptive. The normative approach “is associated with planning and is defined as a process ... to formulate a solution to a problem” (Nemkova et al. 2015, p. 42). The descriptive approach, however, envisages that “many decisions that affect a firm’s performance are made outside the planning process” (Nemkova et al. 2015, p. 42; see also Grant 2003). The two approaches may coexist in reality.

The main factors that might influence the SME’s decision-making mode are information scarcity (Buckley 1989; Child and Hsieh 2014; Gabrielsson and Gabrielsson 2013); resource availability (Evers and O’Gorman, 2011); decision makers’ leadership characteristics and their interpretations of the environment (Child and Hsieh 2014; Nielsen and Nielsen 2011; Oviatt and McDougall 1994;); the entrepreneur’s prior knowledge, experience, and business and social networks (Evers and O’Gorman 2011); the hybrid governance structures in SMEs, in which the business model is normally cocreated with partners, implying that the decision-making process too is shared with partners (Nummela et al. 2014; Sarasvathy 2001); and goal setting (Gabrielsson and Gabrielsson 2013). In addition, few smaller firms have the elaborate routines found in larger organizations, and decisions may be made on the basis of management’s existing knowledge (see Bell, Crick, and Young 2004).

### **Decision Making in SMEs and Entry Mode Choice**

One of the key decision-making contexts in international marketing is choice of international entry mode, when entering a new market or changing modes (Lu 2002). The choice of international entry mode is a multifaceted decision involving the assessment of uncertainty and risk, control, commitment, estimated returns, and other strategic objectives (Anderson and Gatignon 1986; Brouthers and Hennart 2007; Ji and Dimitratos 2013). The change from one non-functioning entry mode to another may be costly and time consuming and have negative consequences for performance (Laufs and Schwens 2014; Nakos and Brouthers 2002).

In regard to SMEs, most studies on entry mode choice rely on the very same theories as are employed by the multinational enterprise literature, including transaction costs and Dunning’s ownership–location–internationalization (OLI) model (Laufs and Schwens 2014; Nakos and Brouthers 2002). There have been suggestions that decision-making approaches differ between SMEs and large companies (Child and Hsieh 2014; Wilson and Nutt 2010). However, Laufs and Schwens (2014) find, in their review of

such studies, that specific SME characteristics are rarely considered. They conclude, “With regard to SMEs’ sensitivity to external challenges, it remains unclear how SMEs and their major actors (e.g., the CEO) make decisions in uncertain situations” (p. 1120).

What form, then, does the foreign market entry DMP take in SMEs? How do the decision makers—that is, individuals, often managers—make decisions when considering a change in entry mode? In the case of SMEs, the main entry mode decision-making approaches studied recently are effectuation and causation (e.g., Chetty, Ojala, and Leppäaho 2015; Sarasvathy 2001), two alternative logics used by entrepreneurs taking decisions. The causation logic “sees the environment as largely beyond the control of decision-makers ... and consistent with the planned strategy approach,” whereas the effectuation logic sees the “environment as endogenous to the actions” of decision makers and “closer to emergent or non-predictive strategies” (Gabrielsson and Gabrielsson 2013, p. 1359).

In the case of an initial entry, most studies have suggested that the entry mode decision first follows an effectuation approach, in which uncertainty and a lack of information induce decision makers to adopt a “less rational approach,” following feelings and intuitions (Chandra, Styles, and Wilkinson 2009; Evers and O’Gorman 2011; Sarasvathy 2001). It is tempting to think that SME decision making would evolve into a causation logic and become more systematic and rational over time (see, e.g., Chandra, Styles, and Wilkinson 2009; Gabrielsson and Gabrielsson 2013; Harms and Schiele 2012; Kalinic, Sarasvathy, and Forza 2014; Sarasvathy et al. 2014). However, the available empirical evidence in the SME setting is inconclusive (Kalinic, Sarasvathy, and Forza 2014; Nummela et al. 2014; Schweizer 2012), and the two logics can coexist (Harms and Schiele 2012; Kalinic, Sarasvathy, and Forza 2014). According to Nummela et al. (2014), other important factors that influence the decision-making mode are the managers’ backgrounds and characteristics, which have an impact on their cognitive schemas and therefore direct them toward different decisions. The product or market type may also have a huge effect on decision making and on planning as a basis for decision making (see, e.g., the strategic dimensions presented by Piëst 1994). Thus, it is not clear either how managers of SMEs make decisions or change their decision-making modes or whether it is causation, effectuation, or something else that dominates the initial entry mode and mode change decisions.

Consequently, more fine-grained approaches have also been suggested. In an attempt to organize the decision-

**Table 1.** Key Features of Each Decision-Making Mode

Dimensions	Decision-Making Modes			
	Reactivity	Incrementalism	Bounded Rationality	ROR
<b>Approach to Planning</b>	Unplanned	Limited planning	Some planning	Systematic planning
Alternative analysis	Limited analysis	Little analysis	Some analysis	Rigorous analysis
Decision-making criteria	Limited number of criteria	Small number of criteria	Some criteria	Many criteria
<b>Path Dependency</b>	High	Medium	Low	Limited
Number of alternatives considered	Few (or none)	Some	Some	Many
Number of initial entry modes considered	Few (or none)	Some	Some	Many
Number of postentry modes considered	Few (or none)	Some	Some	Many
<b>Time</b>	Short term	Short to medium term	Medium term	Long term
Goal time	Short term	Medium term	Long term	Long term
Long-term approach	Short term	Medium term	Medium term	Long term
Decision-making length	Short term	Medium term	Medium term	Long term

making modes in SME internationalization, Child and Hsieh (2014) propose four models that SME leaders may follow. They range from a low to a high level of planning and rationality: reactivity, incrementalism, bounded rationality, and real options reasoning (ROR). First, reactive decision making happens when the decision makers simply react to internal and external factors, such as unplanned encounters (Crick and Spence 2005). The decision tends to be based on short-term planning; it is made under uncertainty, without the necessary information; and it is a reaction to an opportunity arising from a serendipitous event (Foss, Foss, and Klein 2007; Jones, Coviello, and Tang 2011).

Incrementalism implies a process more rational than reactive. Incremental decision making resembles Lindblom's muddling-through approach (see Lindblom 1959): decision makers compare alternatives and set objectives and goals, even if they are vague and far from comprehensive or systematic (Child and Hsieh 2014). We are of the opinion that the effectuation approach (Sarasvathy 2001), which enables entrepreneurs to create opportunities by making decisions according to the principle of "affordable loss" rather than the maximization of expected returns (Kalinic, Sarasvathy, and Forza 2014), resembles incremental decision making in many respects.

Bounded rationality is Child and Hsieh's (2014) third decision-making mode. Some scholars have argued that

the decision maker may be rational, but the complexity of the environment and the limited ability of humans to analyze and process information make maximization impossible in real-life decision making (Simon 1955); in other words, the decision maker is boundedly rational (see Cyert and March 1963). This approach assumes that organizations' strategies, including strategic decisions about internationalization, are related to the composition, cognitive orientation, and perceptual process of the top-management team (Greve, Nielsen, and Ruigrok 2009; Kaczmarek and Ruigrok 2013). Moreover, it involves considering managers with ownership as more risk-averse and to favor a more conservative approach to internationalization, being intent on reducing uncertainty and potential losses (George, Wiklund, and Zahra 2005).

Finally, the highest form of rational decision making in Child and Hsieh's (2014) model is ROR, defined as managers' ability to identify, maintain, and exploit real options in their business environments (Barnett 2008; Driouchi and Bennett 2011). A real option is a specific (international) investment in an asset with uncertain payoffs (McGrath, Ferrier, and Mendelow 2004), such as joint ventures (Kogut 1991) or investments in R&D units in other locations (McGrath and Nerkar 2004). This type of decision making implies that when uncertainty is high, firms may minimize current investments but secure an option

to invest at a later time, when lower uncertainty is expected (Brouthers, Brouthers, and Werner 2008).

These four decision-making modes are not categories in the strict sense of the word because they differ in some dimensions but overlap in others. For instance, bounded rationality and ROR-type decision making both include rational planning and decision-making rules. These modes, however, can serve as analytical tools in empirical analyses of SME DMPs related to entry mode.

### **Propositions on SME Decision Making Related to Entry and Postentry Mode**

How do Child and Hsieh's (2014) four decision-making modes fit into this context of SMEs deciding on their initial entry mode and likely postentry mode? Let us elaborate on the decision-making modes further by focusing on their key features, or dimensions (see Table 1). The dimensions considered significant for this exercise have been derived from the existing literature: (1) comprehensiveness of planning (e.g., Child and Hsieh 2014; Ji and Dimitratos 2013; Piëst 1994), (2) path dependencies and learning (e.g., Hutzschenreuter, Pedersen, and Volberda 2007), and (3) the planning schedule and length of the strategic planning cycle (e.g., Aharoni 1966).

The first and third dimensions can be subsumed into the strategic decision-making literature (cf., e.g., Liberman-Yaconi, Hooper, and Hutchings 2010), whereas the second is much used in the international marketing literature and can be found in internationalization process models (e.g., Johanson and Vahlne 1977, 2009), for example. Next, we explain these dimensions while also considering the role of rationality, which in this context may be regarded as the key discriminant among the decision-making modes (Aharoni, Tihanyi, and Connelly 2011; Child and Hsieh 2014).

The first dimension, which focuses on comprehensiveness of planning (or "approach to planning"), relates to managers' rationality in their planning for the entry mode decision (e.g., equity vs. nonequity, low commitment vs. high commitment) or for a change in mode. Child and Hsieh (2014) focus on four features of decision-making modes in relation to the comprehensiveness of planning: how planned the process is, how goal-driven the process is, whether there are decision-making rules, and whether alternatives are compared. Entry mode choice is a strategic decision that should be supported by all kinds of relevant information and analyzed rationally (Ji and Dimitratos 2013). This requires the analysis of different alternatives (e.g., export, joint venture, acquisition, greenfield investment) and the

selection of criteria on which to base the final choice (Malhotra, Agarwal, and Ulgado 2003; Morschett, Schramm-Klein, and Swoboda 2010). Thus, rationality tends to lead to finding and analyzing alternatives, as well as yielding more criteria to support the decision. As mentioned previously, managers of SMEs tend to have fewer alternatives because they have limited capacity to gather and process information. Their limited resources mean that the fully rational approaches are not always applicable (for the "full rationality" approach, see, e.g., Aharoni, Tihanyi, and Connelly 2011). As a consequence, decision making may be unplanned in terms of collecting information, analyzing it, and observing decision-making criteria (Kalinic, Sarasvathy, and Forza 2014). This may mean that firms follow the effectuation logic for their first entry into a new market but then change to a causation logic, that is, a more rational and planned logic, when changing entry mode (Chandra, Styles, and Wilkinson; Gabrielsson and Gabrielsson 2013; Harms and Schiele 2012). Following Child and Hsieh's (2014) models, we suggest that SMEs will normally follow a reactive decision-making mode on first entry and then, in the postentry phase, will follow their "real" decision-making mode, be it reactivity, incrementalism, bounded rationality, or ROR.

*P*<sub>1</sub>: Decision making regarding entry mode by SMEs is unplanned on first entry but becomes more rational and systematic over time for postentry mode changes.

The second dimension refers to a pattern of behavior that forms in the context of decision making regarding internationalization, when the key choices relate to entry mode and target country (see, e.g., Casillas, Moreno, and Acedo 2012; Jones and Coviello 2005). The internationalization literature has focused to a great extent on incremental explanations that emphasize path dependencies (Hutzschenreuter, Pedersen, and Volberda 2007). The key point in path dependency is that the company will allow evolution to happen rather than trying to go against it (Hutzschenreuter, Pedersen, and Volberda 2007; Volberda, Baden-Fuller, and Van Den Bosch 2001). Such behavior develops from the company's accumulated experience and learning and its achieved degree of involvement (Andersen 1993). Johanson and Vahlne (1977) describe the evolution of international entry and operating modes in Swedish companies as an establishment chain. If the company is not rational in its decision making, its entry mode and postentry decisions will depend on its experience in other markets. The choice of entry mode may therefore be based on, for example, inertia, a dominant internationalization path, or earlier knowledge and history (Child and Hsieh

2014; Hashai 2011). Thus, previously used market entry modes may be chosen again without a distinct DMP being followed.

The assumptions underlying the model are uncertainty and bounded rationality (Johanson and Vahlne 2009). Uncertainty can be reduced through increasing market knowledge (Liesch, Welch, and Buckley 2011) and also through “learning by doing.” Therefore, postentry, entry mode changes made by internationalizing companies with more rational DMPs depend, first, on learning from experience, including current activities in foreign markets, and second, on the commitments made to strengthen their positions in foreign markets (Johanson and Vahlne 2009).

P<sub>2</sub>: Experience in international markets helps companies develop more rational entry mode DMPs. This is more prevalent postentry.

The third dimension involves the planning schedule and the length of the strategic planning cycle (see, e.g., Aharoni 1966) during the DMP. The consideration of future market growth is important and may play a significant role in the process, but the impact of time is still not clear. Liesch, Welch, and Buckley (2011, p. 137) call for better understanding of “the way in which time is experienced by people within the enterprise, and decision makers, in particular.” Some scholars argue that short-/long-term attitude may be indicative of a company’s commitment to a particular market (Efrat and Shoham 2012). In fact, in the present context, the time frame could affect a company’s commitment, the information to be collected, and the kind of decision-making rationality to be adopted (Foss, Foss, and Klein 2007; Jones, Coviello, and Tang 2011). When the time frame is short, for example, the company may choose a lower-commitment entry mode and collect less information, thereby adopting a less rational decision-making mode. With a longer time frame, it may adopt the Uppsala approach (Johanson and Vahlne 1977) and increase its commitment as its market knowledge increases, or even follow the ROR approach of minimal current investments with an option to invest when uncertainty is lower (Brouthers, Brouthers, and Werner 2008). The ROR approach would indicate that the consequences of the decision(s) over time would be considered beyond the initial entry mode.

P<sub>3</sub>: The degree of rationality in an entry mode decision-making model is directly linked to the time frame. The greater is the rationality, the longer is the time frame.

An additional fourth dimension considers the performance implications of choosing and later changing an entry mode as the firm’s strategy for operating in international markets. To evaluate the appropriateness of this strategy, performance may be the most important consideration (Katsikeas, Samiee, and Theodosiou 2006). Among the decision-making modes mentioned previously, ROR has been regarded as a useful guide to the firm’s strategic decision making under uncertainty (Barnett 2008), with potentially fruitful performance implications. Empirically, whether ROR will result in favorable performance is still in question (see Klingebiel and Adner 2015). However, in line with past research on ROR in choosing entry modes (e.g., Brouthers, Brouthers, and Werner 2008; Brouthers and Dikova 2010), we believe that, in the case of SMEs, ROR-based decisions over initial entry mode choice and subsequent change will have superior performance implications, and we examine this with empirical data. Therefore, our initial proposition is as follows:

P<sub>4</sub>: SMEs following ROR to make strategic decisions over initial entry mode choice and subsequent change will achieve greater performance than those following other decision-making modes.

## METHODOLOGY

To further explore, refine, and develop our theoretically driven propositions, we compared six SMEs to study how they made decisions before and after entering foreign markets. Our aim was to determine how the different decision-making modes could be linked theoretically to the managers’ approaches to the process. Therefore, our research is confirmatory, elaborating on existing theories (Lee 1999) by exploring previously unexplained theoretical links. Accordingly, and following Eisenhardt and Graebner’s (2007) recommendation, we use multiple case studies to develop and reconnect these theoretical links. This approach is easily generalizable and theoretically testable (Eisenhardt 1989; Eisenhardt and Graebner 2007).

### Case Selection

In selecting our cases, we used purposeful sampling, which is suitable for studying underexplored phenomena (Eisenhardt and Graebner 2007; Yin 2003). We chose cases on the basis of theoretical reasoning, with regard to replication and theory extension (Yin 2003). Eisenhardt (1989) argues that choosing cases randomly is neither necessary nor preferable. We based our selection on several

criteria that helped describe the entry mode DMP. First, the cases had to meet the defining criteria of an SME. We used the Organisation for Economic Co-operation and Development's (2005) definition of SMEs as firms with fewer than 500 employees. This threshold is applied in many countries, such as Canada and the United States, for classification in many industries, as well as in earlier research (Brouthers and Nakos 2004).

Second, the extent of international experience and operations governed the selection. In particular, we included in our original samples companies that had started operations in at least one developed market, one of the BRICS countries (i.e., Brazil, Russia, India, China, and South Africa), and one emerging non-BRICS market. Including different host markets with varying levels of uncertainty in our sample gave us enough variance to make a robust comparison of decision-making modes in different environments: we considered it important to include uncertainty and risk perceptions since they are elements that influence the DMP (see Aharoni 1966).

Third, the companies had to have been in operation in the host markets for more than one year prior to our interviews (conducted in 2014), so that we could observe their post-entry behavior and entry changes. Finally, we applied accessibility criteria, choosing 13 potential companies and ultimately selecting 6 of them according to their willingness to participate in the research and their fit with the criteria described previously. Companies A, B, and C were based in

Finland and the rest in Italy.<sup>1</sup> Table 2 gives details of the selected companies.

## Data Collection

Interviews are a highly efficient method by which to gather rich, empirical data, especially about infrequent phenomena (in our research, the DMP driving foreign-market entry mode choice) (Eisenhardt and Graebner 2007). We therefore conducted in-depth interviews with key informants from the case companies. We ensured that the interviewees were people who were fully familiar with, and highly knowledgeable about, the companies' international operations, and who had been involved in the DMP for international expansion and entry mode choice—namely, CEOs or senior managers.

We started with structured interviewing, guided by the extant research (see Smith 2014), and we conducted a total of 11 interviews within the six companies, each lasting between one and two hours. The interviews were digitally recorded and then transcribed on a word processor. Before conducting the main interviews, we carried out two interviews with managers in two of the companies as a pretest so that we could make any necessary modifications. Similarly, after doing our data analysis and coding, we conducted four additional interviews with informants from Companies A, B, and C to check the validity of the data and for follow-up purposes. A sample of the main questions asked during the interviews is provided in the Appendix.

**Table 2.** Details on the Firms Investigated

	Company A	Company B	Company C	Company D	Company E	Company F
Establishment year	1987	1985	1986	1983	1922	1963
Ownership	Family	Family	Family	Family	Family	Family
Number of employees	56	90	40	13	252	288
Number of markets	80	104	9	25	105	80
Turnover (2013)	€8.5 million	€34 million	€5.3 million	€1.7 million	€72 million	€40.3 million
Foreign sales/total sales	90%	80%	70%	90%	65%	48%
Product type/industry	Chemical	Mining	Materials handling	Leather accessories	Electrical devices	Electrical components
Years of international experience	24	28	25	30	50	40
Operating mode	Export	Export/wholly owned subsidiary	Export/sales subsidiary	Export/joint venture	Wholly owned subsidiary/joint venture/export	Wholly owned subsidiary/joint venture/export

In addition, we consulted the websites of the case companies to obtain information about their internationalization histories, products, industry branches, and other related secondary materials. Moreover, we studied the companies' archival documents, such as company bulletins, and asked our key informants to evaluate the comprehensiveness of our data. We also ensured our informants had been involved in the DMPs for entry mode and postentry changes. All this enabled us to triangulate our data (Smith 2014). The fact that these archival sources were produced in "real time" mitigated the impact of retrospective sense making and potential memory bias among the interviewees (Leonard-Barton 1990).

## Data Analysis

Like most qualitative research, our analysis progressed through a cycle of inductive and deductive reasoning (e.g., Walsh and Bartunek 2011). During the early stages, we were influenced by previous research on SME managers' decision-making modes, and we were familiar with the continuum of rationality, as discussed earlier. We therefore began our analysis by classifying each of our six cases following Child and Hsieh's (2014) categories, to understand the rationality exhibited in each one (see Table 3).

We coded our data according to the principles of thematic analysis (Braun and Clarke 2006), utilizing analytic replication in which each case served as its own experiment (Eisenhardt and Graebner 2007; Yin 2003). We first created a list of first-order themes from our case evidence. We then reread the relevant literature to see how we could explain what we had found in our data. For example, we related the statements regarding whether the managers had considered other alternatives when deciding to enter a market (first-order theme) to alternative analyses (second-order theme). Thereafter, we organized the second-order themes into aggregated theoretical dimensions, as represented in our data structure (see Maitlis and Lawrence 2007). Through this procedure, we categorized our second-order themes into three main entry mode decision-making dimensions, namely, (1) approach to planning, (2) path dependency, and (3) time. These dimensions may have varying levels of importance, depending on the SME's decision-making mode. Table 4 shows our data structure, and in Table 5 we use illustrative examples to explain how we derived our second-order themes.

Company performance was measured by asking informants the following: "Are you satisfied with the success of your entry? Have the objectives set for the entry been

fulfilled?" (see the Appendix). We used secondary data such as company websites to validate this subjective performance measurement.

## FINDINGS

We now describe how the different decision-making modes of the SMEs were linked to the aforementioned dimensions and how this affected initial market entry and postentry changes. First, we examine the SMEs' rationality in their planning approaches, whether they analyzed alternatives, and whether they used criteria in their decisions. We then assess the extent to which they were influenced by their previous market entry choices—in other words, their path dependency. Finally, we explain the effect of time on the respective decisions and the decision-making mode's possible impact on performance. We summarize our findings from each case in Table 6.

### Approach to Planning

Initial P<sub>1</sub>: SME decision making regarding entry mode is unplanned on first entry but becomes more rational and systematic over time for postentry mode changes.

We started our analysis with the question of whether or not rationality in the DMP characterized the approach to planning and the effect on the choice of entry, in both entry and postentry phases. For instance, Company D, which we classified as following a reactive decision-making mode, did not have a rational approach to planning: there was no advance planning; entry was the result of serendipitous events; most of the information collected related to management perceptions of market size and cultural distance; and possible alternatives were not considered (see Table 5). As Company D's manager said regarding the United Arab Emirates, "Everything starts from meetings with buyer during exhibitions, followed by direct sales to department stores." In the postentry phase, the company was contacted by a partner willing to develop a joint venture. The entry decision was thus a reaction to a market request and, due to the alertness and judgment of a family member, developed into successful cooperation.

We classified Companies A, C, and E as incremental in their decision-making modes. Although limited, a planning process can still be seen here. First, these companies analyzed the market. If they saw an opportunity (e.g., "decision-making criteria" for Company A in Table 5), they entered the market in a low-commitment mode, and

**Table 3.** Decision-Making Mode of the Cases

Company	Decision-Making Process	Decision-Making Mode
Company A	“[To enter markets], we find that in one country, there will be big demand.... We find a potential partner ... and we discuss the mutual interest concerning the project and decide on the distributor, agent, and other issues.”	Incrementalism
Company B	“We only considered exporting through a distributor in the first place. Different alternatives are analyzed based on our experience in the postentry phase.”	ROR
Company C	“First, we analyze market potential. Then, we look for a potential local partner, as a distributor.”	Incrementalism
Company D	“Everything started from meeting during an exhibition. Then we collected info on market opportunities and interest in our products ... then we started to collect proposals from partners.”	Reactivity
Company E	“Normally we start with distributor agreements; then, if we feel that there is scope for interesting growth in the future, we may decide to open a sales subsidiary and later even a production plant.”	Incrementalism (ROR for Turkey)
Company F	“When we enter a new market we analyze the market potential and the people. The DMP varies in relation to the postentry strategy.”	Bounded rationality

Notes: Quotations are from interviews conducted for this study with managers of case companies.

from that point, step by step, they increased their commitment. The three companies, with limited planning and analysis, decided to enter different markets (e.g., Company C in Russia, Company A in China, and Company E in India) with distributor agreements. Then, they started to collect relevant information from the market through customers and distributors and increase their commitment to wholly owned subsidiaries as soon as they felt the market was ready to accept the company’s product. The basic decision-making criteria are evident in these cases: collect information, mostly from trusted people and mostly regarding market opportunities based on people’s feelings, and then make the decision.

Company F represents a more rational approach in terms of planning. First, it conducted market research; then, it entered the market normally with a distributor partnership; finally, after a few years of operations, it decided which alternatives suited it best in that particular market. Different DMPs were followed for each possible postentry mode: when a lower level of commitment was needed, the area manager made the decision; with a higher level of commitment, as in the case of the sales subsidiary, the CEO selected the manager to run the subsidiary, and everyone from sales to production to information technology would be involved in preparing the business plan. Company F clearly followed the bounded rationality mode, with a much more well-defined process for data collection and analysis

compared with the incremental mode, even though the main decision-making criterion was “what we can afford to lose.”

We found that Company B took the most rational planning approach. It first entered the market through a low-commitment distributor agreement and then collected information while operating in the market, waiting for the right time to increase its commitment. As a result, it was able to compare the alternatives and make a more appropriate decision in the end. It did this in the case of South Korea: first, it entered through exporting, and then, having operated there for years, it decided to acquire a manufacturing company. “Over the years ... we learned about the market quite well... [Then] we acquired a manufacturing company there [South Korea],” the manager noted. The approach to planning was thus rather systematic: the alternatives were compared and the decision made accordingly. The procedure followed was rational, similar to ROR.

With regard to the preceding discussion, our case studies show how SMEs’ approach to planning varies depending on the extent to which they analyze entry mode alternatives and consider decision-making criteria (see second-order themes of approach to planning dimension in Table 4). Cases with a more rational decision-making mode, such as Companies B and F, consider more entry mode alternatives and have rigorous decision-making criteria. This, however, does not affect the initial entry mode strategy. In

**Table 4.** Data Structure

First-Order Theme	Second-Order Theme	Aggregated Dimensions
Statements regarding whether managers considered other modes of entry when making the decision, and if so, the extent to which they analyzed them	Alternative analysis	Approach to planning
Statements about the final decision-making criteria for choosing a specific entry mode	Decision-making criteria	Approach to planning
Statements showing whether managers considered any alternatives to the chosen entry mode	Alternatives	Path dependency
Statements showing the initial mode of entry into the foreign market	Initial entry mode	Path dependency
Statements showing whether the initial mode was changed to a different mode postentry	Postentry mode	Path dependency
Statements showing whether the managers' goals were short term or long term	Goal time	Time
Statements showing how much managers considered their future operations and market development	Long-term approach	Time
Statements indicating how long it took to make the decision and how long the decision-making process was	Decision-making length	Time

fact, a low-commitment mode was selected in almost all cases (see “initial entry mode” in Table 6). This allowed for market entry with the goal of increasing market knowledge (see Liesch, Welch, and Buckley 2011). On the other hand, our results reveal that the planning approach affects the choice of postentry operating mode. In summary, we believe on the basis of our analysis that the decision-making mode has a stronger influence on the SME's choice of strategy postentry. This confirms the original proposition, which we rewrite as follows:

Final P<sub>1</sub>: The relationship between decision-making mode and approach to planning is stronger in postentry, that is, after the SME enters a given market, than in the preentry phase. As such, the more rational an SME's decision-making mode, the more rational is its approach to postentry planning.

### Path Dependency

Initial P<sub>2</sub>: Experience in international markets helps companies develop more rational entry mode DMPs. This is more prevalent postentry.

The rationality of each decision-making mode is also observable through the approach to path dependency (Child and Hsieh 2014). The main findings of our research reveal

that all the firms adopted a low-commitment mode when entering mostly new markets, in line with the Uppsala model (Johanson and Vahlne 1977). The Uppsala model also describes a learning path through experience and previous decision making that influences future international decisions (Casillas, Moreno, and Acedo 2012; Hutzschenreuter, Pedersen, and Volberda 2007). Our findings further show that in some cases a learning process can be detected, with the operating mode in postentry phase repeated in some of the cases (e.g., see Company D in Table 5).

In contrast, we found that the companies that engaged in more rational decision-making were less dependent on their earlier experiences; for example, they considered and compared a wider variety of operating modes in the postentry phase (e.g., see Companies A and F in China in Table 5). Company B followed a similar approach in Norway and South Africa: it started with a distributor agreement; then, after collecting all necessary information, it decided to change to different operating modes that it believed could produce better outcomes in the future, namely, an exclusive dealer in Norway and an acquisition in South Africa.

Experience in foreign markets can also cause companies to change decision-making mode. In Company E, for example, during the postentry phase in Turkey, the learning path in

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**Table 5.** Data Supporting the Interpretation of the Emergent Themes

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Dimensions	Illustrative Quotations
<b>Approach to Planning</b>	
Alternative analysis	<ul style="list-style-type: none"><li>• “Over the years [in South Korea] we gradually got to know mining companies and identified the most advanced one.”—Company B</li><li>• “Our capacity is limited [so we do not analyze alternatives].”—Company C</li><li>• “We consider information collected through banks and other intermediaries, but considering that in order to manage operations in Japan we need to have a local partner, the most important factor was the management feeling that the persons were reliable.”—Company D</li><li>• “We consider information from the managers now running the sales subsidiary; we analyze them within the management team (marketing, sales, production, finance, and CEO) and with the support of an external financial advisor.”—Company E</li></ul>
Decision-making criteria	<ul style="list-style-type: none"><li>• “One of the important factors [to entering a market] is that there should be a market.”—Company A</li><li>• “First, if there is a market and demand ... then we study the market size; [then] we look for a distributor selling similar products.”—Company B</li><li>• “Our first decision-making criterion is the management’s perceptions of the people (buyers or consultants) that we meet, then we consider market size, and finally the cultural distance to understand if we can have direct contact or if we need an intermediary.”—Company D</li><li>• “We first consider management perceptions during a meeting with possible distributors, first, and the sales sub-manager later in terms of trust and future cooperation.”—Company E</li></ul>
<b>Path Dependency</b>	
Alternatives	<ul style="list-style-type: none"><li>• “A joint venture was one option in China at the beginning.” (For other markets, no entry alternatives were analyzed.)—Company A</li><li>• “If you have the right partner, the right contacts there [in the host market], there’s no risk.”—Company C</li><li>• “[In Russia] it’s impossible without a partner [to operate].”—Company C</li><li>• “In Japan we considered other alternatives at the beginning (1988) with a distributor and an agency, but then we found the partnership with the company ... with a similar position and product ... successful and we also adopted it in UAE and China.”—Company D</li><li>• “We also try other alternatives. For example, in China we entered first with a production plant in [a joint venture], but it was not successful, so we decided to restart with the distributor, then with a representative office, and then [a sales subsidiary].”—Company F</li></ul>
<b>Time</b>	
Goal time	<ul style="list-style-type: none"><li>• “We set annual targets which are based on longer-term work.”—Company A</li><li>• “It was a long-term goal to enter the U.S. market because we knew it was an enormous market.”—Company C</li><li>• “We always consider long-term goals in our approach.”—Company E</li><li>• “Considering the need to understand the market and develop the best strategy for our company, we need to set a long-term goal.”—Company F</li></ul>
Long-term approach	<ul style="list-style-type: none"><li>• “Future operations are of absolute importance when we decide to enter a market.”—Company B</li><li>• “We expected that in a few years, the business [in Russia] could be about ten times bigger [than at the beginning of entry].”—Company C</li><li>• “We considered future developments in market size and customer interest in products made in Italy.”—Company D</li><li>• “We did not focus on market development, but we considered the market size and therefore the possible opportunities for our company.”—Company F</li></ul>

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Notes: Quotations are from interviews conducted for this study with managers of case companies.

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**Table 6.** Findings from the Cases

Dimensions	Company D		Company A		Company C		Company E		Company F		Company B					
	Japan	UAE	China	Poland	United States	Sweden	Russia	India	Turkey	UK	China	Turkey	United States	Norway	South Korea	South Africa
<b>Approach to Planning</b>																
Alternative analysis	Only for Japan		Only for United States		Only for Sweden			Only for future development		Only for future development		Only for future development		Only for future development		
Decision-making criteria	Management perception + Market size		Market potential		Market potential + Market knowledge			Management perception + Market potential		Affordable loss		Market potential + Intermediary				
<b>Path Dependency</b>																
Alternatives	Only for Japan		Only for United States		Partner comparison			Only for Turkey		Only for future development through different DMP		Only for future development		Only for future development		
Initial entry mode	D	DE	DE	A	D	DE	D	D	D	D	PP	D	D	D	D	D
Postentry mode	PLC	PLC	PLC	PP	A	SS	D	D	D	WOS, SS	SS	SS	SS	ED	PP	SS
<b>Time</b>																
Goal time	From medium- to long-term goal		From medium- to long-term goal		From short- to long-term goal			Long-term goal		Long-term goal		Long-term goal		Long-term goal		
Long-term approach?	Yes: future development and opportunity		Yes: future sales and operations		Yes: future potential and market share			Yes: future development considering market size		Yes: market size and future development		Yes: future potential and operations		Yes: future potential and operations		

Notes: D = distributor; DE = direct export; A = agency; SS = sales subsidiary; PP = production plant; PLC = partnership with local company to open corners and shops; WOS = wholly owned subsidiary; ED = exclusive dealer.

the previous market encouraged the management team to change its decision-making mode to a more rational one (i.e., incremental to ROR). Instead of cooperating with a distributor for a few years and then opening a sales subsidiary, as the company had done previously, it collected all possible information regarding the investment in advance and then decided to postpone the sales subsidiary option to a later stage.

We therefore observe that the more rational SMEs follow a learning path in terms of decision-making mode, have a wider variety of modes in their past entry mode portfolio, and are more flexible in selecting their postentry operating modes (see second-order themes of path dependency dimension in Table 4). Stated differently, these SMEs are less path dependent. In contrast, SMEs that base their decision making on reactivity and incrementalism tend to have a smaller number of alternatives and a smaller number of operating modes at their disposal, and their learning path is about selecting the best operating mode for all markets. They tend to choose modes with which they are familiar (Child and Hsieh 2014). Against this background, we make a new proposition, as follows:

Final P<sub>2</sub>: The more rational an SME's decision-making mode, the stronger is the effect of past experience on entry mode choice; SMEs with rational decision making are likely to consider a wider variety of alternative postentry operating modes and are also more likely to change their decision-making mode for future markets.

## Time

Initial P<sub>3</sub>: The degree of rationality in an entry mode decision-making model is directly linked to the time frame. The greater is the rationality, the longer is the time frame.

Time is an important dimension of the SME's DMP (Efrat and Shoham 2012). Our analysis reveals that decision makers who are less rational analyze the information from a short-to-medium-term investment perspective. Company D, for example, had considered the fact that the market size and the interest in a "product made in Italy" could change in the medium term, and the company therefore decided to maintain its lower commitment even in the postentry phase.

However, when higher levels of rationality prevailed, as in Company C, the planning was somewhat longer term; for example, expecting that the Russian market "could be

about ten times bigger in a few years," the company decided to increase its commitment through a sales subsidiary. At higher levels of rationality, companies collect and analyze information more rigorously upon noticing potential opportunities, before deciding whether and how to act. When market potential is confirmed, a goal is set for the long term and the company's decision makers consider potential strategic developments. Company E, for example, in the Turkish market, analyzed all the alternatives and decided—on the basis of the market's strong potential—to enter it through a low-commitment distributor that could later become a sales subsidiary that would meet its long-term goals. Similarly, Company B's manager noted, "It is very important to take into account the future [market] potential and operations.... We do not make the same agreements in [all] the markets." After Company B enters a foreign market, it then allows itself sufficient time to compare alternative operating modes in that market and change if necessary. Accordingly, if appropriate, it then makes a longer-term decision and chooses a higher-commitment mode, such as a wholly owned subsidiary in the form of an acquisition. This happened in both South Korea and South Africa. In the case of South Korea, the management took almost a decade to decide to change mode, eventually choosing a production plant as the best alternative. This approach requires a longer-term view of future operations and tends to build on long-term goals (see second-order themes of time dimension in Table 4). We may conclude from our data that, in general, whether companies take a long-term or short-term perspective on their future operations and market development differs according to their decision-making mode. Therefore, we confirm our proposition as follows:

Final P<sub>3</sub>: The more rational the decision-making mode of an SME, the longer is its perspective on future operations and market development.

## Performance

Initial P<sub>4</sub>: SMEs following ROR to make strategic decisions about initial entry mode choice and subsequent change will achieve greater performance than those following other decision-making modes.

Our analysis also reveals that ROR (e.g., Brouthers, Brouthers, and Werner 2008; McGrath 1997), in which managers plan future developments in advance rather than reacting to the market situation, is the most effective strategy for producing a successful entry mode choice. Company B, for instance, entered South Africa with

a rational, long-term approach. It established a sales subsidiary only after it had acquired extensive market knowledge and established connections, and it was thus able to compare alternatives. The company was happy with its performance. As the interviewed manager said, “We are successful in the market.” This company apparently used ROR in its decision-making process.

In contrast, examples of less rational decision making include decisions made for an investment that did not produce results (Company A) and a joint venture that was not successful (Company F). For example, Company A entered the U.S. market following incrementalism logic. According to one of the managers, because the United States “seemed” to be a big, promising market, the company decided to enter it through a sales subsidiary. After making a significant investment, however, the managers found the market more complicated than expected, forcing a decrease in commitment. This lost them “millions of euros” before they changed their market objectives.

Company F faced a similar situation in China: it opened a production plant in a joint venture with a local company, following a reactive approach in considering the options with regard to cooperating with a possible partner. The partnership was not successful, however. The company had to start again from the beginning, this time with a distributor that helped it acquire knowledge and build networks. Only then could the company select the best operating mode for its future development and follow the correct DMP.

It thus seems that following ROR gives SMEs more alternatives from which to choose, thereby minimizing downside exposure (to control and investment uncertainty) and maximizing potential gains for each market. We believe this is a less risky decision-making method, in that combining value creation with cost reduction may lead to better decisions (e.g., Company E changing to ROR regarding the Turkish market). Accordingly, we suggest a new proposition, as follows:

Final P<sub>4</sub>: SMEs adopting a more rational decision-making mode, such as ROR, are more successful in their international operations. Such SMEs have a rigorous approach to planning, are less path dependent, and have a longer DMP.

### **A Model of SME Decision Making for Entering Foreign Markets**

On the basis of the previous analysis, we now develop a dynamic model of SME decision making for entering

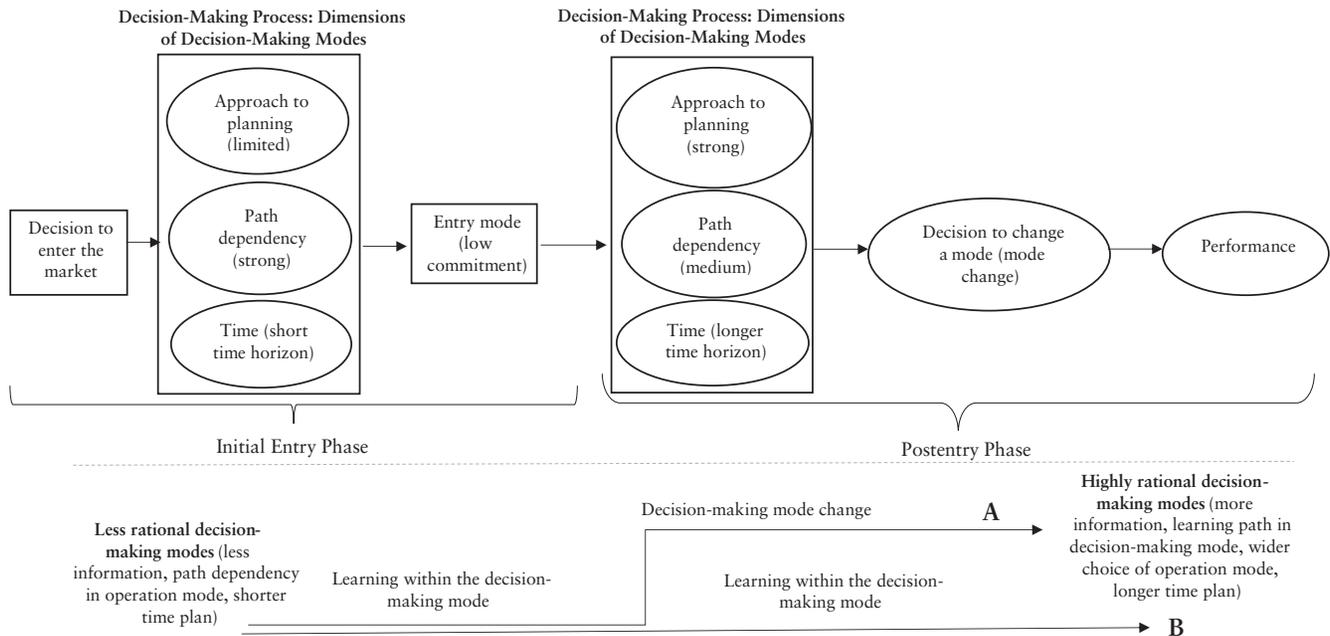
foreign markets and then changing the initial entry mode (see Figure 1). As our analysis shows, most of the companies entered new markets with a low commitment without following a predefined DMP. The area of Figure 1 above the dashed line describes the typical international entry process.

We also found managers’ decision making less rational at the early stage of market entry, meaning they did not make decisions very systematically. Decision making in the initial entry mode phase can be described as path dependent: the companies started with low-commitment entry modes they were familiar with. Exporting was dominant (supporting existing studies on SMEs; see, e.g., the review of Laufs and Schwens 2014). This means that reactive and incremental decision-making modes prevailed among most of our case companies. However, examining other dimensions enables a more detailed analysis. First, limited planning took place. Second, there were exceptions to the prevailing modes. For example, although Company B started with exporting, it clearly took a longer time horizon in its decision making. Its management team was already using rudimentary ROR with the means they had at the time of the decision making.

However, as argued earlier, different decision-making modes, which can be described through the lenses of different decision-making dimensions, were more likely to guide the firms postentry. Learning takes place within a decision-making mode and leads companies to adopt a new (more rational) decision-making mode (see the descriptions of paths A and B in the area of Figure 1 below the dashed line, showing two typical developments of the DMP). Company E provides an example, having moved from incrementalism to ROR in its decision making when entering a third focal market (Turkey).

In general, the case companies used more rational decision-making logic postentry, for example, when deciding to change from one operating mode to another. In fact, it can be seen that companies that decided to change operating mode in a given market took a different planning approach, with different methods of analyzing the alternatives and decision-making criteria. The extent of relying on previous experience (e.g., past entry mode choices) and consideration of future developments in the particular market also varied. For example, Company B entered South Korea through exporting. However, its managers constantly analyzed the market, waiting for the right time to increase their investment—exercising the option to wait or defer (Trigeorgis 1993)—and, when the time came, they followed a rational decision-making path and changed the

**Figure 1.** Integrated Model of the SME Decision-Making Process Related to Initial Entry Phase and Postentry Phase



initial mode to a higher-commitment one. This process has performance implications, as discussed earlier.

## DISCUSSION

The choice of foreign-market entry mode is a crucial decision with regard to international expansion, particularly in SMEs. Deciding to enter a new market through exporting, strategic alliances, or foreign direct investment, for instance, has implications in terms of investment risk, organizational control, and resource commitment (Anderson and Coughlan 1987; Efrat and Shoham 2012). Our literature review reveals a lack of research on the process SMEs follow when making this strategic decision.

### Theoretical Implications

Our study makes four main contributions to the existing literature. First, by focusing on postentry, we enhance knowledge on decision-making frameworks by linking the traditional international marketing literature related to initial entry mode (Buckley 2002) with “mainstream” international business literature. We also contribute to the discussion concerning evolving theories explaining SMEs’ entry modes (see Laufs and Schwens 2014). Recent DMP literature on SME internationalization has been dominated by studies focusing on effectuation and causation (e.g.,

Kalinic, Sarasvathy, and Forza 2014). We have shown that this simplification, focusing on only two DMP logics, does not provide a full picture of what happens when SMEs make their entry mode decisions. Instead, we have developed a comprehensive model incorporating a variety of decision-making modes built on three dimensions (see also the conceptual work of Child and Hsieh 2014). The results of our study enhance understanding of the entry mode DMP.

Second, we suggest that different decision-making modes affect the evolution of operations, or postentry changes, thereby narrowing the gap highlighted by previous research (Hennart and Slangen 2015). While SMEs entering a new market seem to select lower commitment without following a predefined DMP (exhibiting rather rudimentary reactive decision making based on internal or external stimuli), postentry, they use all available resources to make appropriate choices. As different market operations may be in different phases at the company level, less rational and more rational planning can coexist, although at the market level, their use may be sequential (for propositions on the coexistence of improvisation and planning in international marketing contexts, see, e.g., Nemkova et al. 2015; for differences between decisions on foreign markets and entry modes, see, e.g., Chetty, Ojala, and Leppäaho 2015). However, it is interesting to note that among our case

companies, only Company E clearly changed its decision-making mode regarding entry. The other focal companies became more rational postentry, but their evolution seemed to take place within the decision-making mode; that is, they did not change their DMP but became more efficient in their use of the focal decision-making mode. Company B used ROR at the outset, so decision-making mode change does not apply to it. Interestingly, ROR may contain both effectuation (in the initial decision-making phase regarding low-commitment entry modes such as exporting) and causation (postentry when the company is following a different approach to planning) elements.

Third, our research confirms the importance of rationality as a point of reference for the decision-making mode in internationalization (Aharoni, Tihanyi, and Connelly 2011; Child and Hsieh 2014; Dean and Sharfman 1996). Rationality, which can be assessed with a number of indicators (cf., e.g., Liberman-Yaconi, Hooper, and Hutchings 2010), drives the quantity and quality of information collected, the number of alternatives contemplated, the approach to future operations, and experience. In our work, we have used the dimensions of approach to planning, path dependency, and time to define the degree of rationality. We suggest that this approach has been useful and could be used in future studies.

Fourth, we demonstrate the important role of ROR as a theoretical lens for decision making about SME entry mode. The ROR mode asserts that treating international investments as real options gives managers the flexibility to defer, expand, or abandon investment projects in the future (Li and Li 2010). For instance, firms facing high uncertainty and investment irreversibility may minimize their investment through low-commitment entry (Li and Rugman 2007; in our case, exporting). This minimizes downside risk exposure—controlling investment uncertainties—by deferring part of the investment until uncertainty is lower; at the same time, it gives the company an option to participate in potential upside benefits (Folta 1998; McGrath and Nerkar 2004; Sanchez 2003). Applying ROR to the literature on SME decision making facilitates operating mode choice, producing superior performance. The ROR model is a novel approach that theoretically complements other decision-making methods.

### Managerial Implications

Our cases illustrate the DMPs of SMEs entering new markets. Decisions about international entry mode strategies and postentry developments are difficult, falling initially under the purview of international marketing managers.

The main problem relates to the ability to collect all the information needed to produce the most profitable decision. The managerial implications discussed here relate to the importance of long-term thinking when entering new markets. Even though incrementalism appears to be the dominant decision-making approach in our sample—meaning that the choice “is not made once for all; it is made and remade endlessly” (Lindblom 1959, p. 86)—it is evident that searching for information and determining what is relevant are activities crucial for ensuring continuous operational success in chosen markets. How companies learn to find, analyze, and use this information is largely related to path dependency and experiential knowledge. In the case of (newly) internationalizing SMEs, this often means recruitment challenges, given that international experience accumulates from learning by doing and that the required knowledge may not exist within the company. Thus, managers need to learn from partners or recruit wisely to acquire the necessary knowledge.

Moreover, our findings imply that ROR offers SME managers more alternatives, which, as much as possible, lowers risk (see also Brouthers, Brouthers, and Werner 2008). This gives some support to the use of ROR for achieving above-average performance. Managers could create options in the focal market by entering through a low-investment mode, which would give them more flexibility. When a market is associated with high uncertainty, for example, managers could make incremental, small (low-commitment) investments instead of postponing the entire process (Bowman and Hurry 1993; Brouthers and Dikova 2010). They could enter a market through exporting and wait for the right time to expand the investment. Should the uncertainty increase, meanwhile, they would have the option of abandoning the investment project without incurring high costs. This, as we have shown, could result in superior performance. At the same time, it would allow managers to exploit opportunities in different markets without having to collect all the information, a particularly important benefit when resources are tight.

### Limitations and Future Research

Our research has several limitations. First, given its qualitative nature, we can only make analytical generalizations. Consequently, we would encourage future researchers with large samples and different country settings to test the refined propositions. Second, interviews with more informants (e.g., with sales managers, country managers, and CEOs) could identify any information bias between CEOs and other members of management, better validating our

study. Third, the companies analyzed are of different sizes. There could be a size bias in decision-making mode selection, and we would recommend future studies take this into account. For instance, a follow-up quantitative study could control the effect of firm size on the relationship between rationality in the planning approach and performance.

Finally, we have only one primary data-collection point for most of the case companies. The study of DMPs would naturally benefit from longitudinal data collection, which would yield a more detailed picture; indeed, there may be some data-collection bias in our study. All in all, longitudinal studies may enable us to see more changes in decision-making modes, whereas the changes identified here mostly take place within a mode. More radical changes might happen through learning over time. It is interesting, however, that despite the clear focus on experiential knowledge in the literature on internationalization processes, there is a lack of empirical investigation into the construct of experiential knowledge in this regard (Knight and Liesch 2002). In general, there is a need for better understanding of how managers perceive time in the internationalization process and how time relates to decision making (see, e.g., Middleton, Liesch, and Steen 2011).

Future research on DMPs in internationalization should concentrate on these phases of (rational) decision making, for several reasons. First, our results indicate that dimensions such as market uncertainty, experience, and network availability influence operating mode choice, and we believe that future analyses could assess those dimensions' impact on decision-making mode. Moreover, we see an interesting area for future research regarding cultural differences and the impact of psychic distance (e.g., top management team heterogeneity) on entry mode decision making (Dimitratos et al. 2011). In addition, an interesting avenue for future research would be the interplay between effectuation and causation decision logics and the different decision-making modes discussed here. As an example, we have not identified in detail the relationship between ROR and these two types of decision-making logic. Early in the DMP, ROR suggests that companies make small investments in uncertain environments and wait to see what opportunities arise in the future. This resembles effectuation logic. Later on, however, ROR suggests that companies analyze additional information and make more rational decisions about whether to increase or decrease their investments. This resembles causation logic. Future studies could shed more light on such unresolved issues. All in all, however, we have tackled an area of the SME internationalization literature (i.e., international marketing DMPs) in which much has

remained unexplored (see, e.g., Rialp, Rialp, and Knight 2005; Schweizer 2012), and we believe that our study and the six cases with various entry and operating modes constitute an interesting platform for further research.

## CONCLUSION

Using six cases from Finland and Italy, we examine in detail the DMPs of SMEs deciding to enter new foreign markets. In so doing, we develop a model in which we analyze the cases according to three different dimensions (see Figure 1): approach to planning, path dependency of entry mode, and time planning. Each dimension comprises several factors that SMEs consider in their decision making relative to foreign-market entry mode and postentry operations. In further analyses, we link these dimensions to the SMEs' different decision-making modes. Consequently, our study gives new insights into SMEs' DMPs around initial entry mode choice and international market development strategy (i.e., postentry operating mode), as well as how the DMP evolves.

## NOTE

1. The choice of Finland and Italy was based mainly on accessibility due to the authors' geographic locations. Furthermore, both Italy and Finland are advanced European economies. Factors such as the cultural differences between these two countries, the different psychic distances to the host countries, and the different market sizes fall beyond the purpose and scope of this research.

## APPENDIX: LIST OF QUESTIONS ASKED DURING THE INTERVIEWS

Note that "market A" stands for the relevant country's market.

- What factors are important for you when making decisions about the strategy with which to enter a new foreign market? What factors affect your decision?
- Could you describe your normal decision-making process when deciding on the strategy with which to enter a new foreign market?
- How did you enter market A?
- Did you have any pre-defined goals when you decided to enter market A? What was the goal? Was it a short-term or long-term goal? Did it change before the

- entry due to external factors? Why? Did it change during the decision-making process? Why?
- Did you consider alternative ways to enter the market? How did you analyze the alternatives? Did you collect any information for each alternative? If yes, how? If no, why?
  - What were your final decision-making criteria?
  - How did you make the decision?
  - When did you make the decision?
  - How long did it take to make the decision?
  - When making the decision, how much did you consider your future operations and the development of the market?
  - Since entry what has happened in the market?
  - Have you changed your operating mode? If yes, why?
  - Have your objectives changed since entry?
  - Did you use different modes of operation in market A?
  - What was your perception of the market at the time of entry in relation to uncertainty and risk?
  - Has your perception of the uncertainty and risk decreased since entry?
  - How important was the market for your business and your industry at the time of entry, and how important is it now? Why?
  - Are you satisfied with the success of your entry?
  - Have the objectives set for the entry been fulfilled?

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