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# CAUSATION AND EFFECTUTATION IN THE IN THE FOREIGN MARKET ENTRY AND SELECTION OF SOFTWARE SMES

Current research emphasizes several factors impacting on SME internationalization. However, it remains unclear that how entrepreneurs in SMEs think and implement their internationalization and select target countries for foreign operations. In this qualitative case study, foreign market selection and entries of five Finnish software firms are analyzed by using the theory of causation and effectuation. The findings imply that software SMEs used more causation logic in their foreign market selection and effectuation logic in their foreign market entries. The case firms that followed causation logic in FMS entered more distant countries.

**Key words:** causation, effectuation, software firms, foreign market entry, foreign market selection

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# INTRODUCTION

Internationalization has been considered both from reactive and pro-active perspectives; the scholars of international entrepreneurship have acknowledged an entrepreneurial, pro-active view of internationalization, whereas the traditional international business scholars have a more reactive view of internationalization (Andersson, 2011; Autio, 2005). The proactive view of internationalization is related to the *effectuation* logics, introduced by Sarasvathy (2001). On the contrary, the reactive view introduced by the traditional scholars of international business, such as Johanson and Vahlne (2009), derives from the rational decision making perspective of neo-classical micro-economics (Chandler et al., 2011) and is related to *causation* logic. Sarasvathy (2001) introduced the concepts of causation and effectuation to describe how entrepreneurs act in creating new ventures. In short, causation processes take a particular effect as given and focus on selecting between means to create that effect. Effectuation processes, on the contrary, take a set of means as given and focus on selecting between possible effects that can be created with that set of means (Sarasvathy, 2001).

The scholars of internationalization have mainly focused on the contents of new venture internationalization strategies, whereas the analysis of the development and implementation processes of internationalization have gained very little attention (Zahra & George, 2002; Zahra et al., 2005). For instance, it remains unclear that how strategically SMEs plan and implement their internationalization and select the countries for foreign operations (Dow, 2000; Ojala & Tyrväinen, 2007; Ojala, 2009). The usage of causation and effectuation logics to study foreign market entry and selection can help us to solve this research gap, pointed out also by Zahra et al. (2005). In their study, Zahra et al. (2005: 143) expressed: “We know little about what goes through entrepreneurs’ minds as they explore their firm’s competitive global landscape”.

Thus, the aim of this article is to study the effectuation and causation logic in the software entrepreneurs decision making related to their first three foreign market entry and selection. This study contributes to knowledge of effectuation and causation theory in the context of internationalization of SMEs. In addition, it contributes to knowledge related to decision making processes during the internationalization. Furthermore, this study connects an entrepreneurship theory to internationalization studies as called by several studies (Chandra et al., 2009; Jones & Coviello, 2005; Zahra, 2007; Zahra et al., 2005). This study also gives empirical evidence to the effectuation theory as called by Stuart et al. (2008). The research questions are as follows:

1. How do entrepreneurs in software SMEs select and enter foreign markets?
2. To what extent do they use effectual and causal logic to select and enter foreign markets?

## THEORETICAL BACKGROUND

In this section, we shall first look at the Sarasvathy's (2001, 2008) theory on causation and effectuation in entrepreneurial behavior. Thereafter, we shall discuss the internationalization theories focusing on foreign market selection and entry. This is followed by a short discussion on recent empirical findings related to the foreign market selection and entry by SMEs. In the end of the section, we shall summarize the theoretical section and highlight the research gap.

### Causation and Effectuation

On the background of causation and effectuation logics, there are two kinds of "problems": causal problems are problems of **decision**, whereas effectual problems are problems of **design** (Sarasvathy, 2008). Sarasvathy (2008) points out that causal logic helps us to choose and effectual logic helps us to construct. In other words, the causal actor begins with an effect (s)he wants to create and asks: ”What should I do to achieve this particular effect?” (Sarasvathy, 2008: 73). For instance: "What should I do to internationalize?" Thus, causal logic follows the certain steps or procedure. One good example of this includes Kotler's (1991) suggestion for bringing the product/service to market. It involves (i) Analyze long-run opportunities in the market, (ii) Research and select target markets, (ii) Design marketing strategies, (iv) Plan marketing programs, and (v) Organize, implement, and control marketing effort. In contrast to the causator, the effectuator begins with his/her means and asks: ”What can I do with these means?” And then again ”What else can I do with these means?” (Sarasvathy 2008: 73). The context can be, for instance, “We are now five international persons here and we have this kind of knowledge and contacts. What could we do together?” Sarasvathy (2008: 73) summarizes this as follows: ”Effectuation does not begin with a certain goal; it begins with a given set of means and allows goals to emerge contingently over time from the varied imaginations and diverse aspirations of the founders and the people with whom they interact.”

Causation models focus on the logic of **prediction** (Sarasvathy, 2001): to the extent that one can predict the future, one can control it. Minzberg (1994) refers to the problems of predetermination in strategic planning: while writing the strategic plan, the world is expected to sit patiently by. After that, the world is expected to remain stable so that the plans can be implemented in a convenient manner. Minzberg (1994: 239) states “Here we wish to show that all this too is fallacious, that the process of strategy making usually takes place precisely because the world does not hold still.” Effectuation, on the contrary, stresses on the logic of **control**, i.e., to the extent that you can control the future, you do not need to predict it. Effectual organizations make decisions on the basis of existing **means**, i.e. *identity, knowledge and network*. The effectuation logic emphasizes that entrepreneurial opportunity discovery process and uncertainty are situation dependent (Sarasvathy et al., 2003). When using effectual logics, the entrepreneur ignores risk prediction and makes decisions on the basis of loss absorption to control uncertainty. Effectual reasoning transforms uncertainties to opportunities as they avoid early commitment to any specific markets (Sarasvathy et al., 2003).

Effectual logic focuses on **partnerships** as opposed to causal competitive analysis. In the causal logic, the market is expected to exist independent of the firm or entrepreneur and the aim of the entrepreneur would be to grab as big a share of that market as possible (Sarasvathy, 2001). In the effectual logic, the founder together with others creates the market by bringing together enough stakeholders who are committed to sustain the enterprise. According to Sarasvathy (2001: 252): “Effectuation emphasizes strategic alliances and precommitments from stakeholders as a way to reduce and/or eliminate uncertainty and erect entry barriers.”

**Foreign Market Selection and Entry**

How firms select and enter foreign countries have been of interest in many internationalization theories (Johanson & Mattsson, 1988; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Oviatt & McDougall, 1994). The Uppsala model describes internationalization as an incrementally evolving process, in which a firm internationalizes its operations by going through various stages. In the model, internationalization mechanism is seen as based on increasing market knowledge that increases market commitment through commitment decisions and current activities (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). In the market selection, firms are expected to enter first into nearby markets, which share a similar language, culture, political system, level of education, level of industrial development etc. Thereafter, when a firm's knowledge to operate internationally increases, it gradually starts to develop activities in psychically more distant countries.

In contrast to the Uppsala model, International New Venture (INV) theory suggests that firms can skip stages, or not have any stages at all in their internationalization process (Oviatt & McDougall, 1994). The theory is motivated by the observation that the internationalization of INVs is related to opportunity-seeking behavior, in which an entrepreneur "seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt & McDougall, 1994: 49). Based on the theory, managers of INVs have existing knowledge about how to operate in the international markets and existing networks that they can use as a resource to enter several countries soon after their establishment.

In the network model of internationalization (Johanson & Mattsson, 1988), internationalization bases on network development with other firms that belong to a network in a foreign country. Relationships between the firms in different countries act as a bridge to new markets (Johanson & Vahlne, 1990). Based on the theory, development of relationships with other actors in the market can be active or passive. In active networking, the initiative is taken by the seller, whereas in passive networking the initiation comes from the buyer's direction (Johanson & Mattsson, 1988). Thus, in the model, market entry and selection depends on the location of existing or possible network partners.

In empirical studies, it is well established that large market size in the target country attracts firms as these markets provides a large customer base for their products and consequently enables lager profits (Bell et al., 2003; Ellis, 2008; Ojala & Tyrväinen, 2007, 2008; Terpstra & Yu, 1988). However, Ellis (2008) found that although countries with large market size are normally attractive, this association weakens if psychic distance becomes greater. That is, operating in a psychically or culturally distant country increases costs of doing business and offsets the benefits of large market size (Ellis, 2008; Ojala & Tyrväinen, 2008).

Network relationships may also have a critical role in the market selection, as firms tend to follow their existing networks to foreign markets (Bell, 1995; Coviello & Martin, 1999; Moen et al., 2004). Commonly these existing relationships drive firms to enter nearby, psychically close markets. This is for the reason that when psychic distance becomes greater, it makes network formation more challenging (Johanson & Vahlne, 2009; Ojala, 2009). For instance, in his study Ojala (2009) found that when Finnish software firms entered the Japanese market, they were not able to use their existing networks for the market entry. In addition, the entry to the Japanese market was rather based on a strategic decision to enter the market than network relationships available. Hence, the firms first selected the target country and only thereafter started to search for networks to achieve the market entry.

**Summary**

Existing literature on the SMEs internationalization focuses on foreign market selection and entry as a complex process including several variables that impact on the decision to internationalize. However, although we acknowledge that psychic distance, geographical distance, network relationship etc. have important role on the SMEs internationalization, we do not know much how entrepreneurs make decisions to select and enter foreign markets. For this reason, we shall apply Sarasvathy’s (2001, 2008) theory on causation and effectuation logics in the analysis of the foreign market selection and entry. This is, if software SMEs are using causation and strategically planning their internationalization toward certain goals or if they are using more effectuation logic and start their internationalization by thinking ”What can I do with these means?”

## METHODOLOGY

The selection of the research method for this study was based on the need to cover a real-life environment in which causation and/or effectuation processes take place. Thus, the research method needed to be capable of covering the spheres of human actions and enabling an in-depth investigation of the complex phenomena. In relation to decision-making at the entrepreneur level, Sarasvathy (2001: 261) argues that “…case studies and qualitative analyses of detailed decision-making experiments might be required to accomplish this empirical objective”. The case study method has been also used in several earlier studies related to decision-making processes (e.g. Eisenhardt, 1989b). Based on these circumstances, we selected a multiple case study methodology similar to the approaches introduced by Eisenhardt (1989a) and Yin (2003) for this study.

Since the selected sample of the case firms influences the results of the study (Miles & Huberman, 1994), we used multiple criteria to select cases. One of the selection criteria was good access to the required information, as recommended by Stake (1995). Thus, the firms were contacted based on the industry knowledge and contacts of the authors. The selected firms were also part of a large national research project that increased their willingness to participate in the study and to provide the information needed. This and the personal-contact aspect increased mutual trust between the researcher and the persons interviewed in the case firms, and consequently, facilitated the collection of accurate information. However, the selection of cases cannot be based only on good access to the information: also the theoretical perspective has to be also taken into account (Eisenhardt, 1989a). In the theoretical sampling, we focused on the following issues: Firstly, products and consequently target customers of the case firms varied from traditional industries like furniture industry to high-tech industries such as telecommunication. Secondly, the foreign market entries of the case firms vary greatly from nearby markets to very distant markets. Altogether, the selected sample includes a great variation of firms from the software industry. This is important for studies having a small sample of firms (Schweizer, 2005) since it should include “polar types” of research sites (Pettigrew, 1990). Finally, the criteria for selecting the case firms were that the number of employees should be less than 250, which is a definition used in the European Union (European Commission, 2003: 5).

We used multiple sources of information to gather data from each case firm. The main form of data collection was in-depth interviews conducted with the chief executive officers (CEOs) and managers involved in decision-making for the internationalization of the firms. We conducted 2-3 interviews per firm. Altogether, semi-structured open-ended interviews were conducted with five firms for this study. CEOs, sales, marketing and international business managers were selected as interviewees for this study as they had the most in-depth knowledge concerning foreign market entries of the firm and they had been involved in the decision-making processes concerning the market entry. In addition to interviews, we used many types of secondary information such as press releases, firms’ websites, annual reports etc.

During the interview process, we used semi-structured, open-ended questions. This approach made it possible to ask “main” questions and then to pose further, more detailed questions (Yin, 2003). The interviewees were first asked to describe their business in general and the internationalization history of the firm. Thereafter, the interviewees were asked to explain circumstances that led to the foreign market selection and how did they enter these markets. Based on this general information, more detailed questions were then asked about the important events, persons, firms, or organizations involved in the foreign market entry. All these questions were developed according to the guidelines by Yin (2003), with the aim of making the questions as non-leading as possible. This encouraged the interviewees to give authentic answers to the interview questions. Because the interviews focused on the entrepreneurs' past experiences, we followed the guidelines for retrospective studies issued by Miller et al. (1997) and by Huber and Power (1985). Hence, we (i) compared information provided by the informants, (ii) asked about concrete events and facts, (iii) encouraged informants to give precise information rather than past opinions or beliefs, and (iv) utilized the written material of the firm to facilitate the recall of past events. In addition, if an interviewee was unsure related to an important event in the past, we asked the interviewee to check his/her emails to recall how the event progressed. This worked well as most of the interviewees had past emails saved.

All the interviews were digitally recorded and transcribed verbatim. Thereafter, the complete transcripts were sent back to interviewees for a review. Mostly, the interviewees accepted the transcripts as such. However, in some cases, the interviewees gave some minor comments related to misspelled partners' names or wording. In addition to face-to-face interviews, telephone and e-mail communication was used to collect further information and to clarify inconsistent issues if necessary. These communications were also added to the case-study database. By comparing the interview data with other information gathered from the case firms, we conducted triangulation of the information (Miles & Huberman, 1994).

The method utilized in the data analysis was content analysis. The analysis of the case data consisted of three concurrent flows of activity (Miles & Huberman, 1994): (i) data reduction, (ii) data displays, (iii) conclusion drawing / verification. In (i) the data reduction phase, the data were focused and simplified by writing a detailed case history of each firm. This is in line with Pettigrew (1990), who suggests that organizing incoherent aspects in chronological order is an important step in understanding the causal links between events. Thereafter, on the basis of the interviews and other material collected from case firms, we identified and categorized unique patterns of each case under the sub-topics derived from the research questions. In addition, checklists and event listings were used to identify critical factors related to the phenomena encountered (Miles & Huberman, 1994). In (ii) the data display phase, the relevant data were collected in tables. In (iii) the phase of conclusion drawing and verification, we concentrated on identifying the aspects that appeared to have significance. At this stage we noted regularities, patterns, explanations, and causalities relating to the phenomena.

The researchers went through the transcripts to categorize the firms' FMS and FME separately. We subsequently worked jointly to compare and cross check our categorization of whether the firms' FMS and FME followed causal or effectual logic. We dealt with ambiguities and variations in categorization by clarifying the conceptualization of causal and effectual logics.

## FINDINGS

When analyzing the degree of causation and effectuation in the foreign market entries of the case firms, we recognized that the *target country selection* and the *way that the case firms entered these markets* can be divided into two different "problems". The first problem was related to foreign market selection (FMS), that is, if the FMS was based on the problem of decision (causation) or the problem of design (effectuation). The second problem was related to how the firms entered the foreign market. The foreign market entry (FME) can also be divided into causation or effectuation. Hence, altogether, the FMS of a case firm may be based on causal logic whereas the FME may be based on the effectual logic and vice versa. Table 1 gives overview of these logics used by the case firms in their foreign market selection and ways enter to the market. In addition, it provides quotations from the interview data to demonstrate how the interviewees expressed circumstances that led to the FMS and FME.

| Firm | Foreign markets | Foreign market selection | | Foreign market entry | | Quotations from interview data |
|---|---|---|---|---|---|---|
| | | Causation | Effectuation | Causation | Effectuation | |
| Firm A | UK | X | | | X | *"We knew that London is one of the central places in the game industry… When we were establishing our start-up team we had an office straight away in London. He [the employee in London] came from Jussi's [co-founder] contact network, and already lived there"* |
| | Japan | X | | | X | *"From the beginning, Japan was our first target…because of the nature of our product. We heard from a partner that, in Japan, one firm is launching IPTV services there. The partner wanted to introduce our product to this Japanese firm as a part of their own product portfolio…this was how we got the first contact with the Japanese customer."* |
| | USA | X | | | X | *"The USA is very attractive market… we had distribution agreement with the local video on demand service provider. However, the distributor quit the project but their employees who were involved in the project resigned and established our subsidiary to the USA."* |
| Firm B | USA | | X | | X | *"One of the partners told us that they were establishing a project in the USA. They wanted to have us as we knew that they needed to carry out the project… of course we were also interested in the market potential in the USA."* |
| | Singapore | X | | | X | *"We did not have any existing customers there but we saw the market potential there and in nearby countries… it was a central location in Asia. That is why one of the employees went there and started to network with potential customers."* |
| | Japan | | X | | X | *"One of our partner's asked us to join their project in Japan. The project growth so much and we needed more employees to Japan, so we decided to establish a subsidiary there."* |
| Firm C | Germany | X | | | X | *"Frankfurt, Paris, and London are the cities where we wanted to* |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | *be located… I talked with a person that I knew from a consulting firm in Germany and he asked me to contact a person who had been working in a large German software firm. This person was immediately interested in our product and introduced us to the potential customers and people that are now selling our product in Germany."* |
| | France | X | | | X | *"It was a conscious decision to go to France. In this field, Paris is the place where you have to be. Kari and I [member of the advisory board] discussed with Kari's earlier contacts who knew people working in this field in France. Then we went to France to meet these people and we found our distributor."* |
| | Russia | X | | | X | *"Russia was the place where we wanted to locate because we knew that there are a lot of potential customers. We found our representative for the Russian markets by using Kari's [member of the advisory board] personal contacts."* |
| Firm D | Sweden | X | | X | | *"I conducted a market survey by using a consultant. He interviewed potential customers and found out who were the most interesting players and customers in this field. Thereafter, he gave me a list of ten potential distributors and started to go through the list. Now we have a distribution agreement with one of them."* |
| Firm E | Italy | X | | | X | *"We conducted a market research in Italy and one part of it was to find potential partners. After the market research we realized that Italy was a market where we needed a distributor. Actually, we did not find the distributor based on the market research, we found him accidentally. They saw our product on the Internet and they contacted us."* |
| | Sweden | X | | | X | *"For the Swedish market, we were looking for a distributor… This distributor was partly our competitor but they noticed our* |

| | | | | |
|---|---|---|---|---|
| | | | | *strong rise in the market. We had several discussions over one year before we ended up signing the contract with them.”* |
| Denmark | X | | X | *“Denmark is a good strategic location, it is close to Sweden and Norway where our main customers are located. In addition, Denmark by itself is very strong in furniture design…. With help of Finpro [Finnish export agency] we found a person from Denmark with a strong background in the furniture industry. He was interested in joining our team and we established a sales office in Denmark”* |

Table 1. Causation and effectuation logics in FMS and FME of the case firms.

## FMSs of the case firms

Most of the case firms followed causation logic in their FMS (Firms A, C, D and E). The reasons for this were related to the fact that entrepreneurs of these firms knew, already in the establishment phase, the main foreign market where they wanted to locate in the future. For instance, Firm A that develops a cloud gaming platform for Internet protocol televisions (IPTVs) knew that they have to locate in the markets that offer good contacts either for game development studios or IPTV providers. For this reason they first entered the UK markets that offered good contacts with game development studios. Following two market entry decisions, Japan and the USA, were based on the location of IPTV providers. In a similar manner, the co-founder of the Firm C also knew already in the establishment phase of the firm the central markets where they wanted to be located. They provided risk management software for banks and financial institutions so for them it was important to locate in the cities with well-known financial centers such as London, Frankfurt, Moscow, Paris and Milano. The CEO of Firm D, on the other hand, made the decision to enter first Sweden, because their product requires long installation and implementation processes that involve intensive cooperation with customers. They decided that it is safe to start internationalization by entering Sweden since there are customers that operate in all Nordic countries and they know how business processes of these firms work. FMS of Firm E also followed causation logic, in a pretty similar manner as in Firms A and C. Because the firm provided 3D modeling software for the furniture manufacturers and furniture chains, the cofounders of the firm wanted to be located in the European countries with a large furniture industry. For this reason they decided to enter countries like Italy, Sweden, and Denmark. Interestingly, Firm B was the only case firm that used effectuation logic in their FMS. For their first FMS to the USA market, they got an order from one of their partners who had a project there and the partner needed knowledge of the Firm B to perform the project. Their entry to the Japanese market also took place in a similar manner: a partner asked them to attend a project in Japan. Thus, these two decisions were not based on a planned strategy to enter certain markets.

Although most of the firms were rather decisive to enter the certain markets they all were still open to new opportunities that emerged. For instance, the CEO of Firm C expressed it as follows:

> *”We cannot focus on all markets at the same time. Of course if someone comes and ask about our product, we can show our demo version over the Internet and have a web meeting with the potential customer. We have now two cases like this, one from Brazil and one from Singapore. They might be our future customers… of course we cannot say ”no” to them but we are not actively focusing on these markets.”*

**FMEs of the case firms**

Although FMS of the case firms mainly based on the causation logic, the way they actually entered these foreign markets was more in line with the effectuation logic. After deciding abput the target market(s), the case firms started to search for existing resources by asking who do we know? and what we can de with these resources? That is, most of the FMEs were based on the entrepreneurs’ existing resources that they were able to utilize. Firms A, B, C, and E were able to utilize their own, internal networks for their

FMEs. For instance, Firm A was able to use one of the cofounders' personal networks to establish a representative office in the UK. Firm B used the knowledge of their employee to establish the subsidiary in Singapore. Firm C was able to use personal contacts of their advisory board member to enter the France and Russian markets and personal networks of the cofounder to enter to Germany. Partners formed also important external network resources in the FMEs of firms A, B, and E. Firm A was able to use their partner's contact that was already selling products to Japan to enter the Japanese market was able to use their existing partner for the market entry to the Japanese market. Firm B got an order to the USA from one of their partners who had a project there. The entry to the Japanese market also took place in a similar manner: a partner asked them to attend a project in Japan. Firm E was looking for a partner to handle Swedish market by attending international trade fairs. The partner found was actually their competitor, but because of the better functionality of the products of Firm E, the competitor started to cooperate with them in the Swedish market. Partners were also found from an international trade fair (Firm A, third FME) or by "accidentally" where a future partner took contact to the firm when they show the product on the Internet (Firm E, first FME). Only two of the firms used causation logic in their FMEs. Firm D hired external consultant to find a partner to handle the Swedish market. In similar manner, Firm E used services of the Finnish export promotion organization to find an employee to handle the Danish market.

## DISCUSSION

In this paper we focused on the decision making process relating to selecting and entering foreign markets by using Sarasvathy's (2001, 2008) causation and effectuation theory. We found that the entrepreneurs were goal-oriented and they focused on the markets with high growth potential for their products and services. Interestingly, their FMSs were not based on a competitive analysis as suggested by Sarasvathy (2001) but rather on the location of potential customers or partners. However, their FMEs to these target countries were mostly based on effectuation logic. Entrepreneurs used their existing means and networks to enter the countries that they saw as the most potential for their product offering. This expands the findings by Ojala (2009) indicating that firms may also select psychically close countries by using goal-oriented decision-making.

The findings reveal that entrepreneurs selected first the target country and only thereafter started to search for partners (who I know?) to enter that market. So in the cases, partners helped them to achieve the market entry, but did not impact on the FMS. This might be the reason why the firms entered also psychically distant markets. This finding puts forward the conceptual findings by Johanson and Vahlne (2009) and extends the empirical findings by Ojala (2009) indicating that network relationships help to overcome psychic distance. Hence, it seems that firms following causal logic in their FMS may enter psychically and culturally more distant countries when compared to the firms using effectual logic.

One explanation why effectuation logic is pronounced in the FMEs could be that the first three markets generally represent the early stages of internationalization when the level of uncertainty is high. During the early stage of internationalization the firm is uncertain because it lacks market knowledge and has scarce resources and is therefore inclined to take a means driven approach. These circumstances are similar to the uncertainty surrounding the new venture creation phase. Firms attempt to reduce the cost and uncertainty about internationalization by using their various partnerships to create opportunities. They subsequently reduce risk by turning uncertainty into opportunities through their partners. Firms gain market and product knowledge through partners who are already established in those markets. Entrepreneurs often realized that they required resources, which they could only obtain through partnerships, which they had to seek in foreign markets. Consistent with Sarasvathy (2001) these firms focused on partnership (effectuation) rather than competitor analysis (causation), especially in their FMEs.

## CONCLUSIONS

This study contributes to the theory of causation and effectuation (Sarasvathy, 2001, 2008) in the context of internationalization of SMEs by revealing how entrepreneurs think and make decisions about internationalizing their business. The findings imply that Finnish software SMEs used more causation logic in their FMS effectuation logic in their

FMEs. Secondly, we found that by following effectuation logic in the FMS, the case firms entered more distant countries. Thirdly, based on the findings here it is difficult to say if firms are more successful if they follow a certain logic in their internationalization. However, causation and effectuation logics can be complementary during the internationalization process. The case firms were able to use both logics successfully and it helped them with entering the countries that were strategically important to them.

**Managerial Implications**

There are several implications from our study for entrepreneurs. First, we question the strict adherence to business plans during the internationalization of the firm. Entrepreneurs need to be flexible to take up the excellent opportunities that may not appear in their business plans. Second, entrepreneurs need to consider having a combination of a means driven approach as well as goal driven approach during internationalization. They need to be flexible to adapt to any changes they may need to make, for example, using goal driven for market selection but changing to means driven for market entry. Third, entrepreneurs need to think in terms of affordable loss when they select and enter markets. Since they rely on partners to internationalize they are bound to make mistakes by choosing the wrong partner and so need to incorporate this into their decision making process. For example, if they choose a distributor who does not sell their products then they need to make an allowance for the loss that they can afford to make.

**Further Research Directions**

Suggestions for future research directions include doing a qualitative study in another country and in other industry contexts to test our findings. Comparisons could be made between other cross-country contexts. This could be used to determine whether firms target a diverse range of country clusters or a narrow range when selecting and entering their first three markets. In addition, our findings could be used to develop a questionnaire that is used in a large quantitative survey so that statistical generalizations can be made. Finally, future research could consider studying several more foreign market selection and entries rather than restricting them to three as we have done.

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