# THE DEVELOPMENT OF NOVICE TOP MANAGEMENT TEAM'S HEURISTICS IN SME INTERNATIONALIZATION

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**Aleksi Niittymies**
**International Business and Entrepreneurship**
**Kalle Pajunen**

**ABSTRACT**

| Author | |
| Aleksi Niittymies | |
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| Abstract |
| The importance of heuristics in terms of strategy work is highlighted in many existing studies. However, little is known about how the ability to utilize heuristics develops during novice top management team's first internationalization. Utilizing qualitative and inductive grounded theory building methods this study aims to increase knowledge about the role of heuristics during top management team's first SME internationalization and the role of experience in utilization of heuristics and decision-making process. The findings contribute to literature of strategy and its microfoundations by showing four stages of development process and highlighting the various roles of relevant experience in the process. The findings increase understanding of heuristics affecting managers' decision-making and the experience's impact on the heuristics in context of SME internationalization. |
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# CONTENT

# 1   INTRODUCTION

A most successful internationalization or the greatest strategy is a result of decision-making and underlying cognitive processes. All firms and organizations are run based on decisions of management. Therefore decision-making should be granted the standing it deserves because in the end decisions are central part of the mechanisms how companies or organizations work. Decisions are the factor that starts almost every process or action and therefore are a crucial part of every action chain that takes place in the organization. Internationalization of an SME is not an exception. It is a sum of decisions made. Too often models in international business literature don't emphasize decision-making enough considering how crucial role it has. The focus is often in the process itself rather than in the decision-making process that creates the base and direction for the whole process. In some models the manager and the human actor are not present at all (Kogut, Walker & Anand 2002). (Walsh 1995; Aharoni, Tihanyi, Connelly 2010).

The problem is that decisions are made by humans, the management. All decisions are a product of human cognition, but we know very little how it works in certain contexts. Decisions are often far away from rational even though they are sometimes presented so in the models. That creates distortions since decision-making is affected by uncertainty, biases, prior-knowledge and too complex environments. (Walsh 1995; Aharoni, Tihanyi, Connelly 2010; Gigerenzer & Gaissmaier 2011) Most often all information for a fully rational decision is not possible to find and even if it could be achieved it could took too much time. Time can be a scarce resource in decision-making and therefore decisions sometimes need to be done without full rationality (Maitland & Sammartino 2015).

International business literature stands as a good example of forgetting the human actor out of the models (Kogut, Walker & Anand 2002; Aharoni, Tihanyi, Connelly 2010). Most models and studies in international business literature assume that the entry modes or other strategies, that forms most of the literature, are optimal. It is assumed, that they represent the exact need of the company and are implemented in optimal way (Aharoni, Tihanyi, Connelly 2010). This of course is not the case since human actor will add the imperfection to the process (Levinthal 2011). Even though the decision-making and the human actor is often forgotten in the literature, there is still some literature about the matter (Bingham & Eisenhartd 2011; Maitland & Sammartino 2015).

Decision-making has been studied from several perspectives in context of international business (Aharoni, Tihanyi, Connelly 2010). There are three major lines of research about decision-making in international business. First is bounded rationality which is all about limits of human mind (March & Simon 1958; Aharoni, Tihanyi, Connelly 2010). In the second line the human cognitive pro-

cesses are in the centrum in terms of heuristics and systematic biases (Tversky & Kahneman 1974; Slovic, Fischhoff, & Lichtenstein 1977; Kahneman & Tversky 1979; Kahneman 2003). Third line of research line is behavioral economics which aims to add behavioral elements into otherwise mathematical economic theories (Rabin 2002; Aharoni, Tihanyi, Connelly 2010). However, even though there are studies about the cognitive factors in the decision-making in international business literature, there is still much to cover. Especially utilization of heuristics in individual manager's decision-making process requires further research (Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011).

Heuristics are cognitive tools that are used in situations where managers have to make decisions quickly without all the needed information for optimal decisions. Heuristics serve as simple "rules of thumb" that decision-makers can use in situation (Bingham & Eisenhardt 2011).

Heuristics work in a tight relationship with experience and experience is how the heuristics develop. More precisely, Bingham and Eisenhardt (2011) argued that through experience, heuristics are first learned and then honed better. However, it is a rather unknown process how prior experience or expertise accumulates into useful heuristics through learning (Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015). Experience is also in an important role in utilization of heuristics since answers for the current problem are searched from the prior experiences. The experience's roles in the process of utilization of heuristics are also relatively unknown. Overall the cognitive factors, heuristics, affecting managers' decision-making seems to be a rather unknown area for the scientific community. (Maitland & Sammartino 2015) Maitland and Sammartino pointed out the need for future research regarding heuristics of management during company's first internationalization decision process. They also emphasized the need for future research, along with Gigerenzer & Gaissmaier (2011) about experience's and learning's impact on heuristics.

By utilizing inductive and qualitative methods this study aims to increase knowledge about (1) the role of heuristics during top management team's first SME internationalization and (2) the role of experience in utilization of heuristics and decision-making process. The data consists of 6 interviews with 3 directors of an SME that was on the verge of internationalization. The data was analyzed utilizing theory building methods. More specifically, following work of Gioia, Corley and Hamilton (2012) and using a three step data reduction tenet.

This study contributes to literature of strategy and its microfoundations. It increases understanding of heuristics affecting managers' decision-making and the experience's impact on the heuristics in context of SME internationalization. An emergent model is presented about how the ability to utilize heuristics develops during novice top management team's first SME internationalization. The findings of this study confirm that the findings of existing studies (Bingham & Eisenhardt 2011; Maitland & Sammartino 2015) are valid in context of

SME's first internationalization. More importantly, they highlight the four roles of relevant experience in the development process: (1) The relevant experience develops ability to utilize heuristics, (2) a lack of it may cause inability to utilize heuristics, (3) a threshold exists that must be surpassed to be able to utilize heuristics in novel environments and (4) that relevant experience must match with the problem environment. The findings also build a base for future research but also point out a couple of clear directions for further studying about the matter.

# 2   LITERATURE REVIEW

## 2.1   Microfoundations of strategy

Strategy research is a relatively broad field of research. The main aim in strategy literature seems to be to explain how firms and organizations work and how they can develop and sustain competitive advantage (Felin et al. 2012; Ployhart & Hale 2014). Strategy literature can be divided into a micro and macro levels of research. Macro level refers to firm or organization level studies where the subject of the study can be a firm or an organization or even inter-organizational relationships of large organizations. Common research domains for macro level strategy research are strategic management, organizational theory, competitive advantage and competitive dynamics to name a few (Felin et al. 2012; Ployhart & Hale 2014; Molina-Azorin 2014). Micro level refers to studies that take place within firms or organizations and the focus is on individuals or groups (Felin et al. 2012; Ployhart & Hale 2014; Molina-Azorin 2014).

Originally strategy literature focused mostly on firm level goals like added value, competitive advantage or better performance (Abell et al. 2008). In other words, the interest and analysis happened in a higher than individual level, in a firm level. Firm's performance and actions are often explained with a firm level pattern or factor such as routines or capabilities (Abell et al. 2008; Felin & Foss 2009; Felin et al. 2012; Ployhart & Hale 2014). Firm level patterns and structures are a simple way of explaining how companies work, but they do not capture the whole truth since the most crucial problem with macro level analysis is that there can be multiple micro level alternatives for the macro level behavior (Abel et al. 2008; Felin et al. 2012; Ployhart & Hale 2014). This means that the macro level behavior is rather impossible to explain purely in the macro level (Abel et al. 2008; Felin et al. 2012; Ployhart & Hale 2014) Micro level analysis has also argued to be more general in nature and more stable in comparison to macro level analysis (Abel et al. 2008).

However, in past few years also the role of individuals has been emphasized (Foss & Lindenberg 2013; Molina-Azorin 2014). Studies that go to an individual level are considered to be microfoundations of strategy. The emergent literature of microfoundations aims to elevate the thinking from the firm level to the individual level (Abell et al. 2008; Felin & Foss 2009; Felin et al. 2012). The microfoundations aim to explain higher level constructs with the underlying human actor, the individual cognition and interactions (Abell et al. 2008; Felin & Foss 2009; Felin et al. 2012). It is all about the cognitive processes of individuals that eventually form the bigger, higher level constructs. In order to be able to understand firm level actions or constructs such as routines, capabilities, motivation or any other factor, we must first understand the origins of those factors (Abell

et al. 2008; Felin & Foss 2009; Felin et al. 2012; Foss & Lindenberg 2013). Abell, Felin and Foss (2008) aimed to explicitate these relationships between microfoundations and routines and capabilities as well as relationship between these constructs and firm level outcomes. They argue that the capabilities and routines are actually a way to explain and simplify the complex patterns of individual actions. In other words the microfoundations are the factor that actually builds the firm or organization and is responsible for the outcome (Abell et al. 2008; Felin & Foss 2009; Felin et al. 2012. The further most reason for building and researching microfoundations of strategy are to help management develop and sustain the competitive advantage (Abel et al. 2008; Ployhart & Hale 2014).

Sometimes strategy literature has also been divided into rational and behavioral aspects. However it is argued that even the most rational process required prior understanding of the problem and understanding and interpretations are always behavioral (Levinthal 2011). This means that the behavioral aspects have even more impact on strategy than it was earlier assumed. If the behavioral aspect is always present it should be understood better to make better strategies. This notion highlights the importance of understanding cognitive factors in strategy literature.

For the purposes of this paper it might be useful to emphasize that the underlying cognitive processes that enable the decision-making process are also considered to be part of microfoundations of strategy (Molina-Azorin 2014; Maitland & Sammartino 2015). Heuristics, certain cognitive processes that aim to reduce cognitive effort in decision-making and understanding are therefore also part of this research area. Strategy and psychology literature has emphasized the limitations of heuristics such as biases and other distortions (Tversky & Kahneman 1974; Ayal & Zakay 2009). However, heuristics should be seen in a positive light rather than negative since studies have shown the positive effects of heuristics on decision-making as well as firm performance in larger view (Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015). Bingham and Eisenhardt (2011) went as far as clarifying heuristics as central to strategy since they found heuristics to be rational, improving and key dynamic capability.

The need for researching microfoundations of strategy further is real. Microfoundations are without doubt important factors for the organizational success and yet the understanding remains very shallow. The role of heuristics in decision-making in context of internationalization is still an emerging field of strategy research and little is known about the matter (Maitland & Sammartino 2015). The existing papers on the matter have emphasized the need for further research about a particular microfoundation of strategy, heuristics (Aharoni, Tihanyi, Connelly 2010; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015).

## 2.2  International business

Internationalization has been studied rigorously in the past decades from many angles such marketing, strategic management, organizational theory (Ruzzier et al. 2006). It has been studied in terms of large MNE's as well as small SME's (Ruzzier et al. 2006; Olejnik & Swoboda 2012). Internationalization has been presented to be many things in existing literature. There exist different explanations about the underlying nature of internationalization. One of the most known is the Uppsala model which argue that internationalization happens in incremental stages (Johanson & Vahlne 1977; Johanson & Vahlne 2009). There are also arguments against incremental nature because of the findings about instantly international new ventures that do not follow the Uppsala model (Oviatt & McDougall 1994). It seems that the existing theories are one dimensional in a sense that they point out and explain of facet of internationalization, but fail to describe the whole truth.

Often these one dimensional models assume that the model indicates the precise need and want of the firm implementing them (Aharoni, Tihanyi, Connelly 2010). The literature seems to assume that the firms just pick a strategy and implement it perfectly without any variation. This of course is not possible as long as there are people choosing the strategy and secondly, implementing it. The models seem to forget the human actor that is present in every one of these situations. However, the trend is shifting from explaining internationalization and defining it towards researching the resources needed in the process (Ruzzier et al. 2006). The study of Pajunen and Maunula (2008) took the matter further by pointing out that internationalization is a complex process that develops together with other factors. They argued in their study that an internationalization process is co-evolutionary in a sense that multiple processes influence each other in the development. Processes co-evolving with internationalization and influencing each other are evolution of industry, internationalization activities of the company and organizational resources and capabilities (Pajunen & Maunula 2008). In other words, an internationalization process doesn't develop in one dimensional stages, but rather in a mix of multiple co-evolving processes that shapes the outcome (Pajunen & Maunula 2008). From the mentioned processes the organizational resources can be thought to connect the microfoundations to internationalization since organizational resources include cognitive factors of individual managers.

The microfoundations influence in internationalization process' development is important matter for understanding what enables successful internationalization. However, the microfoundations of internationalization seem to be very little studied (Aharoni, Tihanyi, Connelly 2010). There seems to be some literature about cognitive factors influencing internationalization but the level of knowledge remains very low. Pajunen and Maunula (2008) highlighted the

need for further research about the internationalization process and the influencing factors. Therefore, the further study about the co-evolving processes of internationalization and individual cognitive factors is needed.

## 2.3 Managerial decision-making

Behavioral factors and decision-maker's role has been acknowledged in the international managerial decision-making literature for some time, but this acknowledgement mostly recognizes that someone is there to make a decision about which strategy to follow or what model to use (Aharoni, Tihanyi, Connelly 2010). It is often assumed that there is a rational actor choosing the right thing to do and after that the plan is executed in the organization. The human actor is not present in these models. However, the individual manager's role as a decision-maker so that the manager actually works something through complex cognitive processes and come up with solution that can be right, wrong or something between remains still in lesser role in the literature. The mentioned cognitive decision-making process of individual manager remains relatively unknown in the literature, but it seems to be certain that individual manager's cognitive decision-making process is something that should be taken into account, since it has great impact on everything (Levinthal 2011). (Aharoni, Tihanyi, Connelly 2010)

Based on the existing literature about the matter it seems that the manager almost never faces a situation with rational options because all the necessary information is never at hand. This is understood as a "bounded rationality". It is one of the main research lines of behavioral aspects in decision-making. (Aharoni, Tihanyi, Connelly 2010; Gigerenzer & Gaissmaier 2011). Levinthal (2011) argued that nothing is rational because individuals perceive situations and problems in their own way, which can lead to different solution. Managers can also have biases or heuristics towards some direction that guides their cognitive decision-making process and eventually alters the result for distortions (Aharoni, Tihanyi, Connelly 2010; Gigerenzer & Gaissmaier 2011). It is easy to see that the individual manager have much greater impact on decision-making than thought before since there are really no rational choices.

The individual manager's cognitive decision-making process is really essential for the organizational success but how it actually works is studied relatively little and thus remains a bit of a mystery. Although it seems that the literature recognizes the crucial role of it and encourage for further research about the topic.

## 2.4    Top management team decision-making

Important decisions in organizations are mostly made by top management teams and even more so with internationalization decisions because of the importance of the process. As Eisenhardt (2013) stated, top management teams are a central factor of organizational success. Eisenhardt (2013) also pointed out that literature has suggested many options from positioning to strategies and alliances to be the key for the success of firms but while one of or maybe all of these are right, they all rely on top management team's decisions. Other authors have also pointed out that while firm and industry characteristics are often used to explain internationalizations as well as entry modes, the role of the top management team is often forgotten (Nielsen 2010; Nielsen & Nielsen 2011; Burillo & Moreno 2013). There are vast amount of studies about entry modes and different mode's or firm characteristics' impact on internationalization (Burillo & Moreno 2013). The question seems to be about how firms internationalize when it should be about the internationalization decisions since those decisions are the groundings for everything. The management is the factor that creates the strategies, chooses the entry mode and finds the right alliances as well as everything else that is behind the success (Eisenhardt 2013).

Even though management's role is often forgotten there is still literature to be found which argues that the top management team has a large impact on firm's success (Nielsen & Nielsen 2011; Eisenhardt 2013). The top management team itself is not guarantee of success as it is the content of the team that defines the success in the end. Focal literature argues that the content of top management team has big impact on its functionality and eventually to the results (Nielsen 2011; Eisenhardt 2013). Team size, the diversity of members' age and experience are argued to matter in decision-making process. It is argued that the team must be large enough to have wide enough experience base but not too large to have negative impact on team work (Eisenhardt 2013). Diversity in experience and age as well as history of working together are argued to cope better in growth markets in terms of new firms or otherwise uncertain situations (Eisenhardt & Schoohoven 1990; Eisenhardt 2013; Maitland & Sammartino 2015). Diversity in members' nationality is also argued to affect the decision-making process in terms of preferences that might not present negative or positive impact (Nielsen & Nielsen 2011). Focal literature seems to be unanimous in the view that knowledge and experience play vital role in top management team performance (Nielsen & Nielsen 2011; Bingham & Eisenhardt 2011; Eisenhardt 2013).

It is noteworthy in terms of this study that Eisenhardt (2013) studied top management team decision-making with emphasis on the growth markets and new firms. Growth markets change rapidly and are uncertain environment where decision making can be hard and often all necessary information is not available and thus decisions can be made by using heuristics (Eisenhardt 2013; Maitland

& Sammartino 2015).Besides the key notion of the top management team's use of heuristics, it is central to see that there are similarities to be seen between Eisenhardt's (2013) arguments about top management team composition and the factors affecting heuristics, because basically heuristics are affected by experience and knowledge (Bingham & Eisenhardt 2011; Maitland & Sammartino 2015). The factors affecting heuristics will be inspected more deeply in the following chapters.

The focal literature has provided arguments that the top management teams use heuristics to make decisions and that the knowledge base of members matters. This leads us quite close to the topic of this study by examining the individual manager's decision-making processes. Top management team decision-making can be seen from the perspective of the team or the individual managers' that form the team. (Nielsen 2010; Eisenhardt 2013) When it is understood that the top management team is formed from individuals it is then easy to understand that the decisions made are most likely influenced by the individual manager's mental models or in this case, heuristics. (Walsh 1995; Rivas 2012) It is still important to understand that individual managers do utilize the heuristics individually but the decisions are made as a unit.

## 2.5     Heuristics in strategy

Heuristics have been studied in psychology longer than they have been in strategy literature. Often heuristics that are studied in psychology are relatively similar with all individuals, but heuristics studied in strategy literature are often acquired by experience. They are subject to changes, improvement or distortions and therefore can be seen as source for advantage or disadvantage. (Bingham & Eisenhardt 2011)

Heuristics in strategy literature and the mechanisms how they actually work are still relatively unknown. This is due the newness and complexity of the topic. There are different assumptions and at least partly conflicting terms in the field so this chapter serves to define terms and concepts used in this study and how those should be understood. (Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015)

Heuristics are cognitive processes that serve for saving effort when doing decisions (Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015). Bingham and Eisenhardt (2011) labeled heuristics as "simple rules" that management use to cope with the tasks. Heuristics are argued to ignore some of the information and thus save time and effort. This, though, have caused critics to argue that using heuristics alter for greater possibility of errors. This might be true in a case where all necessary information would be at hand but in complex, uncertain and constantly changing world heuristics have been argued to lead more

accurate judgements. This is because individuals can use heuristics in an adaptive way and ignore some of information. (Gigerenzer & Gaissmaier 2011)

Heuristics have also been studied in terms of framing and bias errors which have led to association with negative impact on decision making (Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015). This was answered by study of Maitland and Sammartino (2015) that approached heuristics by expecting them to be a great cognitive tool that enables more than limits in uncertain and dynamic environments. They studied heuristics of individual directors in context of foreign direct investment decision into a rather unstable target country and were able to argue on the behalf of the positive impacts of heuristics on decision-making in certain context. (Maitland & Sammartino 2015) Bingham and Eisenhardt (2011) had similar thoughts with Maitland and Sammartino since they argued in their study that heuristics do have a positive impact and especially in the unpredictable markets heuristics could be seen as a "rational" strategy. With that they meant that practiced heuristics could be seen as a strong competitive advantage creating factor since certain actions or processes of business could be done better with these heuristics (Bingham & Eisenhardt 2011). Gigerenzer and Gaissmaier (2011) also had similar thoughts since they declared that heuristics are neither good nor bad but rather neutral and in certain situations they can be more accurate than complex strategies. They also emphasized the idea that in the real world conditions for rational decision making rarely occur and thus heuristics can provide better judgements.

Heuristics are seen as something that can provide better performance in complex environments but more importantly they can be improved (Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015). Gigerenzer and Gaissmaier (2011) argued that through experience managers learn to choose right heuristics for the focal situations and therefore make better judgements. There seems to be a lot of similar ideas that experience and learning impacts heuristics and therefore decision-making (Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015)

Literature about heuristics seems to argue that heuristics are not good or bad or neutral but rather the answer could be "it all depends". It all seems to depend on the experience of the individual using heuristics. Experience and more precisely relevant experience seem to be the key for the accurate heuristics. Several authors (Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015) have argued on behalf of heuristics as a possible strategy in an unpredictable and fast moving world, but here it might not be best to lay the focus on heuristics themselves but rather the combination of experience and heuristics, because of the importance of the experience that heuristics can effectively utilize.

## 2.6    Heuristics and small world representation

Before making decisions individuals are argued to build cognitive representations of the problem space or in other words the matter at hand (Gavetti & Levinthal 2000; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015). One possible way that heuristics might work is argued to be based on these representations and retrieving information from long-term memory by scanning the memory and looking for similarities with the representation (Gavetti & Levinthal 2000). Maitland and Sammartino (2015) defined the representation of the problem as small world representations (SWR). The SWR is an attempt to capture all the relevant characteristics of the matter under decision-making so that it could be used as a base for the best possible decision (Gavetti, Greve, Levinthal and Ocasio 2012).

Maitland & Sammartino (2015) studied SWRs to illustrate the experience's or learning's impact on heuristics or more precisely how some managers have more developed heuristics than others. Their study relied on notions that relevant experience and learning increases the richness of one's SWR. Therefore SWR seems like a reasonable way to inspect manager's use of heuristics.

The view that heuristics allow individuals to make accurate decisions without all the information is supported by many authors in the literature. Maitland and Sammartino (2015), however, took it further and argued that heuristics are enabling individuals to build SWR's without all the necessary information for a rational decision. This emphasizes the importance of representation of the problem space which is also supported in the focal literature (Gavetti & Levinthal 2000).

Maitland and Sammartino (2015) also examined the richness of a manager's SWR in relation to the manager's experience and background. As the next chapter points out there is without doubt support in the literature for the idea that experience has positive correlation with heuristics.

Partly mimicking Maitland and Sammartino (2015) this study also relies on the notion that the richness of an individual's SWR works as a measurement of capabilities of one's heuristics. This view is supported by the literature.

## 2.7    Experience and learning

Experience is often present in decision making and heuristic literature. It seems that more experienced managers tend to make better judgements because of their better heuristics. It is also noteworthy that the experience's effect and relationship to decision making in context of internationalization seems to be a ra-

ther unknown area. At least it is very lightly covered in the literature. (Gavetti & Levinthal 2000; Baron & Ensley 2006; Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015) For the sake of the study it is necessary to define experience, expertise and their relation to heuristics.

Experience is like a pool of past experiences that are accumulated into an individual's mind. The past experiences are argued to matter to the structure and content of one's cognitive framework. (Gavetti & Levinthal 2000; Baron & Ensley 2006). Focal literature seems to agree that experience works as a base that enables individuals to recognize opportunities, make better decision, solve problems, learn or basically do any kind of knowledge based actions. (Gavetti & Levinthal 2000; Baron & Ensley 2006; Bingham & Eisenhardt 2011; Maitland & Sammartino 2015) There doesn't seem to be consensus in the literature about how the experience actually improves the capability of the individual to do something better. Bingham & Eisenhardt (2011) argued in their study that a possible solution could be that individuals learn from their experiences and the thing that improve is heuristics.

Learning is relevant to the matter so that it works as a channel for experiences to develop heuristics. Learning literature is vast and most of it does not concern the topic of this study. It is studied in the literature in terms of firm level learning and individual level learning and it is noteworthy that the emphasis of this study mainly lies in individual learning. Learning is something that has been studied quite much but what is actually learned is rarely studied. Often learning is studied by using some sort of indirect measurement, for example outcomes and performance, if the outcome is improved the learning has happened but what is learned is still missed. (Bingham & Eisenhardt 2011) Therefore Bingham and Eisenhardt (2011) set out to study exactly what is learned and what developed during learning. They found that heuristics can be the factor that developed as a result of the learning (Bingham & Eisenhardt 2011).

Learning is often understood to form from repetition and reflection. The learning process itself starts from experiences because every individual has their own unique experiences and through learning these experiences form cognitive structures. Learning is the key that allows individuals develop more sophisticated heuristics or some kind of cognitive structures from their pool of experiences and thus become experts in something. (Baron & Ensley 2006; Bingham & Eisenhardt 2011; Maitland & Sammartino 2015)

Expertise is the capability to efficiently use prior experience to solve new problems. Expert is person who has acquired a relevant experience about something and can make good decisions. Based on the focal literature it seems that expertise is a form of advanced use of heuristics and the bank of prior experiences. Expertise is considered to be the ability to recognize and retrieve pattern from long-term memory that are similar to the current problem. (Maitland & Sammartino 2015)

Retrieving and then applying information from prior experience is called a structural alignment process (Maitland & Sammartino 2015). Analogical reasoning literature explains how current problems are solved based on "bank of prior experiences" by applying a structural alignment process. The idea works so that an individual manager recognizes the structural characteristics of a problem and then scans his prior experience bank for similar experiences and uses those as a base for decision-making. (Gavetti and Levinthal 2000; Gary et al. 2012; Maitland & Sammartino 2015) However, it is argued that structural similarities to a current problem are retrieved from experience only in 12% of cases. (Gavetti et al. 2005; Gary et al. 2012; Maitland & Sammartino 2015) Based on the numbers it seems that experience alone does not provide solutions to problems. The low success rate of retrieving structural similarities is argued to be due the lack of richness in managers' representation of a current problem (Gary et al. 2012).

## 2.8    Experience and heuristics

This is the part where heuristics come into play. One explanatory factor could be that heuristics are used in creating representations of the problem (Maitland & Sammartino 2015). If the representation is poor the structural similarities are not found even if they existed in the bank of prior experiences. Maitland and Sammartino (2015) studied the relationship of heuristics and representation of the problem or decision at hand. They found out that heuristics are indeed in some role in the process. Tracking it back, Bingham and Eisenhardt (2011) already in their study argued that heuristics are developing through learning from past experiences. The work of Maitland and Sammartino (2015) added some valuable points to the work of Bingham and Eisenhardt (2011) by arguing that the key is relevant experiences. They noticed that the richness of individuals SWR is dependent on the manager's heuristics and the heuristics are dependent on relevant experiences. The emphasis here is on "relevant" experiences since only relevant experiences considering the focal situation improve the heuristics themselves or the ability to use them efficiently. Whereas Bingham and Eisenhardt (2011) pointed out that experiences develop heuristics through learning, the work of Maitland and Sammartino (2015) continued that only the relevant experiences are doing so. Therefore it seems rather safe to assume that heuristics are in a crucial role when utilizing experience and vice versa.

Bingham & Eisenhardt (2011) argued that the heuristics are something that can be developed through learning. That points out the relationship between experience and heuristics because learning in the case of heuristics works through experiences. In other words, one could say that individuals learn from experiences, but the things that develop are the heuristics. In light of focal literature, it is seems likely that heuristics provide a certain access to the bank of prior experiences and since the heuristics can be improved by learning we can assume

that better heuristics provide better access. (Baron & Ensley 2006; Bingham & Eisenhardt 2011; Maitland & Sammartino 2015) When the heuristics are developed enough to provide good access to bank of prior experiences it is up to stored experience how efficiently it can provide the needed information. What makes this interesting is that the relevant experience about some topic is argued to develop individual's heuristics that provide better utilization of past experiences, but at the same time the relevant experiences form the bank of prior experiences that the individual uses as a source of expertise. After that the made decisions and their results are encoded back to experience. The process forms a kind of circle that reinforces itself which can be seen from Figure 1. This could be why expertise increases when experience about a topic increases through repetition (Dane 2010).
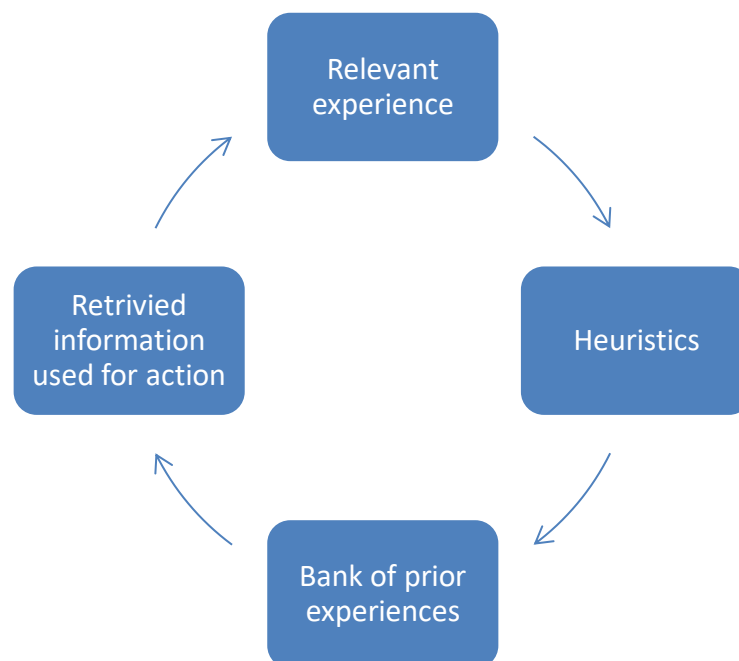


**Figure 1: Roles of heuristics and experience**

This is a different form of Gavetti's and Levinthal's (2000) model of intelligence of action which is illustrated in Figure 2. They basically describe a similar process where the decision starts from knowledge and ends with knowledge increasing but the role of heuristics is not present. Their model recognizes the importance of knowledge (experience in this study) and the outcomes impact on knowledge. In this study it is assumed that the heuristics have a certain role in the process.

**Figure 2: Intelligence of action (Gavetti & Levinthal 2000)**

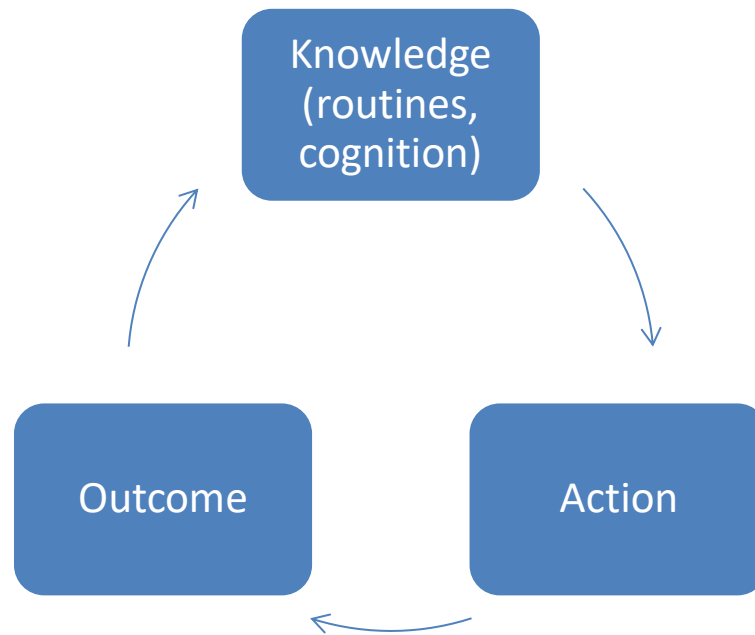In essence the experience is an important part of heuristics. Experiences develop heuristics as well as provide the sufficient information for heuristics to use for decisions. Maitland and Sammartino (2015) pointed out that very little is known in the international strategy literature about what kinds of processes managers engage in and what kind of knowledge they base the decisions on. They also argued that understanding how that kind of expertise develops and what kind of experiences forms international strategy experts (Maitland & Sammartino 2015). This lack of existing literature about the matter provides a highly interesting domain for further research about the topic.

## 2.9    Concluding literature review

Basically it is known in the focal literature that individual manager's role is indeed very important for organizational success since nothing in the organization happens without a decision about it. Every action is decided before it happens. Often organizations are thought to have a top management team that is the source of decisions but in the end the team is formed from individuals. The problem is that the individual members of top management team do not share the same perception of the situation or problem at hand or even about the environment where everything is happening. (Walsh 1995; Eisenhardt 2013)

The situation is perceived by an individual and understood through cognitive processes (Walsh 1995; Levinthal 2011). The way how a manager eventually understands the situation can vary which means that the outcomes can also vary between individuals. This means that the top management team is not an absolute source of decision, but more like a decision-making machine that is a

sum of its parts (Eisenhardt 2013). To be more precise: it is a sum of its parts' cognitive processes. Current literature also is very aware of this and the role of the individual manager but the cognitive processes themselves are still relatively unknown.

The current literature about the cognitive processes has identified factors that most likely affect the decision-making process of managers in internationalization decisions (Bingham & Eisenhardt 2011; Eisenhardt 2013; Maitland & Sammartino 2015). The factors that are relevant in terms of this study are heuristics and their relationship with prior experiences. Heuristics are one key factor that guides an individual manager's decision-making in the focal context (Eisenhardt 2013; Maitland & Sammartino 2015). Heuristics are cognitive tools for decision-making that are especially important in unstable, uncertain, unpredictable and fast moving situations where the base for more rational approach would be very thin (Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011; Eisenhardt 2013; Maitland & Sammartino 2015). Heuristics are argued to be a valid strategy for decision-making in certain situations, since they have provided an accurate decision (Gigerenzer & Gaissmaier 2011; Eisenhardt 2013; Maitland & Sammartino 2015). An important thing about heuristics is that they can be developed and therefore they can be trained to produce even more accurate and better decisions (Bingham & Eisenhardt 2011). Bingham and Eisenhardt (2011) argued that prior experiences are the key for heuristic development. Heuristics are also argued to be a part of the process where possible solutions or advices for the problem at hand are retrieved from long term memory (Gary et al. 2012; Gavetti et al. 2005). Maitland & Sammartino (2015) argues that heuristics are used to create a representation of the problem and then scan the prior experiences with that representation. If the representation is poor or flawed the process fails. This means that heuristics are closely linked with prior experiences.

Therefore experience and knowledge are additional things that have an important role with the cognitive decision-making process. Experience or knowledge can be seen as a pool of prior experiences that can be drawn from when needed and all new experiences and actions add to that pool through learning (Baron & Ensley 2006) (Figure 1). As already mentioned heuristics are needed in the process of retrieving something from the pool of prior experiences but prior experiences are also the factor that develops heuristics (Bingham & Sammartino 2011; Gary et al. 2012; Maitland & Sammartino 2015). This means that experience plays a crucial role in the efficient use of heuristics as well as development of heuristics.

Small world representation (SWR) plays vital role between heuristics and experience. SWR is the key for successful retrieval of things from long term memory, or so called pool of prior experiences (Gary et al. 2012; Maitland & Sammartino 2015). SWR is a representation of the problem at hand or the problem environment (Levinthal 2011; Maitland & Sammartino 2015). It basically illustrates how

well the situation or problem is understood. Richer illustration of the problem is argued to lead to better solutions (Gary et al. 2012). SWR is related closely to heuristics and experience because it is argued that with developed heuristics one is able to create richer SWRs, which means better utilization of the pool of prior experiences (Maitland & Sammartino 2015).

Eventually they all come together to form a chain of action that reinforces or develops itself every time it is used. This could be seen as a path to expertise or it could be thought to illustrate how expertise about something is born. In this chain experience works as a base for everything. Good and relevant experiences provide a better base for retrieving stuff where as individual heuristics are needed for the creation of SWR of the problem at hand. More sophisticated heuristics are argued to provide better SWR's and therefore provide better access to experience bank (Gary et al. 2012; Maitland & Sammartino 2015). Decisions that are made add to the relevant experience through a feedback loop (Gavetti & Levinthal 2000). In a simplest form a wrong decision teaches not to do this again and a good decision reinforces existing rules that led to that particular decision. In a Figure 3 one can see in a simplified manner that an experience works as a start for the action chain by enabling use of heuristics which enables the decision-making which, through feedback loop, adds to experience and therefore reinforces the chain.
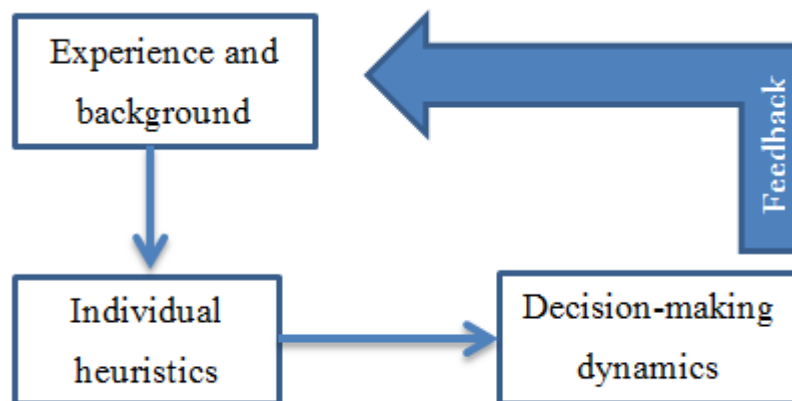


**Figure 3: Experience's and heuristics' development**

Current literature has shown that experience and heuristics are part of the process how decisions can be made and it has also shown that the use of heuristics in decision making is clearly beneficial in certain situations. There are versions of different heuristics and action chains how they might work but in the end the understanding of the process remains relatively unknown and further research about the matter is called for. Especially in terms of SME's first internationalization which provide an interesting ground for research about experience and heuristics. One thing, though, remains certain, experience and heuristics have

an important role in internationalization decision-making but the process itself remains largely uncharted. Therefore, this study aims to increase knowledge about (1) what is the role of heuristics during top management team's first SME internationalization and (2) what is the role of experience in utilization of heuristics and decision-making process. Due to the lack of consensus about these matters in the literature this study is done as a qualitative case study that is inductive in nature.

# 3　RESEARCH DESIGN AND METHODS

## 3.1　Research problem and research questions

Current knowledge about the top management team's use of heuristics in context of internationalization is at best very limited. In the case of an SME's first internationalization it is even more so. As the literature review part concluded there is existing literature about the role of heuristics in the internationalization process and the development of those heuristics. However, the depth of understanding remains very shallow and both, the role of heuristics as well as development of heuristics, still have much to cover. It is also worth notice that the existing literature seems to study a rather large and already well established companies. The context of firm's first internationalization together with inexperienced top management team provide an interesting research domain that is very little studied and also pointed out for further research by Maitland & Sammartino (2015). Therefore, the purpose of this study is to increase knowledge of top management team members' use of heuristics in a decision-making process during the SME's first internationalization and the role of experience in this process.

## 3.2　Methodology

Studying cognitive processes used by top management team in decision-making is a complex domain. Even though the focal literature has acknowledged that the cognitive processes are in a crucial role, the process itself remains implicit. The inexperienced top management team's first internationalization is also never studied in terms of heuristics and experience's impact on them. There is a clear lack of theoretical base as well as literature concerning the topic. Therefore, the study was conducted as a qualitative case study. The method is well suited for this study since it answers "how" questions as well as situations where the reality of the interviewed is at the center of the study (Pratt 2008, Pratt 2009). The study partly utilized procedures established for naturalistic inquiry and grounded-theory building (Glaser & Strauss 1967), especially in analysis of the data by following the systematic data reduction and coding. The data reduction and coding was conducted by using an analytical procedure based on the identification of clearly delineating themes and aggregate theoretical dimensions (Gioia et al. 2012; Corley & Gioia 2004; Gioia et al. 1994). Also the data was collected respecting Glaser's and Strauss's (1967) grounded theory-building tenet that the data should base on the interviewer's interpretation of what might be going on. In other words, the emerging theory is guiding the data collection in contrast to hypothesis testing where prior hypothesis defines the

data collection process (Subbady 2006). Scholarly rigor or qualitative rigor is aimed to be achieved with the analysis of the data by following systematic approach to inductive research by Gioia, Corley and Hamilton (2012) with the analysis methods. The idea of the used method is to build theories from the data itself and to increase understanding of the topic by creating a generalizable theory of the matter. It is clear that the results are not as precise as they would be with a more mathematical approach or with more study subjects but in the other hand this study is set to research a very specific process in a specific context that might be better served with the chosen method. Theory building from the data requires that the data where everything is derived from is really rich and deep and the voice of interviewed should be present (Gioia et al. 2012).

## 3.3     Data collection

This study is conducted by using one company that can be categorized as an SME and it is just on the edge of internationalizing. The studied firm employs around 30 people and the turnover is between two and three million euro. The firm is actively searching and negotiating internationalization opportunities in Europe. Decisions concerning internationalization have been made recently so it is justified to expect that directors should be able to accurately remember the decisions. The sample consists of three individual top directors that take part in the decision-making of internationalization matters. They all are direct employees of the focal firm. The sample was constructed respecting theoretical sampling, a key tenet of Glaser and Strauss's (1967) grounded theory research method. In other words, the firm was chosen for the study because it is good representation of the research problem which is central for the inductive theory building method (Subbady 2006; Gioia et. al 2012).

The data was gathered with open interviews where the discussions were guided by the interviewer when it was needed. It is important to see that inductive theory building differs from traditional hypothesis testing by guiding the data collection with ongoing basis. The data therefore is a result of the researcher's interpretation. (Subbady 2006; Gioia et. al 2012) The sample consisted of 3 directors that were interviewed in two rounds so two interview sessions with every director. The interviews were conducted with all directors who had something to do with the firm's internationalization process. All of the interviewed directors were personally familiar with the interviewer. As the interviews were the only source of data it is in place to consider the validity of the data. In this case that was the only choice since there are no documents for data triangulation. However, all the directors had rather similar thoughts about the process and due to personal relationships it is expected that the directors told what they actually thought without leaving something out.

The study has two main research domains. First is the internationalization decision-making process and second is the experience of the focal directors. The idea for the study is to focus on the cognitive processes and so the interviews focused on what the directors have thought besides what has happened. Basically the required data was to be as a rich story as possible of how the directors saw the internationalization process and how the directors' experience and background affected the process. The directors were asked to describe the whole internationalization process as accurately as they could. They were then asked to tell more about the certain topics that they had mentioned to get deeper information. To get deeper information the directors were asked additional questions about what was important and what were the important actors at that point. They were never asked about their cognitive processes or heuristics. Questions were mostly about the internationalization process and what kind of thoughts they had from it. Once it felt like there was nothing to add to the matter the interview was ended. The interviews were from 20 minutes to 50 minutes long.

## 3.4    Data analysis

The data was analyzed by reducing and coding it in three stages from theme creation to aggregate theoretical dimensions respecting inductive analyzing tenets of Gioia, Corley and Hamilton (2012) (Gioia et al. 1994; Corley & Gioia 2004; Gioia et al. 2012). The three stages as well as later phases can be seen from Figure 4. First order themes are constructed from themes occurred in the interviews. Second order themes are then formed from first order themes by using interpretation. Third step is to create aggregate dimensions from the second order themes. Creating aggregate dimensions requires high level of data interpretation and it is a final step towards theory. After having all the first order themes, second order themes and aggregate dimensions figured out it is time to create a data structure, which is a crucial stage of the research (Figure 4). The data structure visually shows the path from raw data to themes and aggregate dimensions. This is pivotal step because it shows the data in an understandable way and it is in a major role in demonstrating the qualitative rigor (Pratt 2009; Gioia et al. 2012). After the data structure is complete it is time to turn the static themes into a model that describes the process (Figure 4). It is the grounded theory model (Gioia et al. 2012) that gives life to a theory created from the data. It visually makes clear how the themes and dimensions form the theory that is able to describe the studied phenomena. (Gioia et al. 1994; Corley & Gioia 2004; Gioia et al. 2012) It is important to understand that the used analyzing method requires interpretation efforts from the analyzer to transform real life experiences of interviewees into theoretical dimensions (Gioia et al. 2012). Therefore, the data analysis is reported as accurately as possible to achieve high level of scholarly rigor (Gioia et al. 2012). Instead of showing raw data or final interpretations of the data it was aimed to show and describe all the stages of the analy-

sis so that the process can be followed and exposed to revision (Pratt 2008, Pratt 2009).
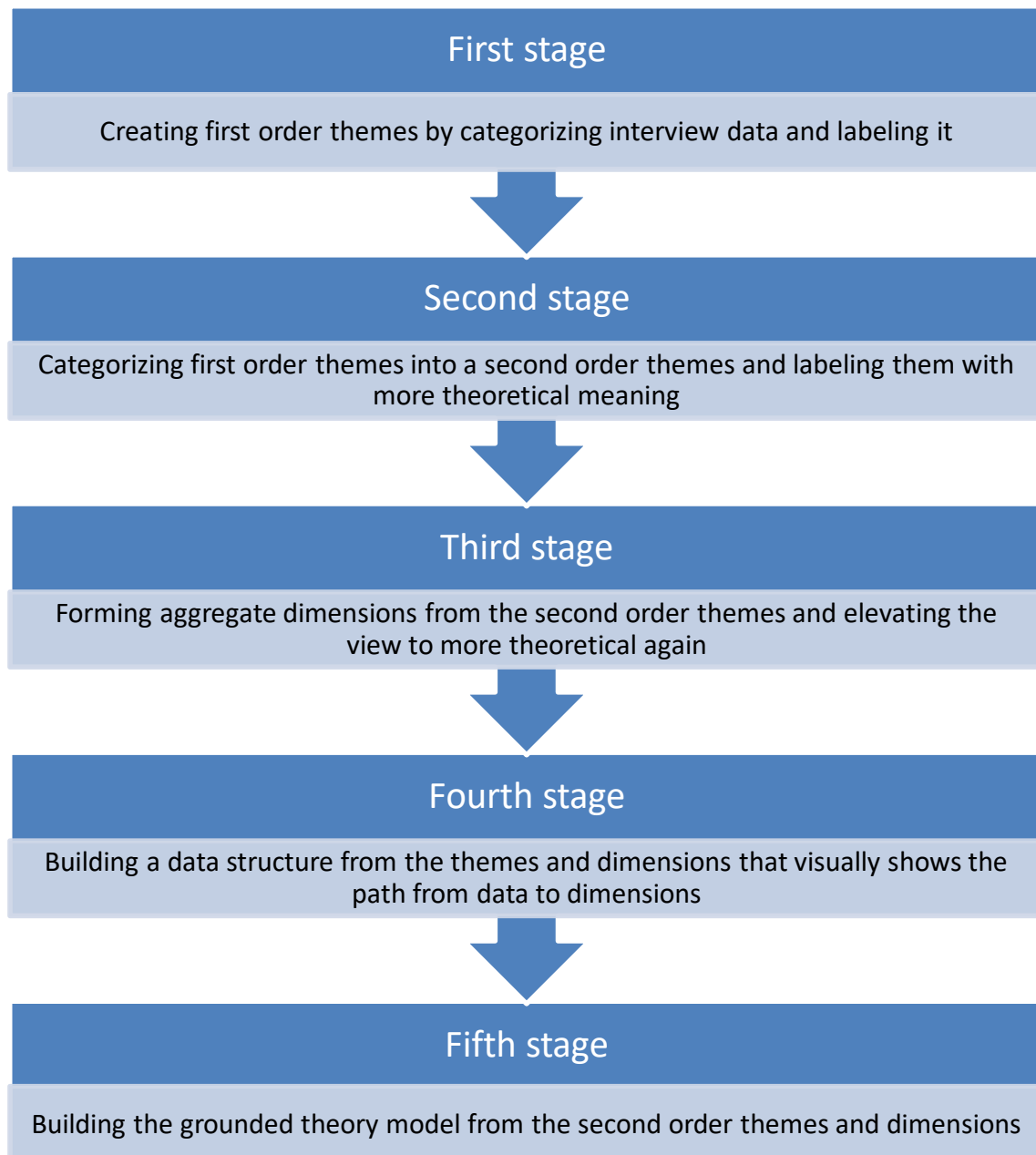
| First stage |
| --- |
| Creating first order themes by categorizing interview data and labeling it |

| Second stage |
| --- |
| Categorizing first order themes into a second order themes and labeling them with more theoretical meaning |

| Third stage |
| --- |
| Forming aggregate dimensions from the second order themes and elevating the view to more theoretical again |

| Fourth stage |
| --- |
| Building a data structure from the themes and dimensions that visually shows the path from data to dimensions |

| Fifth stage |
| --- |
| Building the grounded theory model from the second order themes and dimensions |

**Figure 4: The stages of the data analysis**

At first all three directors' data was analyzed individually by first creating first order themes from frequently occurring themes in the interview data. First order themes were then labelled retaining informant based terms. At this phase 88 first order themes were constructed and combined into one pool of first order themes. However, some of the first order themes were overlapping which led to removing some of the themes. After this, 68 first order themes remained.

Following Corley's and Gioia's (2004) work the 68 first order themes were used to form groups. The groups were then labelled with more abstract meaning by interpreting what the data means. At this point the interpretations were added to the informant's view thus taking the analysis further into a theoretical level (Gioia et al. 2012). This led to 17 second order themes that clearly indicated some firm or top management team level reality. This process can be seen below from table 1.

**Table 1: The data structure: First order themes to second order themes**

| First order themes | Second order themes |
|---|---|
| - Lack of international experience<br>- Background in national decision-making<br>- Started the internationalization without relevant experience<br>- No relevant decision-making experience before the project | Lack of experience from the target environment |
| - Lack of reliable information about the markets<br>- Lack of understanding of the international markets at start<br>- Planning is useless due lack of reliable information | Inability to make SWR of the market |
| - Lack of formal decision-making<br>- Absence of formal decison-making<br>- CEO makes the decisions | Absence of formal decision-making |
| - Lack of strategic direction at start<br>- Lack of formal strategy work with internationalization<br>- Internal disputes about strategy<br>- Lack of product for internationalization for first years | Inability to plan strategy |
| - Decision not to do formal market research<br>- Gathering market information through networks<br>- Finding what is the need in the European markets<br>- Seeking information about own position in the markets using Europe Active contacts | Understanding the knowledge restrictions |
| - Sport science education helps networking with sports industry people<br>- Networking with key players as a source for market information<br>- Systematic use of Europe Active as a source of contacts and information<br>- Focus on relationship development for acquiring information | Utilizing networks as a channel for knowledge |

| | |
|---|---|
| - Strong networks in Europe<br>- Director C goes working for Europe Active for relationships and information<br>- Director C is able to get relationships and information about the markets from Europe Active | |
| - Cooperation with HDD group<br>- Search for strategic partner due lack of resources<br>- Aggressive want of foreign subsidiary | Aim to Internationalize thought partnership |
| - Cooperation with HDD group ended<br>- Cooperation with HDD group failed due many reasons<br>- Relevant experience acquired from the HDD group cooperation<br>- Contacts gained by cooperation with HDD group<br>- Strategic direction found after failure with HDD Group<br>- Failure with HDD group reveals own core capabilities<br>- Realization of own superiority due information gained through HDD Group cooperation<br>- Market information gained due cooperation with HDD group | Experience gained due a setback |
| - Gained a lot of experience from first internationalization efforts<br>- International experience developed during the internationalization | Experience gained due the process |
| - Understanding the need in the markets<br>- Understanding own position in the markets<br>- Industry relatively undeveloped in Europe in business wise<br>- Sales and marketing undeveloped in the industry | Making sense of the market |
| - Realization of own superiority<br>- Realization of the potential of the IT-system | Ability to match capabilities to market need |

| | |
|---|---|
| - Strategic direction formed during the internationalization<br>- Ongoing search for strategic direction while internationalizing<br>- Strategic direction seeking by trial and error<br>- Learned the importance of strategic focus | Strategic direction for the internationalization found |
| - Product for internationalization born in response to the market understanding<br>- IT-System became the cutting edge product for the internationalization<br>- Experience from markets resulted a change from education to it-system<br>- Most developed IT-system for sales and marketing in the markets<br>- Two potential customers for IT-systems | Product for new Internationalization attempt |
| - Core business suffered due management's focus on internationalization<br>- Investments to internationalization worries<br>- The product targeted for international markets differs from the main business<br>- Daily operations' potential suffering due Internationalization | Managerial problems with focus |
| - Small resources hindrance internationalization<br>- Decision to invest only little into the internationalization<br>- Finding working product with small capital investment<br>- Not enough resources for internationalization | Resource restrictions |
| - Industry has huge growth potential<br>- Industry might go towards anticipatory healthcare | Belief in the industry's potential |
| - Thoughts of internationalization influenced the development work<br>- Success in Finnish markets caused the internationalization<br>- Passion towards international actions<br>- Desire to internationalize due the international business education<br>- Internationalization is essential for growth | No shared reason for internationalization |

From the 17 second order themes 5 were abandoned because they didn't seem to have place in the emerging theory. Again partly mimicking Corley's and Gioia's (2004) work the rest 12 second order themes were lifted into more theoretical realm forming 4 aggregate dimensions that describe purely theoretical aspect of the studied phenomena. This can be seen from table 2.

**Table 2: The data structure: Second order themes to aggregate dimensions**

| Second order themes | Aggregate dimensions |
|---|---|
| o Lack of experience from the target environment<br>o Inability to make SWR of the market<br>o Inability to plan strategy | Inability to utilize heuristics due lack of relevant experience |
| o Understanding the knowledge restrictions<br>o Utilizing networks as a channel for knowledge<br>o Aim to Internationalize thought partnership | Systematic gathering of experience |
| o Experience gained due a setback<br>o Experience gained due the process | Relevant experience surpassing the experience threshold |
| o Making sense of the market<br>o Ability to match capabilities to market need<br>o Strategic direction for the internationalization found<br>o Product for new Internationalization attempt | Ability to utilize heuristics in strategy work |
| o Managerial problems with focus<br>o Resource restrictions<br>o Belief in the industry's potential<br>o No shared reason for internationalization<br>o Absence of formal decision-making | Discarded themes |

Once the 4 aggregate dimensions, 12 second order themes and 68 first order themes were formed it was time to create a systematic structure how the raw data formed eventually the themes and aggregate dimensions by creating a data structure. The data structure illustrates step by step how the coding process proceeded. The data structure is here in two parts due its large size. First covers the step from first order themes to second order themes (Table 1) and the second shows the step from second order themes to aggregate dimensions (Table 2).

The grounded theory model was formed from 12 second order themes and 4 aggregate dimensions by combining the knowledge of existent research literature, understanding of the studied phenomena and logical reasoning in the light of the data. The result is an interpretation of the phenomena in theoretical aspect. The grounded theory model set the otherwise stationary themes and dimensions in to a motion and thus finalizing the theory. The grounded theory model is illustrated in Figure 5 in the next chapter.

# 4    FINDINGS

## 4.1    Themes and dimensions

The findings of this study form a theory of development process of heuristics during novice top management team's first SME internationalization. More precisely it describes the important process of how the ability to utilize heuristics develops from inability to use them to the point where heuristics can be used in decision making in a new and unknown environment. This process is described in the model with chronologically forwarding dimensions and themes. The model was constructed as a result of a process where themes formed dimensions and eventually those were turned into a grounded theory model. The model consists of four dimensions. As illustrated in Figure 4, the four dimensions of the model are: (1) Inability to utilize heuristics due lack of relevant experience, (2) systematic gathering of experience, (3) relevant experience surpassing the experience threshold and (4) ability to utilize heuristics in strategy work. The model and the themes describe the development process in chronological order from left to right and from top to bottom. The dimensions illustrate almost purely the theoretical aspect of the process whereas the themes illustrate how the process proceeded in the case in a slightly less theoretical realm.

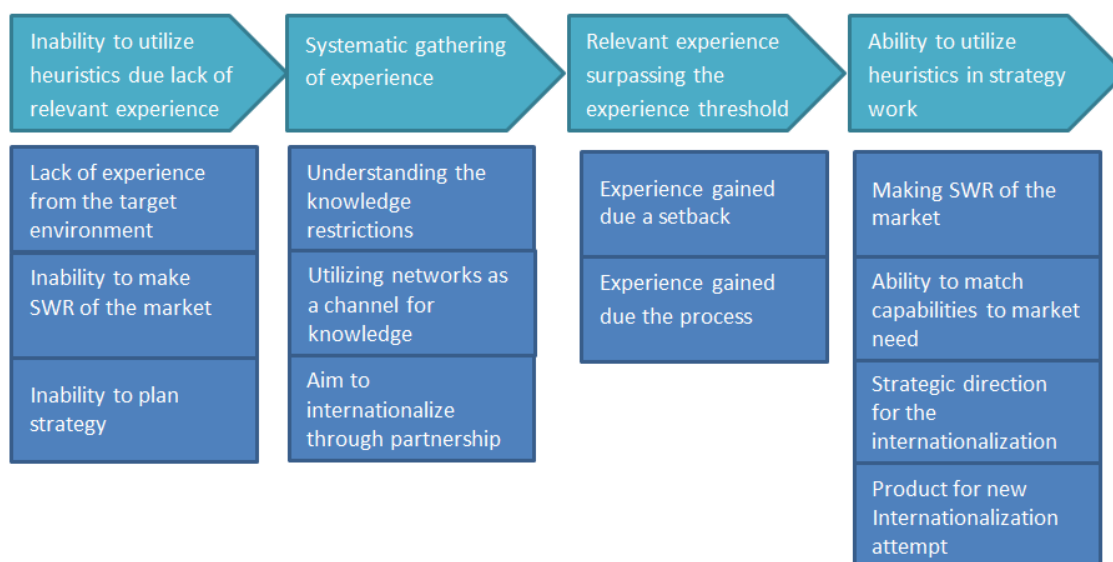| Inability to utilize heuristics due lack of relevant experience | Systematic gathering of experience | Relevant experience surpassing the experience threshold | Ability to utilize heuristics in strategy work |
|---|---|---|---|
| Lack of experience from the target environment | Understanding the knowledge restrictions | Experience gained due a setback | Making SWR of the market |
| Inability to make SWR of the market | Utilizing networks as a channel for knowledge | Experience gained due the process | Ability to match capabilities to market need |
| Inability to plan strategy | Aim to internationalize through partnership | | Strategic direction for the internationalization |
| | | | Product for new Internationalization attempt |

Figure 5: The grounded theory model

### 4.1.1 Dimension 1: Inability to utilize heuristics due lack of relevant experience

The first dimension is formed from three second order themes. The dimension as well as all the themes describes the situation where the management team members were unable to utilize the heuristics in their decision-making and therefore were unable to form strategy for the internationalization. The themes of the first dimension are: (1) Lack of experience from the target environment, (2) inability to make SWR of the market and (3) inability to plan strategy. More data supporting dimensions and themes can be found from the table 3. The supporting quotes are translated from Finnish interview data, both in the table and in the findings section.

**Table 3: Additional data support**

| Additional data support for heuristics development processes of novice TMT in their first SME internationalization | |
|---|---|
| **Theme** | **Representative Quotations (Translated from Finnish interview data)** |
| **Inability to utilize heuristics due lack of relevant experience** | |
| Lack of experience from the target environment | "I could frame that frankly so that there wasn't any previous experience"<br><br>"Not really strong international background. My own international background is mostly from this project"<br><br>"Didn't have experience, except those acquired at Trainer4You, but here at Trainer4You I have got experience about international business." |
| Inability to make SWR of the market | "We didn't have smallest clue whether they are in same situation as we are in Finland or years ahead, are we going there to learn or teach. There wasn't any kind of understanding of it."<br><br>"As I said, the understanding wasn't very clear, or we didn't have reliable data available when we made preparations beforehand." |
| Inability to plan strategy | "We hadn't done that kind of decision beforehand that we go there to do this but rather we went to identify the opportunities that there might be."<br><br>"So we hadn't done strategic plan that this is how we proceed but we kept our eyes open and tried to identify that kind of strengths that would have place where our strengths are."<br><br>"Sufficient data that we could analyze and do conclusions and plans, well that has actually accumulated after we really got to networking and really start working." |

| | |
|---|---|
| | "The direction was searched by doing. We have tried to do and try things and learn from what we did and analyze it together. In a way our strategy work with the internationalization has been very, in a way, unformal"<br><br>"Strategy has been that there is no strategy but rather a constant adaptation based on observations made and that has made this so challenging."<br><br>"The direction and focus of ours, kind of, wavered and fluctuated." |
| **Systematic gathering of experience** | |
| Understanding the knowledge restrictions | "Accurate plans were pretty much impossible to make beforehand, at least in this project, because sufficient data and information were not available"<br><br>"After all we are talking about rather young industry, a fresh industry where all reports and studies about the industry are easy to dispute and so the reliability was needed to acquire quite much for at which point the industry and the single operators really are. And what are the true needs of the industry" |
| Utilizing networks as a channel for knowledge | "Target market knowledge has been increased pretty far by networking and familiarizing rather closely with certain key players or players generally speaking"<br><br>"By participating these events for Europe Active's peers and that way mapping the own view about in what state is the whole market is and how we position in this market with our knowhow and supply" |
| Aim to Internationalize thought partnership | "At that time, year and half ago it seemed that or even a couple years back, that we need insiders as partners so that the doors will open"<br><br>"To be able to grow strong enough we need partner that |

| | has already been networking for example decade with the industry's actors and they have done it probably for several decades" |
|---|---|
| **Relevant experience surpassing the experience threshold** ||
| Experience gained due a setback | "We negotiated long time with this Dutch actor. We learned a lot about, well, many things and acquired view to the industry's situation, but in the end we noticed that they surely are not the right partner for us." "When too many things are put in the negotiations table it is hard to get anything reasonable done. At that point we chose for our strategy a kind of "denial with silence"." "I would say that, rather, we look that something was tried and failed, we should see that actually we got really good knowledge with cheap price and built groundings for our next move. I wouldn't say that we tried, faced problems and failed but we rather identified opportunity that we inspected more closely and actually thank god we didn't precede with this partner. What we got was understanding about what is our central knowhow and damn good understanding that we need to have our home base in order before we go try again. And that is achievement is worth beyond measure." "We had long negotiations with the Dutch actor. We got a lot of knowledge about, well, about many things and acquired view about the industry's situation" |
| Experience gained due the process | "Now we understand what is the need and what are the possibilities and also little bit learned, of course, what are our limits" "There was positive and really steep learning curve" |

| Ability to utilize heuristics in strategy work | |
|---|---|
| Making sense of the market | "Situations changed rather much and our own perception of our offerings and the value we produced changed quite much"<br><br>"Noticing how undeveloped the certain ways of doing things and, kind of, work culture are in this health and fitness sector. So that has reinforced our view and belief that what we offer has substantial value for the industry" |
| Ability to match capabilities to market need | "We notice that, for example, our ecosystem software is pretty unique"<br><br>"The ecosystem software to this form and we have piloted it in the Finnish market and so it has become clear that it has the potential for the international edge at this point." |
| Strategic direction for the internationalization found | "We have our product crystallized and that how we can best produce value to the markets"<br><br>"We didn't have any of this when we went, I mean that the first plane ticker was bought we trained Personal trainers. Like what is our place in the value chain, what is the problem we are solving has become clearer due this process." |
| Product for new Internationalization attempt | "So our whole product for internationalization formed as a result of this process to serve the need that we see there is"<br><br>"What we got from there was understanding about what is our central expertise" |

The lack of experience from the target environment theme is one of the key themes of the model since it describes one of the major tenets of this study: The role of relevant experience. In Figure 6 it is shown as a one of the three key building blocks of ability to utilize heuristics. It is good to notice that the term often used in the study is relevant experience. The experience from the target environment is relevant experience, but relevant experience can be also acquired from somewhere else than just the target environment (cf. Maitland & Sammartino 2015). The relevant experience is crucial since it develops heuristics (Bingham & Eisenhardt 2013) and also works as a bank of prior experiences which is scanned for similarities with the SWR that is built to represent the problem at hand (Maitland & Sammartino 2015). It is important to notice here that relevant experience does both, it develops heuristics but also work as a pool of experience which is then used for scanning. Since the scanning is also done by utilizing heuristics there is a kind of circle where acquired relevant experience is first developing heuristics and then working as an experience pool for later use.
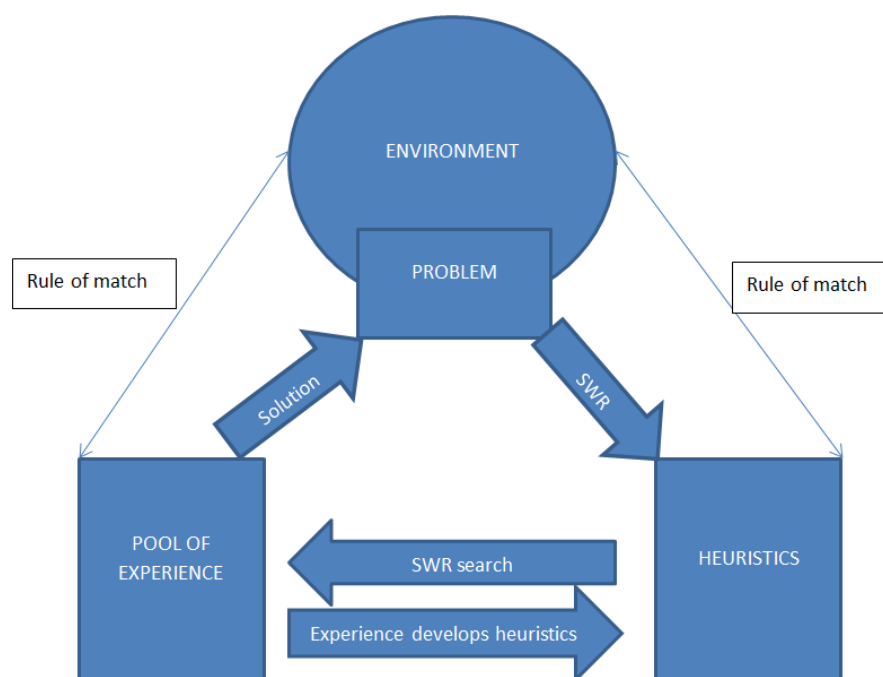


**Figure 6: The process of how heuristics and experience works**

What makes the relevant experience crucial, or in this case the lack of it, is the finding that without relevant experience of the focal environment the ability to utilize heuristics is lower or non-existent. It is also good to notice that the relevant experience must be matching with the focal environment. There is always a possibility that the top management team that was studied is purely unable to make business decisions at all which would also explain that they were unable to do so in the new international environment but that doesn't seem to be the case. To demonstrate this, it is necessary to dive into a recent history of the cur-

rent top management team. According to the CEO the company went through a process where all franchise branches were merged into a one company. At that time the management of the company also changed. After that the company grew and conquered market share rapidly, eventually becoming the market leader in the time spawn of few years before the internationalization efforts. Therefore, it can be argued that the new management of the company had rather good ability to utilize heuristics in the domestic market. They had relevant experience concerning Finnish markets and therefore could effectively use heuristics in decision-making but they didn't have relevant experience concerning international markets. The lack of relevant experience can be directly seen from the interview data that included answers to experience related questions such as:

*"I could frame that frankly so that there wasn't any previous experience"-Director C*

*"Not really strong international background. My own international background is mostly from this project"-Director B*

*"Didn't have experience, except those acquired at Trainer4You, but here at Trainer4You I have got experience about international business" –Director A*

The lack of experience theme is followed with theme called "Inability to make SWR of the market". It is, together with relevant experience, in the major role regarding the findings. The theme indicates that the lack of relevant experience caused problems as inability to make the SWR of the markets (Maitland & Sammartino 2015; Gary et al. 2012). More precisely one requires developed enough heuristics to build accurate SWR of the problem and heuristics are developed as a result of acquired relevant experience (Maitland & Sammartino 2015). So to be able to make accurate SWR the relevant experience is needed (Maitland & Sammartino 2015). SWR is then used to scan the pool of experience for similarities and again the relevant experience is the key for better ability to make decisions (Gavetti & Levinthal 2000; Maitland & Sammartino 2015). The described process is illustrated in the Figure 6. In this case the top management team was unable to create the SWR of the markets due the lack of relevant experience and also they didn't have relevant prior experience for seeking a solution as they were facing a novel situation in a novel environment. The inability to make SWR out of the situation came clear from the claims such as:

*"At the beginning we went, did and watched what the future holds since we really didn't know what was outside of Finland" – Director A*

*"The reliability was needed to acquire quite much for at which point the industry and the single operators really are. And what are the true needs of the industry" –Director B*

These claims alone are not enough to justify the argument that they were unable to make the SWR. These told only that they didn't know what was happen-

ing but when these are interpreted together with the claims about the situation where the understanding about the markets was gained the inability to make SWR was revealed. They just could not create the SWR out of the situation because of the lack of relevant experience but it changed when they gained the relevant experience. The change in the understanding comes clear from the following claims:

*"Let's think about the year 2012-2013 and compare it with the year 2016. We set out to export personal trainer knowhow out there but now we are exporting the sales- marketing, digital learning environment, software that is behind the personal trainer course" – Director A*

*"Clearly we learned and understood what can be and what should be aimed to internationalize" –Director B*

The inability to plan strategy theme is more of a practical consequence of the two previous themes that held more theoretical meaning. The theme describes how the top management team of this study was unable to plan a strategy due to the failure in building an SWR of the problem which was a result of lack of the relevant experience of the particular environment. This led to a lack of strategic direction. In other words, the top management team had no idea what to do besides physically go abroad and not knowing what to do there or what to aim to achieve. The inability to plan a strategy can be seen from the following quotations:

*"We have all the time tried to process what could be our product for the internationalization and where are we so good that others want to buy it abroad and it has been really long process and there has been a lot of thinking what it could be and what it will be" – Director A*

*"We have had a long consideration about what will be our selection for international markets and the consideration has been around expertise, this personal training coaching philosophy, materials and from those to the systems and sales processes and so on…" – Director B*

*"This field is so new and it cannot be known where it is heading and what product will work so it has been very valuable information what we got from there and where are we heading now" – Director A*

*"Strategy have been that there is no strategy" – Director C*

The first dimension highlights the role of relevant experience in the ability to utilize heuristics in decision-making. The main tenets of the dimension are the necessity of relevant experience and the dependency of the relevant experience with the focal problem environment. The relevancy of the experience can be argued to be dependent on the problem environment which in the Figure 6 is tak-

en into account with "rule of match" arrow that aims to describe the dependency relationship. Due the dependency it can be argued that the relevant experience needs to be acquired from the relevant environment. Relevant experience from a relevant environment therefore develops the heuristics that are used to build the SWR of the problem. The relevant experience also works as a pool of experience that is used for searching similarities by using the SWR and that way seeking solutions to problem. In essence the ability to use heuristics is dependent on the relevant experience of the focal environment

### 4.1.2 Dimension 2: Systematic gathering of experience

The second dimension is formed from three second order themes. It describes how the top management team understood their inability to act due to knowledge restrictions and how they systematically started to acquire experience from the markets as well as plan how to overcome the knowledge restrictions by partnering with someone who has the experience. The three themes of the dimension are: (1) Understanding of the knowledge restrictions, (2) utilizing networks as a channel for knowledge and (3) aim to Internationalize thought partnership.

Understanding of the knowledge restrictions theme is one of the themes that doesn't really present any novel insight but rather ensures the flow and process nature of the model and theory. However it is important in a way that it clearly is a pivotal step in the process by preceding the acquiring of relevant experience which has important descriptive meaning in the process. It describes how the top management team understood that they were unable to act due the shortage of experience and knowledge about the European markets. Based on the interviews they realized how the planning was useless due the information shortage but also that the reliability of existing information could be easily compromised. This can be seen from the following quotations:

*"After all we are talking about rather young industry, a fresh industry where all reports and studies about the industry are easy to dispute" - Director B*

*"There wasn't any really valid data to be used" – Director B*

Utilizing networks as a channel for knowledge theme was crucial for the development of the top management team's ability to use heuristics and for their internationalization efforts but also in terms of the model it is a pivotal step. It serves the purpose of describing how the top management team acquired their relevant experience in their development process. Since the relevant experience is in a highlighted position in this study the part where the relevant experience is acquired is important for the theory. However, how the experience is acquired doesn't seem to be that important. The studied top management team started to increase their experience of the markets after the realization that they

really didn't have sufficient understanding of the markets because of the lack of relevant experience. They figured out that by systematically utilizing and building networks with larger European actors they could acquire information and knowledge about the markets. This seemed to be a rather important matter for the informants since there was much material pointing to the use of networks in acquiring information. There were quotations such as:

*"Then we got right channels to certain places so that we keep up what is happening in the scene European wide" – Director C*

*"First was the consideration that how that market can be charted, so does it require formal marketing research or is it possible to form perception by just going and doing and can it be found that kind of instance that would have the gut feeling and who could guide you to the people who has the same feeling. Very soon it turned out that there is and this instance was Europe Active" – Director C*

*"There the chemistry matched in a magnificent way with the Europe Active's then management and we found that at this point there is no reason to start formally research that, instead we do just fine by informally charting the situation through networks" – Director C*

 *"And that way we also got that network for us and got information what is going on there" – Director A*

Aim to Internationalize thought partnership theme is not particularly important in terms of a generalizable theory but for describing how the development process in this case progressed, it holds great meaning. As the failure of partnership was one of the major events as well as an opportunity to gain experience, the reason for building a partnership is also key step in the case. The top management team in this case wanted to internationalize through partnership because they understood that they lacked experience and therefore could not do it by themselves. This with the systematic building of international networks led to situation that they were on a verge of starting a partnership with larger international company. This theme describes the second dimension well in a sense that the management understood the shortage of experience and tried to overcome it with joining forces with a company that had the required experience. It points out the realization and systematic work to overcome it. About this theme there were quotations such as:

*"At the beginning it was really focal to get negotiations open as wide as possible, with as many partner as possible, to understand the market as well as possible" – Director C*

*"There was no possibility to invest much so we understood that it must be done through some sort of partnership solution, the internationalization out of Finland" – Director C*

*"To be able to grow strong enough we need partner that has already been networking for example decade with the industry's actors" – Director B*

It is good to note that the dimension tells a story in two different layers. In terms of the case it describes the phase in the process where comes the realization about the shortage of knowledge that causes the inability to act and the systematic work to acquire experience to overcome it. In terms of the theory the dimension describes how the level of relevant experience is not sufficient and therefore the ability to utilize heuristics is paralyzed. Once it is noticed that things do not work, begins the acquiring of experience. It is also noteworthy that the relevant experience is dependent on the environment and in this case the top management team went directly to European markets to acquire the experience from the local players.

### 4.1.3 Dimension 3: Relevant experience surpassing the experience threshold

The third dimension "relevant experience surpassing the experience threshold" is formed from two themes. It describes how the experience in the end was gained whereas the previous dimension described how the management aimed to gather it. The themes forming the dimension are: (1) Experience gained due to a setback and (2) experience gained due to the process.

The theme "experience gained due to a setback" describes one of the key events of the case: The failure of partnership with larger international firm. The top management team had been negotiating with a large international firm about the partnership where they would have started a joint venture in Netherlands. However, this event held special meaning since it acted as a concrete sign of an end of one phase and a start of another in the internationalization but also as a point where the management team had to rethink the situation. It seems that it also was a point where the gathered experience somehow concretized. The management team felt that the failure eventually taught them a lot and that they gained a lot of experience from it. It is interesting that while the top management team most likely constantly learned something and gained experience during the process, they all still felt strongly that the failure itself taught them a great deal. This theme represents an important step in the process since it partly constitutes the phase where the relevant experience was gained which was needed for the utilization of heuristic. At first they were unable to utilize heuristics because of lack of relevant experience. Therefore, the gaining of relevant experience plays a major part in the process since it made the utilization of heuristics possible. There were exact mentions of failure and its connection to learning in the interviews such as:

*"Negotiations ended few months back when we had not in a few years' time to get any kind of agreement what should we do" – Director A*

*"The ideas didn't exactly match and besides that the chemistries didn't match and in other hand we were out there with too thin funding"* – Director C

*"It has been really important time period for us in a sense that we have learned about those markets and familiarized with the actors and saw their way of doing things."* – Director A

*"Large networks to Europe and through Person X we became acquainted with many kinds of people and recognized many different types of actors from the markets. So it has been really important time period for us."* – Director A

*"In the partnership wise the Dutch partner candidate brought us much more than just negotiation expenses. It brought substantial amount of vision and contacts."* – Director B

It is good to notice that the setback was a result of the inability to utilize heuristics in the first place. The top management team tried to internationalize the firm without a clear strategic direction by seeking partnership which proved to be the wrong direction and therefore led to failure. When the top management team eventually could make sense of the markets and regained the ability to use heuristics they saw that the partnership wasn't a right choice which can be seen from the CEO's quotation:

*"After we noticed that it is not necessary… At that time, year and half ago it seemed that or even a couple years back, that we need insiders as partners so that the doors will open but we have found out later that even for that you don't need a strategic partner.."* - CEO

The second theme of the dimension is "experience gained due the process" which describes how the whole internationalization process increased the top management team's relevant experience of the matter. It aims to tell that the relevant experience was also gained due to the whole process, not just due to the failed partnership. The importance of this theme also lies with the role of relevant experience like with the previous theme. Supporting quotations can be found from the interview data such as:

*"We got good understanding about what is the market's situation and good connections for how to do something in the future possibly… And what it is that should do. We got, let's say, wider understanding of the whole scene."* – Director C

*"For two and a half year learning costs' I would say that, in a matter of fact, amazing performance!"* – Director C

Overall the third dimension is about necessity of acquiring enough relevant experience to be able to use heuristics. As the first dimension showed the relevant experience is in a major role when it comes to utilizing heuristics. In this case

the top management team was unable to utilize heuristics due to the lack of relevant experience which led to the situation where they could not understand the environment, in other words, make an SWR out of it. The management team then acquired the ability to utilize heuristics by gathering relevant experience. Therefore, it is justified to argue that there exists a threshold for relevant experience that must be surpassed to be able to utilize heuristics.

### 4.1.4 Dimension 4: Ability to utilize heuristics in strategy work

The fourth dimension is called "Ability to utilize heuristics in strategy work". It consists of four themes that are: (1) Making sense of the market, (2) ability to match capabilities to market need, (3) strategic direction for the internationalization found and (4) product for new Internationalization attempt. The dimension is the last one and it describes the phase in the process where the top management team gained the ability to utilize heuristics in the new environment and create a strategy for the internationalization. That became possible after they were able to fulfill all of the requirements of Figure 6.

The making sense of the market theme describes how the top management team gained ability to make an SWR out of the environment because they surpassed the relevant experience threshold and therefore could utilize heuristics again. In other words, the top management team was able to understand the environment they were working in. At the beginning of the process they were unable to understand or theoretically speaking, make an SWR of the environment. After they regained the ability to use heuristics they were able to understand the environment or make SWR of it. Quotations supporting this theme can be found from the interview data such as:

*"We recognized that there is not as strong actors in Europe as Trainer4You is in Finland in its own domain" – Director C*

*"We understood that nobody here has anything to teach, that we must come here to teach. This is the biggest thing we figured out" – Director C"*

*"The industry's actors' way of doing things is very unsystematic when compared to many other industries, the actions of more established industries. In this health and fitness sector the way of doing things is still very far from professional organization's actions." – Director B*

The second theme "Ability to match capabilities to market need" describes how the top management team could match their own strengths with the market needs as a result of utilizing heuristics and understanding the new environment. After the top management team was able to make an SWR out of the environment and therefore understand the environment, they found out the underlying needs of the market and could match their own strengths with these needs. This

theme demonstrates well how the heuristics started to work after the crucial threshold of relevant experience was surpassed. Supporting quotations can be found such as:

*"We kinda have something to give to their business"* – Director B

*"We though what the need is there and then we adjusted our own supply to equivalent"* – Director C

The Strategic direction for the internationalization found theme is describing the phase of the process where the strategic direction was found as a result of understanding the markets and the ability to match the capabilities to the market needs. The top management team was able to utilize heuristics at this point and so they could understand the environment they were working in and match their strengths to the environment which allowed them to start building a strategy. These arguments can be supported with quotations from the interviews such as:

*"Development of the ecosystem, from which became a cutting edge for our present internationalization"* – Director B

*"At this point we are proceeding with the system software as a cutting edge"* – Director B

*"Our whole product strategy has purely born as a result of this process"* – Director C

The last theme of the dimension is "product for new Internationalization attempt" and it describes the phase where the management finally could create a product for the internationalization. The top management team went from knowing nothing to a point where they had a product and a strategy ready for the internationalization. After that they moved on to internationalize with the product first as the Director A said in the interviews:

*"2015 we got the product ready, it was clear milestone and after we got the product ready we started to proceed with the product first."* – Director A

The last dimension highlights the part where the top management had regained the ability to utilize heuristics and therefore could do all the things they did in the themes such as understand the market, create a strategy and product for internationalization. This is important in a sense that at the beginning of the process the management was unable to plan a strategy due the inability to utilize heuristics but at this point they could plan the strategic direction. This demonstrates that some kind of development has happened in between the first and last dimensions. The findings of this study argue that the gaining of relevant experience lead to the ability to utilize heuristics in an environment where they could not be used before.

## 4.2    Theoretical aspect to the process

When viewing the model through more theoretical lenses the model and the development process are rather straight forward. To be able to explain the model better it is good to remind how heuristics are utilized and then move on to the model itself. As Figure 6 illustrated the process of utilization of heuristics consists of the key elements that are the pool of relevant experience, heuristics and the problem environment. There is a rule of match between the environment and the pool of experience which means that the experience must match with the environment. The relevant experience therefore has an important relationship with the problem environment but it also has other roles as well. When relevant experience is acquired it develops heuristics but also develops the pool of experience. Heuristics are used to make an SWR out of the problem and the SWR is then used to search similarities from the pool of experience. The similarities found are then used to solve the problem at hand.

The model starts with the first dimension which describes the situation where the problem environment has changed and the top management team is unable to utilize heuristics because they lack experience of the new environment. They could not make an SWR out of the problem environment but also they didn't have a sufficient pool of experience to use for searching similarities. In the second dimension the top management team has understood the lack of relevant experience and started systematically gathering it. In the third dimension the gathered relevant experience surpassed the threshold and thus made utilization of heuristics possible in the new environment. In the fourth dimension the top management was able to utilize heuristics because they had all the requirements shown in Figure 6 in order and therefore could make an SWR out of the problem environment and use that SWR sketch to search similarities from the pool of experience which abled them to come up with a strategy.

Overall the study highlights that lack of relevant experience may cause inability to utilize heuristics and that the relevant experience develops ability to utilize heuristics. The study also proposes two other things. That the problem environment and the relevant experience must be matching to be able to utilize heuristics and that there is a threshold for relevant experience that must be surpassed to be able to utilize heuristics in the new environment.

# 5 DISCUSSION

## 5.1 Findings and the existing literature

The findings of this study agree with the existing strategy literature that heuristics do have a central role in strategy (Bingham & Eisenhardt 2011; Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015). This study also contributes to the microfoundations of strategy by highlighting relevant experience's crucial roles in novice top management team's internationalization attempts.

It is typical for existing literature about SME internationalization to present many different firm level explanations, models or patterns on how an SME can internationalize (Ruzzier et al. 2006; Johanson & Vahlne 2009; Schweizer 2010). For example, there is a model for firms that are instantly global; the born global (Autio et al. 2000). Then there is a model for a more subtle and gradual type of internationalization; the Uppsala model (Johanson & Vahlne 1977; Johanson & Vahlne 2009). These models tend to explain things purely on a firm level (Aharoni, Tihanyi, Connelly 2010). They often forget to take into account the micro level processes that actually explain the firm level behavior (Abell et al. 2008; Felin & Foss 2009). However, even though the studies that aim to explain the firm level internationalization theories with microfoundations, the human actor behind all actions, are much rarer, there are still some studies to be found (Bingham & Eisenhardt 2011; Maitland & Sammartino 2015). Bingham and Eisenhardt (2011) and Maitland and Sammartino (2015) both recently studied microfoundations in the context of internationalization. In a larger view, the firm level explanations dominate the literature, whereas microfoundations that would explain firm level behavior with micro level behavior remains very little covered. The findings of this study aim to contribute to that gap.

The findings offer micro level insights to a firm level issue: Internationalization. The study proposes an explanation why the SMEs can't just pick an internationalization model from the text book and implement it perfectly as it is often assumed in the literature (Aharoni, Tihanyi, Connelly 2010). The findings show that without relevant experience the top management team cannot make sense of their environment and therefore are unable to set any kinds of strategic direction. Heuristics are in the main role in this process. They are essential for the understanding of the environment as well as for the ability to create a sufficient strategy. Even more essential is the relevant experience which possesses the power to enable as well as disable the ability to utilize heuristics. The findings propose an explanation about how relevant experience affects the development process of heuristics during novice top management team's internationalization attempts.

Existing literature suggests that acquired experience develops portfolios of heuristics (Bingham & Eisenhardt 2011) and that developed heuristics together with relevant experience can build more accurate SWRs (Maitland & Sammartino 2015). However, prior research leaves a gap about relevant experience's roles in the process which is where the findings of this study contribute. Maitland and Sammartino (2015) studied also what kind of experience enables management team members to build better SWRs. This means that they have partly studied what constitutes the "relevant experience" as it is labelled in this study. They found that experience such as number of countries worked in and how many countries encountered had a positive impact on SWR's richness (Maitland & Sammartino 2015). It is good to notice that this study aims to highlight the roles of relevant experience and not what actually constitutes it. However, while the essence of relevant experience stays ambiguous the roles of it still provide an interesting domain for research.

As the findings, in this case the grounded theory model, showed the relevant experience has multiple important facets in terms of utilizing heuristics. First role is that relevant experience develops the ability to utilize heuristics. The second is that lack of it may cause inability to utilize heuristics. Third is that there is a threshold that must be surpassed to be able to utilize heuristics in new environments. Fourth and final is that relevant experience must match the problem environment.

The first role of relevant experience is that it develops the ability to utilize heuristics. It is clear that relevant experience made it possible to utilize heuristics in this study. There are several ways that the experience might have developed the ability to utilize heuristics. First explanation is similar to Bingham's and Eisenhardt's (2011) findings about experience's impact on firm-level heuristics development. They found that firms first learn simple heuristics, then more sophisticated ones and finally they hone them for their own use. In other words, the management teams learn heuristics from the experience. The development of heuristics still doesn't seem to be the whole story. Maitland and Sammartino (2015) argued that heuristics enable better creation of an SWR and according to Gary et al. (2012) the richness of an SWR influences the ability to retrieve similarities from the pool of prior experience. Therefore, development of heuristics is definitely one piece of the puzzle but the ability to make a better SWR and use it to retrieve similarities from the pool of experience are also important parts of the process. Therefore, a second possible explanation could be similar with the findings of Maitland and Sammartino (2015) who found that experience, through development of heuristics, develops the ability to build SWRs. In this explanation the experience works as a pathway to first understanding of the environment and then scanning the pool of experience with the representation by enabling creation of a better representation of the problem environment in the first place. Overall it seems that relevant experience develops both heuristics and therefore the ability to make better SWRs and that is the key mechanism for the utilization of heuristics.

The second role of the relevant experience is that lack of it may cause inability to utilize heuristics. The findings of this study show that while the top management team had no relevant experience they could not utilize heuristics and once they did acquire the experience they were able to use heuristics. This is in line with the existing literature in a sense that heuristics are learned through experience and without experience there are no heuristics to utilize (Bingham & Eisenhardt 2011). It can also be that the problem was in creating an SWR of the problem which is also a result of the lack of experience (Gary et al. 2012; Maitland & Sammartino 2015). This is an important finding since SME internationalization oftentimes can be done under high uncertainty and information restriction which is an ideal situation to utilize heuristics (Gigerenzer & Gaissmaier 2011; Maitland & Sammartino 2015)

Third role of relevant experience is that there exists a threshold that must be surpassed to be able to utilize heuristics in the new environment. The threshold is one of the main findings of the study. There is no existing literature about this kind of threshold yet but this still could be explained with existing literature. Maitland and Sammartino (2015) argued in their study that specific experience enables the creation of more accurate SWRs which are crucial for understanding the environment and problem. Therefore, with too little experience it is hard or impossible to understand the environment because if the SWR is too inaccurate as a representation of the problem it is unlikely that similarities from prior experiences are found (Gary et al. 2012). Bingham and Eisenhardt (2011) argued that heuristics are learned as a result of acquiring experience which would mean that you either have or don't the particular set of heuristics that are needed for a certain situation. In other words the recent literature about the subject is in line with the finding.

Fourth role is the notion that the ability to use heuristics is dependent on the relevant experience of the focal environment. This basically means that the relevant experience must be matching with the environment. This, however, does not mean that the experience must be acquired from the exact environment but rather similar enough. It is also good to understand that depending on the situation the matching environment can be either very specific or the opposite. There doesn't seem to be an universal truth when it comes to the relationship between relevant experience and the environment where it had been acquired from. This finding is also in line with the existing literature since Maitland and Sammartino (2015) presented findings that similar experiences to the problem do correlate with a more accurate SWR. For example, in case of internationalization the amount of countries worked in and countries encountered had a positive correlation with the richer SWR. Overall it seems that the experience that enables the utilization of heuristics must be acquired from a matching environment but there is no exact knowledge what environment actually is matching with some other or what kind of experience is relevant.

The findings of the study are new in the sense that existing literature doesn't have exactly similar findings. The existing findings do recognize that the relevant experience has a role in the development process as well as in utilization of heuristics (Bingham & Eisenhardt 2011; Maitland & Sammartino 2015). They also recognize the fact that experience needs to be relevant (Maitland & Sammartino 2015). However, they lack more specific understanding about what the relevant experience does and its roles in the process. The findings of this study take the understanding of relevant experience's roles further. Even though the findings are partly new, they are still in line with the existing literature (Bingham & Eisenhardt 2011; Gary et al. 2012; Maitland & Sammartino 2015). In other words, there are no conflicts between the existing findings and the findings of this study. The findings also manage to show that existing studies and their findings (Bingham & Eisenhardt 2011; Maitland & Sammartino 2015) do apply in the context of an SME firm's internationalization with a novice top management team even though the existing studies were made using much larger and more established companies as well as experienced teams.

## 5.2    Future research

The relevant experience in the development process of heuristics and in the process of utilizing heuristics provides an interesting research domain. There is existing literature about the subject but the overall understanding still remains very narrow and therefore there are studies pointing out the experience's role for further research. The direction for this study also was partly pointed by Maitland and Sammartino (2015) in their study. The findings of this study show that it is clear that the relevant experience does have a role in both the development and use of heuristics but much still remains unknown. This study highlights the importance of experience in the development of heuristics and the many roles that experience has in the process and point out possible new direction for future research. Clear directions for future research could be what constitutes the "relevant" experience or from how similar environment the experience has to be acquired for it to enable utilization of heuristics.

# 6   CONCLUSION

Heuristics are proven to be an efficient way of coping in a highly uncertain and fast moving environment where information is not always possible to acquire. That kind of environment is typical for SME internationalization and therefore heuristics are in a highlighted role in the SME internationalization process. However, heuristics are not born with, instead they must be learned and honed. Also they are not always working as they should be or one might be unable to utilize them. This leads us to experience which is the primary source of heuristics development. Due to the importance of heuristics itself it is also as important to understand how it can be developed. The findings of this study shed light on the various role of experience in the development of heuristics in context of a novice top management team's first SME internationalization.

Due to the lack of existing literature about the subject this study was made as an inductive and qualitative case study. Interviewing the top management team of one SME in two rounds was the primary source of data. The analyzing part was made by utilizing grounded theory building methods, especially with the coding of the data.

Based on the analyzed data, the created emergent model points out that experience, or to be more specific the relevant experience, develops the ability to utilize heuristics in a new environment. It also argues that there is a threshold for relevant experience that needs to be surpassed in order to be able to utilize heuristics and while the relevant experience has not surpassed the threshold the ability to use heuristics may be paralyzed. Finally, it argues that the relevant experience must be acquired from an environment that matches the problem environment.

Understanding how to develop heuristics during internationalization provides interesting practical implications for the companies who are planning their first internationalization. The findings can work as guiding rules for the top management team for what to expect during their first internationalization and how to systematically develop themselves to the point where the utilization of heuristics becomes possible.

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