

Opportunity Novelty, Improvisation and Network Adaptation in Firm Internationalization

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Abstract

This study combines effectuation theory with a network view on internationalization in order to fill several gaps in the literature. So far, opportunities have been studied from either exchange and arbitrage or product and innovation perspectives and most studies completely focus on identification and recognition of opportunities, but we advance that the degree of novelty of the opportunity has important implications for the foreign market entry. We further argue that both the behaviour preceding identification and the strategy following exploitation of an opportunity are important in order to understand the path-dependent character of the process. With the help of three concepts - improvisation, opportunity novelty and network adaptation - we develop three hypotheses, which are combined in a structural model and tested with the help of LISREL. The data consists of 237 international opportunities reported by 160 firms. The paper ends up with a discussion of the results, where we also identify interesting areas for future research.

Keywords: internationalization, opportunity, novelty, improvisation, network, adaptation.

Introduction

An increasing number of internationalisation scholars pay attention to the concept of opportunity in order to understand firm internationalisation (Johanson and Vahlne, 2009; Oviatt and McDougall, 2005) but we still need both theoretical development and empirical studies of the role of opportunity in this process. So far, most studies focus on how and why firms and entrepreneurs identify and recognize opportunities in foreign markets (e.g. Chandra et al., 2009; Muzychenko and Liesch, 2015; Zaefarian et al., 2016, but as entry into a foreign market's network is likely to be a path-dependence process (e.g. Eriksson et al., 2000), the nature of the first step is closely linked to the second step of this process. Consequently, we have to incorporate opportunities acted upon and exploited in our analysis in order to understand the role of opportunity characteristics in the entry process. What increases, for example, the likelihood that certain types of opportunities are identified and acted upon and how will opportunity characteristics influence exploitation outcomes? But a shortcoming in the extant literature is that opportunity characteristics seldom are discussed and defined. Instead the focus is on identification and recognition, which means that we know little about the nature of the opportunity. It either exists or does not exist, but remains a black box. In order to increase our understanding of the opportunity-seeking firm's internationalisation, we therefore address several gaps prevailing in the literature:

First, we contend that opportunities are different in kind and that examining the nature of the opportunity should be more sophisticated than dividing opportunities into types like exchange and arbitrage or product and innovation. As opportunity is a relative and perceptual concept, it follows that the opportunity also can be characterized by various degree of novelty by the firm.

Second, as we are interested in the process of finding and acting upon opportunities in the foreign market entry, we advance that both the behaviour preceding identification of the opportunity, and the strategy following exploitation of the opportunity have to be analysed. In order to do this, we combine effectuation theory (Saravathy, 2001; Schweizer, 2015) with a network view on internationalization

(Johanson and Vahlne, 1977; Johanson and Mattsson, 2015) by incorporating the concepts of improvisation and network adaptation in our model.

Third, as almost all studies on opportunity and effectuation in firm internationalization are based on qualitative, mainly cases, studies, we use a sample of 237 international opportunities reported by 160 firms for studying the above-proposed concepts and we combine them in a structural model, which we analyse with LISREL.

Thus, we assume that the nature of the first opportunity acted upon in a foreign market's network influences the subsequent entry and expansion, and in order to fill the gaps presented above we turn to two theoretical perspectives that already have been combined, but never in quantitative study with a sample relating opportunities to central concepts of effectuation theory (Sarasvathy, 2001; Read and Sarasvathy, 2005) and the network perspective (Johanson and Vahlne, 1977; Ojala, 2009), which is very much inspired by the IMP-Group (Turnbull et al., 1996). By doing this we make two main contributions to the internationalization literature, where the first is that it gives a more nuanced view on opportunity by advancing the idea that an opportunity can be analysed in terms of how novel it is for the entering firm. The second contribution is that instead of focusing on how and why the opportunity is identified, this study explains both antecedents and outcome of opportunity novelty.

Developing an opportunity in terms of entering a new country market can be characterized as an entrepreneurial process (Ellis, 2011) and it is thus at the core of the process of internationalization (Mainela, Puhakka and Servais, 2014; Johanson and Vahlne, 2009). The needs and wishes of the parties involved in developing a specific opportunity into a business exchange may however be more or less alike the needs and wishes that previously have been handled. In other words, a specific opportunity may be characterized as being more or less novel to a specific firm.

Developing a novel opportunity is likely to be more challenging and demanding than acting upon an opportunity that is similar to the opportunities developed in the past. The novelty means that methods and actions that previously have been found successful no longer can be counted upon. It therefore becomes harder to figure out how to act in advance and planning based on previous experiences is less likely to successfully guide future actions. This lack of predictive options can be perceived as increased risk but acting upon a novel opportunity may also be more profitable as a differentiated selling proposal is one of the three basic strategies identified as key to success (Porter, 2008). To not only identify but also dare and be able to act upon novel opportunities may thus be a key success factor for business. It is therefore unsatisfying that antecedents leading to that opportunities characterized by novelty actually are developed rarely have been studied in international entrepreneurship. Also within entrepreneurship research, it is discovery, exploitation and outcomes of opportunities that has been focused, not the nature and source of opportunities per se (McMullen et al., 2007).

It has been noted that effectual behaviour often characterizes the entrepreneurial process Sarasvathy (2001). In contrast to a casual logic, encompassing planning and efforts to predict the future, effectuation is related to flexibility and improvisation. Since developing novel opportunities implies dealing with something previously unknown, capabilities to make decisions based on limited information and to develop new ways of acting in response to unforeseen challenges and opportunities are needed. Consequently, it seems likely that applying an effectual logic facilitates development of more novel opportunities. However, in spite of the importance of a potential connection between the chosen logic and the degree of novel opportunities developed by a firm, the role and consequences of improvisation in internationalization processes has not been much studied in internationalization research (Arend et al., 2015; Nemkova et al., 2012).

Making adaptations to needs and requests of business partners may be a necessity for staying in business. It is also at the core of relationship development as it implies an investment in a specific relationship which signals commitment to this relationship and trust in that the other party also will be willing to uphold the relationship. However, making an adaptation implies a deviation from previous

ways of working which may be difficult in firms characterized by routinized processes and a preference for careful planning of future actions. In contrast, effectuation logic implies a flexible approach, not restricted by routines and path-dependent behaviour. It is therefore likely to be related to a greater degree of adaptation regarding aspects like production processes, technology and organization. Developing novel opportunities is finally likely to demand major adaptations as the novelty implies dealing with something previously unknown which in turn reduces the applicability of previously developed technologies and processes.

The paper has following structure. After presenting a brief literature review of the concepts applied, we develop three hypotheses. In the subsequent section, we report the method of the study. Then the findings are presented and discussed. The paper ends with concluding remarks.

Theoretical framework

International opportunity novelty

Entrepreneurship is “a research domain concerned with novelty and value creation in the economy” (Davidson and Wiklund, 2001: 81). Novelty has in fact been at the core of entrepreneurship ever since the work of Schumpeter (1934). But what makes firms act on novel opportunities or not? Why develop opportunity A but not opportunity B? As noted by Haynie et al. (2009), the processes associated with opportunity evaluations and the influences that affect those evaluations are rarely studied.

The novelty concept can be viewed as a continuum with reproduction of prevailing routines and introduction of highly innovative practices as its endpoints (Shepherd et al., 2000). It can also be related to exploitation and exploration, defined by March (1991: 71) as: “Exploration includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation. Exploitation includes such things as refinement, choice, production, efficiency, selection, implementation, execution ...”. March thus argues for a connection between novelty, exploration, and flexibility whereas less novel processes, exploitation, involve minor changes in present ways of acting. In the latter case, there is thus less need for flexibility. The connection between exploration and novelty was thereafter further underlined in March’s later work (Levinthal and March 1993, p. 105), defining exploration as “the pursuit of new knowledge” and exploitation as “the use and development of things already known.”

Improvisational as part of effectuation logic

Firms entering a new market face a “liability of foreignness” (Zaheer, 1995) and may choose to apply systematic planning in order to reduce uncertainties. Rational decision-making based on objective data has traditionally been put forward as the most profitable way of acting (Delmar and Shane, 2003). It has however often been noted that in practice planning is not always the case, and especially so for SMEs. In fact, as for instance described by Coviello and Munro (1995: 58), the impression can rather be that the process is “random and somewhat irrational”. This description has a better fit with the effectuation logic introduced by Sarasvathy (2001), which includes important aspects of improvisation.

Sarasvathy (e.g. 2001; Sarasvathy and Dew, 2005) contrasts the effectuation logic with causation logic of which systematic planning is a key aspect. It has been argued that business planning facilitates goal attainment and that it allows managers to make decisions more quickly than trial-and-error based processes (Delmar and Shane, 2003). Decisions made by using planning processes will, however, be based on previous experiences in the form of experiential learning, which tends to result in a path-dependent development. When the track record of past performance is guiding future action, the span of action will be limited. Moreover, previous experiences may not be fully transferable to a new market. In entering a new market, planning may therefore be of hindrance as it channels attention, and thereby also behaviour, in certain directions (Minzberg, 1994) that may be unsuitable and therefore unsuccessful in the new context.

Within the causal logic, a goal is set, plans for reaching that goal are made and actions are taken in line with these plans. In other words, design precedes actions (Baker, Miner and Eesley, 2003). Using improvisation, the time gap between plan and action is closed as design and action converge (e.g. Weick, 1993) and therefore mutually affect and shape each other. There is, however, no absolute dividing line between improvisation and strategic planning, they may rather be thought of as end points of a continuum; planning and improvisation can be mixed or take place in sequences.

Hypothesis development

Improvisation and network adaptation

When firms enter a foreign market's network they face unknown and uncertain situations, where unexpected problems and opportunities occur as a consequence of the firm's ignorance about the network. This does, in turn, make it difficult to predict and to plan but improvisation makes it possible to be innovative and creative when facing these unknown and uncertain problems and opportunities (Crossan, 1998). Improvisation has a lot in common with Mintzberg's (1973) model on the strategy process, where strategies emerge and disappear, when plans are irrelevant or unrealistic and ideas and opportunities emerge during the process. Stable and known networks make up a good platform for plans and joint planning between firms, as they are predictable. New networks are by definition not known, which requires responses to the structure of the network and to the behaviour of the firms in these networks (Child and Hsieh, 2014). These responses often come in the form of improvisation, which refers to a deviation from existing practices and routines. Instead problems and solution tend to converge in time, resembling trial and error, which leads to new behaviour.

The network perspective views the foreign market as a system of long-term business relationships between customers and suppliers (Anderson, Håkansson and Johanson, 1994), and in these structures, firms adapt and modify their operations, which means that mutuality and interdependence emerge (Johnsen and Ford, 2008). In a business network, activities are linked to each other, and in order to coordinate these activities firm interact and communicate, which, in turn forces the firm to adapt products to the customers' needs, but also to modify the organizational structural and the production processes. A cornerstone of the IMP perspective is that resources have no specific value per se; the value depends on resource combinations and many of these involve other firms in combinations across firm borders. As a result, firms are not acting as isolated islands (Snehota, 1990), but within web of relationships, a business network. Many of these business exchange relationships have a mutual orientation and become long lasting. They can be viewed as interactive processes, and during these interactions the firms learn about each other, for instance regarding needs and capabilities. They may furthermore run into problems that need to be solved or identify opportunities for improvement in offerings or processes. These changes often call for adaptations in various processes and routines. Adaptations can be defined as adjustments in actors, resources and activities, reflecting the interests of the actors in question and their search for more effective and efficient processes or new resource combinations in terms of quantity, quality, timing etc. Firms may for instance adapt technologically by modifying their products or processes, administratively by modifying administrative routines, logistically in terms of stock levels or financially in terms of payment procedures (Hallén et al., 1991).

As improvisation aims to find new targets and new paths to the targets, the firm is likely to end up in situations in the network, which are so new that old ways of treating customers and suppliers are not valid. Improvisation thus calls for adaptations of existing routines and processes or the creation of entirely new ones. The need for such network adaptations can be urgent and demand a convergence in time of design and execution, which makes it meaningful to apply an effectuation-related behaviour in the form of improvisation.

To change well-established routines is however likely to meet with resistance, not only within the firm but also in relation to exchange partners. Intra-organizationally, routines are a way of facilitating decision making, thereby quickening decision processes. Inter-organizationally, routines are the result of adaptations resulting from long-term relationship development. Both minor and/or major

adaptations resulting from network demands or opportunities are the result of investments and may therefore be regarded as important firm resources (Dyer and Singh, 1998). These resources may become sunk costs if routine changes cause changes in the interaction with other firms. New ways of acting and routines changes may therefore have consequences beyond a specific relationship. It is however worth noting that without adaptation, the organization runs the risk of stagnation and decline (Hannan and Freeman, 1984; March, 1991). March thus argued that an appropriate balance is needed between exploration (associated with a pursuit for novelty) and exploitation (routine-oriented behaviour allowing for only minor changes). In the same vein, Ahuja and Lampert (2001) warn for three traps hampering innovation, and thus novelty: the familiarity trap (favouring the familiar); the maturity trap (favouring the mature); and the propinquity trap (favouring search for solutions near to existing solutions). Firms are, in other words, less likely to act on novel opportunities if they have developed strong routines and mainly aim at exploitation. Furthermore, since planning directs a specific way of action, based on path-dependent experiential knowledge, it has since long been argued that planning can hinder the adaptability that likely is required when firms enter a new market (Bird, 1988). If strong, specific, routines have become established, which is likely when the firm has a strong position in the network, the firm may have to unlearn (Akgün et al., 2007), and a lack of ability to change diminishes the degree of network adaptations made. If, on the other hand, the firm improvises, adaptations are likely to follow. Firms adapt in response to requests from specific customers or suppliers in the network, but adaptations may also originate within the firm, for instance, because of a change in strategy. Adaptation may involve planning or draw upon routines (Baker et al., 2003) but the flexibility that makes improvisation meaningful is also an *ability* to accept and respond to the customers' and suppliers' specific needs (Murfield and Esper, 2016).

When firms enter foreign market networks, they are likely to begin a process of adapting to their new partners in this market. This can be regarded as part of a gradual learning process, as suggested by Johanson and Vahlne (1977). Since improvisation combines occurrence of problem and solutions in an iterative and not sequential process, the entering firm adapts to customer and suppliers as a way of addressing such problems. Thus, adaptation is a way of solving problems. Making such adaptations is harder if a firm has developed routines and plans that have to be changed. In contrast, we argue, firms that are flexible and used to improvise in accordance with the entrepreneurial logic will find it easier to make adaptations. We thus posit:

Hypothesis 1: When firms enter new foreign market networks, improvisation has a positive effect on the firms' adaptation to specific customers and suppliers in the network.

Improvisation and opportunity novelty

Improvisation may enhance the development of novel opportunities (Eisenhardt and Tabrizi, 1995), but it is not enough to sense the potential opportunities in the network, the firm also has to act upon the opportunity (Crossan et al., 1996) to make a change. Improvisation has been defined as occurring when the design and execution of novel action converge (Miner et al., 2001 in Baker et al. 2003). While planning, based on experiential knowledge, is likely to guide action in certain directions, improvisation has a greater room for creativity and flexibility, which makes it more likely that also novel opportunities not only will be discovered or created, but also acted upon. Entering a new market implies that new conditions will have to be handled and that unforeseen events, in the form of problems that need to be solved or new opportunities that can be acted upon, appear on the scene. The process of entering a foreign market may however be more or less novel to the firm in question. A high degree of novelty implies a need for innovation and creativity whereas a low degree of novelty can be handled by minor, gradual changes in previously applied processes. It is therefore often claimed that planning suits more stable conditions but should be downplayed in more changing environments (e.g. Gruber, 2007).

A novel opportunity carries larger risks. The scope is difficult to define and in the process of developing a novel opportunity unforeseen events will occur. Predictions are thus unreliable (Benner and Tushman, 2003) and managing high-novelty processes may be uniquely different from managing

less novel ones. Highly novel processes require greater levels of flexibility, responsiveness and incorporation of new information.

On the other hand, opportunities that are less novel and similar to the present operations can be developed in familiar ways. Developing such opportunities is a process well suited for planning. In contrast, an opportunity characterized by novelty will be unfamiliar and previously used ways of acting are less likely to be applicable. Developing novel opportunities thus calls for creativity and a greater degree of improvisation.

As each opportunity is a combination of attributes, characteristics, and timing demands that are unique each time and can be hard to fully codify and categorise (Bingham et al., 2007), plans and possible scenarios, no matter how detailed, always need real-time adjustments to match with each unique opportunity. Improvisation is therefore likely to be a suitable strategy in order to find and act upon novel opportunities, which can produce efficiency and growth (ibid.).

However, as SMEs have restricted resources and are novelty-driven they need to react instantly on opportunities. The window of opportunity may be very limited. Many times improvisation looks irrational (Chandra et al., 2012; Dimitratos et al., 2011) but as formal planning requires analysis and calculations, which takes time to perform in a proper way, the time lost and the costs for this might be unbearable for SMEs. Improvisation, on the other hand, implies flexible, fast and cheap problem solving, which has a positive effect on the development of novel opportunity (Akgun et al., 2007). We contend that the novelty of the first opportunity acted upon in the foreign market's network has two key components, where the first refers to what the opportunity is in itself, which for SMEs entering foreign market is the first sale to the first customer in this network. The firm may choose to repeat existing strategies in order to find exactly the type of customer that it is used to, or it can find a unique customer, which does not resemble the past. But the novelty of an opportunity also refers to the context, thus to what degree the market represents something new for the firm. Varying degrees and types of novelty means that firms may shift between less or more improvisation in order to enter a foreign market as improvisation implies learning by processing information, and acting on this new knowledge (Chelariu et al., 2002). What makes improvisation specific is that the improvising firm does not wait for the outcome of the improvisation. Thus, improvisation represents a behaviour that may lead to a willingness and a capability to act on a novel opportunity in the foreign market's network (Eisenhardt and Tabrizi, 1995; Moorman and Miner, 1998), which leads to our next hypothesis:

Hypothesis 2: When firms enter new foreign market networks, improvisation has a positive effect on the novelty of the opportunity acted upon.

Opportunity novelty and network adaptation

Networks are heterogeneous and when firms enter such networks it establishes a position in the network. The position reflects the strength of the firm's relationships with the customers and suppliers. Critical for the strength is to what extent the firm has made adaptations in the network. Adaptation requires investments and results in commitment towards other firms in the network and thereby it contributes to meet the needs in the network. These adaptations concern products, production processes and/or routines in order to make the most of these relationships (Hallén et al., 1991) and we define network adaptation as the *actual* changes made towards counterparts in the network (Cannon and Homburg, 2001).

A firm's adaptation to foreign market network is based on its customers' and suppliers' needs, resources and capabilities (Brennan et al., 2003) and it entails several elements (Johanson and Mattsson, 1987) like production, distribution, storage, technology and payment, which are directly related to the exchange of the products (Håkansson, 1982). Moreover, network adaptations also refer to skills, staff, competence, organization and strategy, which are less connected to the business with customers and suppliers (e.g. Ueltschy Murfield and Esper, 2016; Schmidt, Tyler and Brennan, 2007).

These two types of adaptations strengthen the firm’s position in the network and we contend that the extent of network adaptations made by the firm is likely to be influenced by the previous steps taken in the entry process.

Internationalization involves not only identification of an opportunity in the foreign market network, but a continuous exploitation of opportunities (Schweizer et al., 2010), and it is only when the firm acts upon an opportunity that its true nature appears. The novelty attributed to a certain opportunity is therefore likely to influence the decision to adapt and adaptive actions are usually taken if the novelty of the opportunity is significant. Adaptations can arise from conditions within or related to a specific relationship and when a novel opportunity refers to the first customer in the network it can start a path, which the firm then follows by making the adaptations that they find needed.

When the opportunity is novel, the firm has to adapt in order to reach a strong network insidership position (Holm et al., 2015) as acting upon a novel opportunity in a new and uncertain foreign market network implies developing relationships with customers and suppliers whose needs are different compared with what the firm is used to from other markets’ networks. As internationalization is a path-dependence process, the first opportunity is not only important in itself, but it is the first step in the further penetration of the market that is necessary for the firm to strengthen its network position. Acting on a novel opportunity tends to force the firm to face previously unknown demands and needs, which, in turn, may call for new knowledge and new ways of acting. The more networks in the foreign market differ from the firm’s domestic market, existing strategies, routines and knowledge, the more likely that previous ways of acting have to be re-considered and replaced by network-specific adaptations. This leads to our third and final hypothesis:

Hypothesis 3: When firms enter new foreign market networks, the novelty of the opportunity acted upon has a positive effect on the firms’ adaptation to specific customers and suppliers in the network.

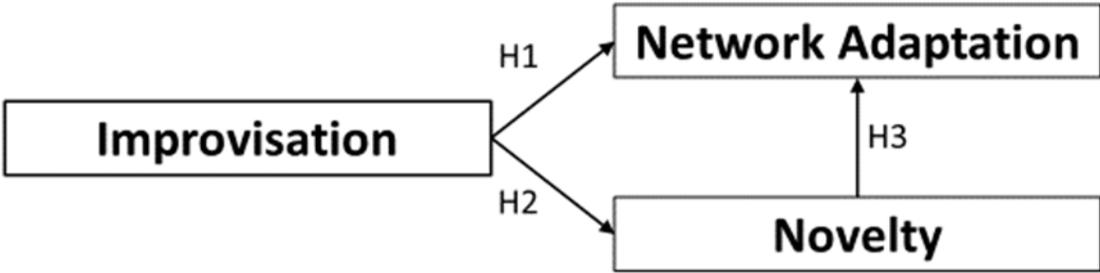


Figure 1: Research model

Method

Sample

Entrepreneurship literature has focused primarily on SMEs because it considers the internationalization as an essential act of entrepreneurship and opportunity exploitation (Lu and Beamish, 2001; Lumpkin and Dess, 1996). SMEs face more risks in the international context in terms of limited resources, experiences, and credibility, which leaves them to rely more on opportunities arising from contacts and international relationships to internationalize (Lu and Beamish, 2001). There is also a widely established distinction between manufacturing and service firms because of the several factors that distinguish them in an international context (Buckley and Ghauri, 1993). Thus, we find opportunity driven SMEs an appropriate population for studying opportunity development.

The sampling frame for the sample of our dataset was based on four criteria as a result of a theory based sampling process: firm size, industry, location and recent international opportunity. The firm size should be within the limits of the SME as defined by EU (number of employees from 10 up to 250). The industry that the firms operate in should be categorized as manufacturing and the firms should be located in a variety of locations. The firms of the sample are located in five different Swedish counties (Jämtland, Gävleborg, Västernorrland, Västmanland and Halland). Our last criterion ensured that recalling biases for retrospective data were reduced because we included only international opportunities that happened the last 7 years, which increased the data reliability.

Data collection

The sample identification process was structured in three distinct stages to enable high control of the research quality throughout the data collection process. The first stage included a list of companies from the central statistical organization of Sweden (Statistics Sweden), which ensured the first three sampling criteria: firm size, industry, and location. For the second sampling stage a telephone interview of about 15 minutes was performed with all firms. The telephone interview confirmed which firms fulfilled the last sampling criterion, a recent international opportunity developed during the last seven years of their operations. In addition, the telephone interview was used for confirming the fulfilment of the remaining criteria. All the firms, which did not meet all the criteria, were excluded from the list of companies. A script of a short informative description of our study and the questions about the key criteria of the study were distributed among the researchers to ensure reduced personal bias during this process. At this stage the list of firms fulfilling all the sampling criteria consisted of 214 firms. 75% agreed to conduct the on-site interview.

A pilot study to 10 firms preceded the main study. Changes, clarifications and improvements of the questionnaire were made based on observations of the researchers. The pilot study interviews were recorded and the discussions as well as the reactions of the respondents lead to simplifications of specific items.

The main study was performed on-site to maximize the overall quality of the data, the response reliability, the response rate, and to reduce impersonality bias (Holbrook et al., 2003; Cobanoglu and Cobanoglu, 2003). Each on-site visit comprised a semi-structured qualitative interview lasting for 20-30 minutes and a questionnaire of closed questions filled out by the respondent. Each visit took between 1–2 hours. The researcher took structured notes during the discussion and made on-site observations. The respondents filled out a structured questionnaire in the presence of a researcher who remained mainly silent, but provided clarifications when needed in order to ensure high reliability of the data but at the same time also reduce the social desirability bias as much as possible (Suchman and Jordan, 1990). This data collection method was relatively labor and cost intensive. Still, it implied commitment from the respondent, it standardized the process and the physical presence of a researcher on site allowed for assisting the respondent if needed, thereby improving the accuracy of the responses.

We carefully followed the remedies suggested by Podsakoff et al. (2003) to reduce the risk of systematic biases related to single respondents. Three main precautionary strategies were followed. First, we tried to reduce the risk that the respondent would answer based on implicit theories by contextually and temporarily disconnecting the variables of our model. The indicators reflecting the constructs were presented to the respondent in three different sections and a general discussion was held between each section. Second, we reduced the risk of socially desirable answers by including reversed scales and diverse formulations of the statements. Third, the on-site data collection enabled the responsible researcher to exclude certain unreliable or problematic answers or cases from the data-analysis.

In total 160 firms (75%) agreed to participate in the study resulting in our sample of 246 new international opportunities. The data collection took place in 2014-2015 and we interviewed the persons with the greatest experience of the international activities of the firm, in the majority of the

cases it was the CEO (68% of the cases) or the Sales manager (24% of the cases), an approach applied in a numerous studies obtaining retrospective reports of strategic-level managers, following a design which ensures increased accuracy of data (Huber and Power, 1985). 8,8% of the cases had missing values, which were excluded from the sample by listwise deletion resulting in 237 cases included in the analysis.

Measures

All constructs of this study were measured by closed structured questions with 7 points LIKERT scales (1: completely disagree, 7: completely agree).

Improvisation

We generated the items to measure the improvisational behaviour of the firms by drawing from previous studies (Chandler et al., 2011) and adapting them to the level of analysis of the new international opportunity. The 3 items measuring improvisation are a) *In order to find this customer we had to go out of the box*, b) *In order to find this customer we improvised solutions to problems and* c) *We did a lot of thinking on our feet*. The alpha values for the 3 items reached .812 and the lowest factor loading was .780.

Network adaptations

We generated items to measure the network adaptations features and pretested them with marketing executives (n=10). The items reflected the evaluation of a 7-point LIKERT scale (1: completely disagree, 7: completely agree): *We had to modify our organization in order to fit into the changes of our customers and suppliers in the X market*: a) *The production process*, b) *The technology*, c) *The organization*. The alpha values for the 3 items reached .796 exceeding the acceptable level (Nunnally, 1978) and the lowest factor loading was .745, which ensured the construct reliability of the measures.

Opportunity novelty

We generated 7-point LIKERT scaled items to measure the outcome of the exploited opportunity in terms of value by including two key dimensions: Uniqueness, and pioneering: a) *Finding this customer could be characterized as unique for us*, b) *Entering into the X market can be characterized as unique (or pioneering)*. The alpha values for the 2 items reached .784 and the factor loading was .907.

The overall construct validity of the measures can be assessed by the report of Table 1, which presents the results of a confirmatory factor analysis. The average variance extracted for the network adaptations measure (0.717), improvisation (0.694) and novelty (0.820), exceeded the cutoff level of 0.5 (Fornell and Larcker 1981).

Results

The hypotheses were tested via structural equation modelling analysis (SEM) by the use of LISREL software. The statistical model was tested and the results are summarized in Table 1 and Table 2.

The model provided a good fit for the data ($\chi = 17.04$, $df = 17$, $P=0.45164$, $RMSEA=0.003$, $CFI=1$, $GFI=0.96$, $NFI= 0.98$, $AGFI=0.91$) and all hypotheses were confirmed. Specifically, with regard to H1, improvisation is positively related to network adaptations (.23, t value= 3.57, $P<.01$). Concerning H2 improvisation was found positively related to novelty (.33, t value= 2.74, $P<.01$).

Finally, hypothesis H3 was also confirmed (.30, t value= 3.26, $P<.01$). All the tests conducted for goodness of fit provided high values, which indicate an overall fit of the model to the empirical data. $RMSEA=0.003<.06$ which indicates overall fit. Relative fit indices (NFI), noncentrality-based indices (RMSEA, CFI) indicate the overall goodness of fit of the model (James et al., 1982).

Table 1: Variables, construct measures and descriptive statistics

Construct measure	Means	Standard Deviation	S. loading	Reliability	Variance extracted
Network adaptations	2.308	1.453		0.796	0.717
We had to modify our organization in order to fit into the changes of our suppliers and customers in the X market:					
Production process			0.872		
Technology			0.875		
Organization			0.745		
Improvisation	2.947	1.684		0.812	0.694
In order to find this customer we had to go out of the box			0.845		
In order to find this customer we improvised solutions to problems			0.907		
For X market, we did a lot of thinking on our feet			0.78		
Opportunity Novelty	4.759	1.502		0.784	0.82
Entering into the X market can be characterized as unique (or pioneering)			0.907		
Finding this customer could be characterized as unique for us			0.907		

Table 2: Results for the tests of hypotheses (LISREL-SEM)

Relationships	Hypothesis	Coefficient	T value
Improvisation → Network Adaptations	H1	0.32	3.65
Improvisation → Novelty	H2	0.19	2.38
Novelty → Network Adaptation	H3	0.29	3.21

Significant at $p \leq 0.05$

Additionally, no modification indices were found so no change to the model and its indicators is expected. Comparing the hypothesized model (Figure 1) with the resulting model (Figure 2) we find that no causal relationship has been omitted in the analytical process.

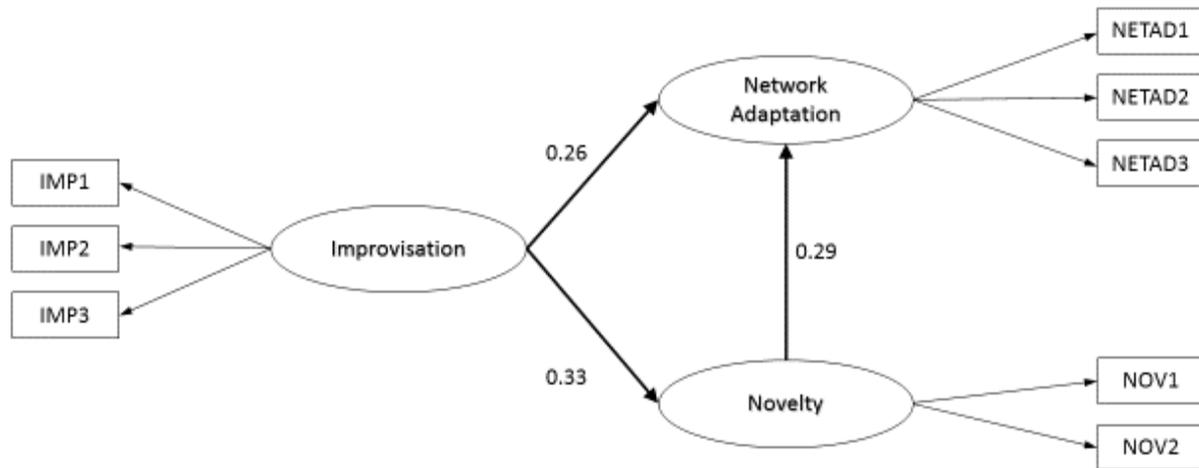


Figure 2: Structural model (LISREL – SEM).

Discussion

The point of the departure of this paper is that the internationalisation literature mainly is interested in how and why firms find opportunities. This focus has lead researchers to aiming at identifying the antecedents of finding opportunities, mainly in terms of discovery vs. creation approaches. This study's main contribution to internationalisation theory is that it clarifies that the nature of the opportunity acted upon influences how the firm is acting in the foreign market's network. Moreover, we find that the degree of novelty of the opportunity chosen to act upon is contingent on the activities that the firm performs. These findings are a result of combining a network view with effectuation theory, but they do, in turn, give birth to new research questions and gaps.

When and where do firms improvise?

We view improvisation in the internationalization context as deliberate or non-deliberate activities in order to find new targets and goals, which deviate from what the firm is used to from other foreign markets' networks. It is also performed in order to find new paths for reaching known goals and targets but improvisation does not mean repetition or performance of a plan that is specified in advance. This study deals with the first step into a foreign market, which implies that the firm possesses little knowledge about the market's network. This, in turn, makes it likely that the firm perceives uncertainty, which makes it difficult to plan and predict what will happen in the market, both in general and in the firm's network of customers and suppliers. Improvisation is effectual behaviour, but what is interesting with our results is that we find that firms which are ignorant and lack knowledge about the market, pursue an effectual behaviour and not only firms with a large body of knowledge, which Sarasvathy (2001; Read and Sarasvathy, 2005) argues. One potential answer to this dilemma could be that experiential knowledge developed from the firm's other entries and markets indicate that improvisation is a more fruitful behaviour than formal and systematic planning, with the effect that the firm deliberately begins to improvise. Thus, for the future, we encourage internationalization scholars to analyse the link between knowledge gained from other markets and improvisation in the new market.

Closely related to this question is the character of the market and the network that the firm is entering. As both markets and networks are heterogeneous it follows that the dynamics, uncertainty, volatility and turbulence differ. It seems that markets and networks which are characterized by high uncertainty and turbulence, because of cultural, business and institutional dimensions, would stimulate the firm to embark on a journey of improvisation. Consequently, we find that the link between the market and the network, on the one hand, and effectuation on the other, deserves our attention, as knowledge about this issue could give internationalising firm guidelines about how to act in the new market.

Finally, we do in this study focus on the first opportunity in a completely new foreign market, but a successful entry is likely to be followed by the firm identifying and acting upon other opportunities. Thus, the entry consists of a number of steps, but these steps may be characterized by various degrees of novelty, as the ignorance is reduced and the firm develops a network which can provide information about new opportunities. In line with this reasoning, a promising research area seems to be to explore the connection between entry steps and effectuation.

Does the nature of opportunity matter?

This study suggests that opportunity could be analysed in terms of its novelty. Indirectly, we contend that the nature of opportunity matters, but we do not know if the novelty dimension is the one which has the highest explanatory power. Recent conceptual studies (Dew, 2009) advance serendipity as an important element of opportunity while another important dimension is the value of the opportunity. The cost and value of a specific opportunity have to our knowledge never been studied in an internationalization context, and this is not a surprising, as the focus has been on identification, while the true cost and value of a specific opportunity are not known and cannot be studied until the firm has acted upon and exploited it. If we widen the definition and extend the empirical focus of opportunity, we maintain that several gaps on the nature of opportunity remained to be filled. Do we for instance, how many opportunities identified actually result in exploitation? Do we have any knowledge about the cost and value of the opportunities acted upon? These are just two “big” research questions related to firm internationalisation, but internationalisation scholars partly have to shift their focus in order to answer them. By having a more nuanced approach to opportunity, we can contribute to the development of internationalisation theory and especially on the role of opportunity and the character of the opportunity-seeking firm.

Network insidership and path-dependence of internationalisation

Internationalization is traditionally viewed as a process where firms face uncertainty originating from different cultural and institutional situations, and consequently, the firm has to learn and adapt to these differences. The greater the adaptation, the costlier the entry is assumed to be. But adaptations may nevertheless be profitable in the long run and at times they may be regarded as a necessity. An adaptation signals commitment and trust which tends to make the other party more willing to invest in the relationship and it may, for example, be necessary to make changes to pave the way for future, and perhaps expanded, business with specific customers and suppliers. However, this study demonstrates that adapting to the network is critical, maybe even more important than to adapt to the foreign market’s culture and institutions, and, moreover, it finds that adapting to the network is contingent on the nature of the first opportunity. It is only when the firm has acted upon the novel opportunity that it begins to adapt to other customers and suppliers. The first opportunity starts a path-dependence process which may result in the firm establishing a network insidership position. The results confirm our expectations that improvisation and novelty cause the firm to pursue an adaptation strategy, which is in line with the ideas of effectuation theory (e.g. Sarasvathy 2001; Kalinic et al., 2014), but important to keep in mind is that the original effectuation model assumed that the entrepreneur has an existing network and that this network consists of social relations, while entry into a foreign market starts from a situation where the firm is an outsider; it does not have a network, but needs to gain a position in a new and opaque network. Moreover, the relationships are between customers and suppliers and not between individuals. Effectuation theory has over the last decade emerged as an increasing popular framework to understand internationalisation, but we need much more empirical studies on the link between effectuation and network.

Concluding remarks

We have contributed to the understanding of firm internationalisation by clarifying the role of the opportunity per se in the process of entering a new market. By examining 237 international opportunities reported by 160 firms we found that there are important path-dependencies related to the degree of perceived novelty of the specific opportunity acted upon.

We contributed to effectuation theory by showing that also in non-expert situations (acting on a new market opportunity) some firms applied effectuation. Moreover, by combining effectuation theory with a network view on internationalization, we could show that the behaviour preceding opportunity recognition affected the degree of perceived novelty of the specific opportunity. More specifically, firms that often apply effectuation-related behaviour like improvisation seem to be more likely to act on novel opportunities. We also found that a high degree of novelty implied a high degree of adaptations to the new market network and, finally, there was also a relationship between adaptive behaviour and the extent of applying effectuation capabilities in terms of improvisation.

By addressing the novelty dimension of opportunities and by clarifying antecedents and outcomes of acting on novel opportunities we have shed light on aspects of the internationalisation process that have important implications for firm managers. Acting on novel opportunities may imply increased risk due to less predictability, but the flexibility it asks for in terms of adaptation will in turn foster effectuation capabilities in terms of improvisation that are likely to facilitate further exploitation of novel opportunities. In contrast, refraining from acting on novel opportunities may lead to the emergence of robust routines and strong path-dependencies that hinder exploitation of novel opportunities in a vicious circle that in the long run may lead to stagnation and decline.

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