



**University of Twente**  
*Enschede - The Netherlands*

# MASTER THESIS

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INFLUENCE OF (INTERNATIONAL) EXPERIENCES ON  
ENTREPRENEURIAL PROCESSES AMONG NOVICE  
ENTREPRENEURS OPERATING WITHIN AN UNSTABLE  
ENVIRONMENT CONTEXT.

October 2015

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## **Preface**

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The topic of this paper is a particularly timely one, considering the fact that since I started my education at Twente University, I was involved in running my own trading and consulting business. In fact, due to entrepreneurial family background, as far as I can recall, I have always been involved in some kind of commercial activities, so the subject of entrepreneurship is very dear to me. Due to the fact that I was born and raised in Russia and eventually relocated to the Netherlands, international experience is another factor of this work I can certainly relate to.

I have to say that the abundant amount of material I read while working on this thesis, has made me understand myself considerably better. I am now much more aware of my own capabilities, strengths and weaknesses and this gives me great degree of self-confidence and desire to move forward. I now have considerably clearer overall vision for my future business and I can honestly say that a lot of material that I went through I was able to directly observe or implement in real life setting.

The most important lesson I took out of the whole project is the realization of the fact that entrepreneurship is a process - failure of a company or a particular project does not necessarily have to be viewed in a negative light. In fact it is often positive factor, as important lessons can be learned, which when handled correctly, can positively contribute to the development of entrepreneur as a person, resulting in a more enhanced future possibilities. For me personally, this one fact was definitely worth the time and effort spent on this master thesis and I can say with a great degree of certainty that this lesson will probably stay with me for the rest of my life.

I would like to use this opportunity to thank my supervisor Associate Professor Dr. Rainer Harms for granting me the possibility to join the EPICC project and the continues support, feedback and patience. Also very big thank you to my second supervisor MSc Martin Stienstra for his time and always so much needed advice. I would like to wish you both a lot of success and healthy progress with all your future endeavors.

I would like to dedicate this work to my grandfather, who unfortunately passed away a few months ago.  
Love you grandpa.

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## Summary

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The aim of this this research paper is to investigate whether international and domestic experiences have an impact on entrepreneurial processes among novice entrepreneurs operating within an unstable environment. This research question developed from an evident growing interest for the exploration of entrepreneurial mindset within academic and business community. Vanishing of many trade barriers and technological advances result in ever growing number of entrepreneurs engaging in cross-border business activities. This of course brings along several issues and questions with regard to the way individuals from different environments operate and also to the aim of this research: to enrich the understanding of the impact the (international) experiences have on the mindset of Russia's novice entrepreneurs.

The aim of this research will be achieved by using a recent stream of research, which lately has been gaining more attention within academic community, called the theory of effectuation. This theory is based on a recognition of a distinction within entrepreneurial decision-making process between causation (planning) and effectuation (intuition). Effectuation theory will be applied to the context of business environment of Russian Federation and its novice entrepreneurs.

Because of the amount of information collected during the research and the limited time frame, a more narrow choice had to be made for a particular field of research. As an International Entrepreneurship student, international entrepreneur and being of Russian origin the choice was quite obvious: to more closely investigate the impact of international aspects (study abroad and international work experience) upon entrepreneurial processes of novice entrepreneurs in Russia.

The impacts of these experiences will be highlighted in this research report, pointing out to the relevancy of this work. Which will include advantages students get from formal education, work experience, study abroad programs and foreign work experience. Furthermore, certain practical applications of the findings of this report will be pointed

out. These are particularly interesting for the field of education, consulting and entrepreneurship and can serve as a valuable piece of advice to Russia's starting and expert entrepreneurs. This research is also meant to draw attention to the manner in which institutional and societal contexts influence entrepreneurship. This will be done by applying effectuation theory to a fairly new and unstable business environment of Russian Federation.

The data collection and analysis consisted of qualitative and quantitative methods. First a representative sample of novice entrepreneurs was acquired. In total 40 individuals were interviewed. During these interviews they were asked to work on a real-life business case using think-a-loud method, while being recorded. The recordings were later transcribed and coded for SPSS analysis. The results of which indicated that international work experience and formal education do not have a significant effect on the amount of effectual logic observed within the decision-making process of the researched sample. Work experience and international study experience however are in line with the researched literature and are proven to have significant impact on the level of effectuation used by Russia's novice entrepreneurs. By indicating in which way domestic and international experiences affect Russia's novice entrepreneurs, these results thus provide the answer to the main research question of this research paper.

# 1. INTRODUCTION

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This master thesis assignment is written as part of the Entrepreneurial Processes in Cultural Context (EPICC) project, within NIKOS expert center of University of Twente in the Netherlands. The main goal of the project is to identify whether patterns in entrepreneurial decision-making are influenced by national culture. This goal is meant to be achieved through collecting and analyzing data of early stage entrepreneurs in different countries of the world. The focus of the project will be aimed at novice entrepreneurs, who are described by Westhead et al. (2005, p.73) as: "individuals with no prior minority or majority business ownership experience either as a business founder or an inheritor or a purchaser of an independent business, but who currently own a minority or majority equity stake in a independent business that is either new, purchased or inherited."

Being of heterogeneous nature, every person possesses a unique variety of personal traits (Hofstede, 1984). Also every setting where actions take place is considered to be different (Hofstede, 1984, Zahra 2007). This results in a great number of scientific papers researching entrepreneurs and their mind sets (e.g. Gartner, 1988; Sarasvathy, 2001; Mair, 2005; Andersson, 2011; Brettel, et al., 2014) and the influential factors within their operating environment (e.g. Ageev, et al., 1995; Etemad & Wright, 2003; Zahra, 2007; Welter, 2010). Within these works entrepreneurial processes often play an important role. These can be described as a sequence of decisions and events that result in a successful venture creation (Moroz & Hindle, 2011). These decisions and events often focus on novelty and variety creation (Zahra, 2007). Researching these, often not well structured decisions, involves looking into the consciousness, mental models and general psychology of entrepreneurs.

Latest stream of research which deals with the manner entrepreneurial mind operates, developed and lead by Sarasvathy (2001; 2008). She has been paying great amount of attention to the so called "effectuation" theory, which will be at the core of this research. Recently, more attentions has been paid to the effectuation theory within the context of



international entrepreneurship. Greater amount of studies view this theory as support for enhancing the theoretical side of the research (e.g. Spence & Crick, 2006; Figueira-de-Lemos, et al., 2011) or to highlight its potentials (e.g. Chandra, et al., 2009).

Another factor that should be cognized when theorizing about causes, effects and structures is the context of the entrepreneurial decisions (Zahra, 2007). The context nurtures inventive, fresh analyses and descriptions by positioning theories, phenomena, research questions and the results in their natural setting (Zahra, et al., 2014). Meaning there must be a recognition of various contexts, historical timeframe and that entrepreneurship research takes place in specific contexts and societies (Gartner, et al., 2006).

## 1.1 Research Aim

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The aim of this particular research is to offer methodologically sound empirical observations resulting in an improved understanding of aspects of human and social capital that may be influential during the initial phases of the entrepreneurial action. In particular, to investigate the impact international experience has upon the entrepreneurial reasoning of novice entrepreneurs within the context of Russian business environment.

In one of her latest works, Sarasvathy (2014) called out for more in-depth research with regard to entrepreneurs within international context, referring to the lack of understand of individual characteristics of individuals engaging in business activities. Consequently the hopes are high that by analyzing and testing proposed assumptions, this work will further expand the theoretical understanding of some of the influential factors impacting entrepreneurial processes. Furthermore, a combination of elements like effectuation and context can contribute to deeper understanding of the way the entrepreneurship takes place (Welter, 2010; Sarasvathy, et al., 2014).

Based on the current academic literature it becomes apparent that a great deal of research has been focusing on the effects of entrepreneurial process on internationalization (e.g. Andersson, 2011; Kalinic, et al., 2014; Sarasvathy, et al., 2014) or on the relation of international experience and the possibility of becoming entrepreneur (e.g. Robinson & Sexton, 1994; McCormick & Wahba, 2001), but only a few studies (e.g. Harms & Schiele, 2012) explored the possible influence of international experiences on entrepreneurial processes. By conducting a review of 323 articles on International Entrepreneurship, Jones et al. (2011) noticed that only 42 studies seem to focus on entrepreneurs as individuals. So they call for integration of cognitive factors, networks and entrepreneurial knowledge in future research. Scholars also encourage researchers to put effectuation theory to a real life experiment (Kalinic, et al., 2014). With regard to future international entrepreneurship research, Kalinic et al. (2014) stated that it would be interesting to take a closer scientific look at the relationship of personal characteristics, education background and working experience of the entrepreneur in effectual context. This invitation for a scientific dialog and previously stated arguments can be seen as a solid base for the theme of this work, which will focus on the influence of international and domestic study and work experiences.

One of the aims of this research is to indicate the diversity of contexts and their impact on entrepreneurship, while striving to identify challenges researchers face in contextualizing entrepreneurship theory and offer ways forward. It is especially intriguing to try to apply a fairly new theory of effectuation to such an emerging market environment as Russia, which can result in a setting enriched with opportunities for further theory and research development (Welter, 2010).

It's plausible that novice entrepreneurs who operate in a fairly young environment show different behavior than counterparts operating in a more established markets. As presently, these differences are not well researched and further more process-oriented academic research is welcome in order to explain and indicate their implications for business and research community, by further exploring the depths of entrepreneurial

behavior (Zahra, 2007). This research offers a possibility to provide some new insights into these matters, since accurate measure of international experiences, its length and type have been recorded. There is also a possibility of observing the effect of effectuation on entrepreneurial processes by comparing groups with and without the international experience and a possibility of taking into consideration the context of the entrepreneurial environment.

## 1.2 Research Design

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First of all a literature review of applicable material had to be conducted, which was mainly carried out by making use of various scientific sources, like academic journals, books, magazines, reports and websites. Literature review in Chapter 3 of this report will go into further detail on these matters. What followed next was the field research in the form of personal think-aloud interviews. Being of Russian origin, in order to positively contribute to the validity of the research, this choice was based on my own personal interests, connections and of course native language, thus the selected country for the research became Russia.

Proposed research will focus on novice entrepreneurs, since entrepreneurial activity must be studied during the initial stages of organizational creation (Gartner, 1988; Davidsson & Honig, 2003). Thus, through my own connections I had to find 20 novice entrepreneurs. This was done by using my own network and by visiting an entrepreneurship conference in Moscow. What followed next were on average one hour long interviews, where participants were asked to work on a business case. This business case called out for the participant to start a coffee corner from scratch and work towards a larger corporation, eventually selling the business or going for an IPO. Interviews were conducted using a think-aloud method, where every thought that comes to mind of the entrepreneur was meant to be verbalized, while being recorded. Afterwards, interviewees were asked to fill out a number of forms, where several questions with regard to their experience, education, manner of business conduction and so on were asked. Chapter 4 will further elaborate on the methodology of this research.

### 1.3 Research Relevance

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As the world's current entrepreneurs are fueling the domestic and international economic growth and innovation, more light can be shed on an important part of global economy by conducting research on entrepreneurs (Bygrave & Zacharakis, 2011). International business has traditionally been conducted by larger corporations. Lately however, due to removal of many government-imposed trade barriers and technological developments such as internet, individual entrepreneurs and small enterprises were granted a possibility to more easily access international customers and suppliers (Etemad & Wright, 2003).

These developments mean that in today's ever more interconnected world, students are expected to be able to deal with international matters and communicate with individuals from various backgrounds (Clark, et al., 2009). For these purposes studying abroad programs are often seen as ideal training tool, so it is important to understand the impact these programs have on individuals' mindset (Carlson, et al, 1990). Even though students often refer to study abroad experience as "life changing" there is currently not much empirical evidence with regard to the influence of study abroad on personal development (Clark, et al., 2009). It is also suggested that there is a shortage of empirical evidence on the explicit impact of study abroad programs on student behavior and attitudes (Schuster et al., 1998). The research could also encourage students to follow a study abroad program in order to acquaint themselves with different cultures and gain possible competitive advantage need in further entrepreneurial or regular work career.

Therefore, additional exploration is welcome in order to manuscript the outcomes that international study experience has on the development of individuals. By stressing the advantages of study abroad programs, this research can be used to encourage student to more actively participate in the study abroad programs. Conclusions of the research can also help study abroad program advisors, administrators and practitioners in developing programs that will fully exploit possibilities offered by international study

experience, thus positively contributing to personal and educational growth of the individuals throughout their study career.

Russian novice and expert entrepreneurs could also learn a thing or two from this research. Currently, many firms from emerging economies are not conscious of the chances offered by foreign markets and are highly distrustful of them (Zashev & Dezhina, 2010). In order for Russian firms to go abroad they have to concur a number of obstacles like the absence of solid information regarding the possible risks, specifics of the market in question and the capabilities needed for a successful internationalization (Volchek, et al., 2013). Only 13.1 percent of Russian SMEs are exporting, either directly or indirectly, according to the European Bank for Reconstruction and Development's (EBRD) Business Environment and Enterprise Performance Survey (BEEPS) in 2005. This percentage is far below that of other transition countries in Central Europe, though it falls within a similar range with other Western CIS countries (BEEPS, 2005). It is evident that there is a lack of proper information with regard to the advantages offered by international experience, so this research can shed some light on that matter and help entrepreneurs move forward towards a more internationally oriented business model.

## 1.4 Entrepreneur: Background

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The term "entrepreneur" has its origins in the French language - French scholar Jean Baptiste Say (1836) was one of the first to elaborate on this matter. In his works, he referred to entrepreneur as adventurer, an individual who moves the economic resources from areas of minor economic activity to the areas which possibly provide higher returns. A much more recent interpretation is given by Read and Sarasvathy (2005, p.53), who defined entrepreneurship as a process of "the creation of new ventures, new products and new markets." Mair (2005) described the behavior of entrepreneur as innovative use of available resources in order to pursue arising opportunities. They provide the economy with fresh ideas, new products and different ways of operating (Lyigun & Owen, 1998).

In today's world entrepreneurs play an important role as they are considered to be the backbone of global economy (Etemad & Wright, 2003; Schoon & Duckworth, 2012). Small companies along with entrepreneurial enterprises increasingly fuel the economic growth and innovation, both domestically and internationally (Etemad & Wright, 2003). Global Entrepreneurship Monitor, a global annual study which measures the level of entrepreneurial activity among different countries, estimated that 388 million entrepreneurs were actively engaged in starting and running new businesses in 2011 of which 165 million are young early-stage entrepreneurs between the ages of 18 and 35 (Kelley, et al., 2011). That makes it a great number of people, young and old, who all have different backgrounds, beliefs and values or in other words: different culture.

Internationally oriented entrepreneurs can now easily access remote markets and exploit broader range of possibilities the world has to offer. In this integrating global environment, entrepreneurs and emerging businesses face both new opportunities and complicated new challenges (Etemad & Wright, 2003). Neck & Patricia (2011) referred to entrepreneurship as being about forming fresh opportunities while operating in uncertain or even incomprehensible environments. Scholars indicated that entrepreneurial activities are greatly influenced by the outward of traditions, legislation, culture, and behavioral schemes within society (Baumol, et al., 2009). General information with regard to the way novice entrepreneurs operate remain scares, however it is evident that a lot of individuals who engage in starting a new firm fail in their task, while others are rather prosperous (Davidsson & Honig, 2003).

## 1.5 The Research Question

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The main goal of the research is to find out whether and to what extent entrepreneurial activities are indeed impacted by international and domestic experiences with regard to novice entrepreneurs from Russian Federation. Putting it into more academically specific perspective, the main research question of the master thesis is proposed as follows:

**How do (International) Experiences affect Entrepreneurial Processes among Novice Entrepreneurs within an Unstable Environment Context?**

In order to be able to provide a proper answer to the above stated question, several hypothesis were developed and tested. These matters will be further elaborated on in Chapter 3 of this work. The hopes are high that by answering the above stated questions this research will be regarded as a valuable scientific contribution to the academic world.

## 2. CONTEXTUALIZING THE THESIS: ENTREPRENEURSHIP IN RUSSIA

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This section of the report will indicate several characteristics of the particular context where the effectuation theory is being applied to, particularly context of Russian business environment. In order to more closely investigate the impact of international work and study experience upon entrepreneurial processes of novices entrepreneurs in Russia, one needs to place the theory into proper context. Contextualizing the theory to the specific domain is considered vital in order to further be able to develop a better understanding of the researched field and contribute to expansion of the theoretical knowledge (Zahra, 2007). By contextualizing the effectuation to Russian framework the context of the theory in question will surely be enriched, since such an emerging market environment as Russia is enhanced with opportunities for further theory and search development (Zahra, 2007; Welter, 2010).

### 2.1 Contextualization in Entrepreneurship

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Context deals with issues of specific conditions, environments, circumstances or situations that are external to the studied phenomena which support or limit it (Welter, 2010). Different context could facilitate different theory outcomes meaning that it is important to pay close attention to the specifics of the market setting where the effectuation theory is applied to by studying the specifics of the Russian. By focusing the research on Russia, former Soviet Union Country, a rather unfamiliar entrepreneurship environment, the importance of context can be furthermore highlighted (Zahra, 2007).

Context can impact entrepreneurship directly or indirectly and can be both an asset and a liability for the nature and extent of entrepreneurship impact contexts (Zahra, 2007; Welter, 2010). Context is also significant in order to recognize when, how, and why entrepreneurship takes place and which entities are tangled in the process. Gartner (1995, p.70) invites researchers to acknowledge the context in which entrepreneurship is conducted, as observers "have a tendency to underestimate the influence of external factors and overestimate the influence of internal or personal factors when making judgements about the behavior of other individuals". It is also important to take time



and place into consideration as the rules for entrepreneurship tend to change dramatically depending on specific period and location (Baumol, 1990).

Depicted in the table below are the 4 types of context applicable for entrepreneurship (Welter, 2010):

*Table 1 Contexts variations for entrepreneurship research (Welter, 2010)*

<i>Type</i>	<i>Dimension</i>	<i>Examples</i>
<i>Business</i>	Market, industry	Competition, product lifecycle
<i>Social</i>	Networks, family, household	Network structure, role of friends and family
<i>Spatial</i>	Geographical aspects: communities, clusters, industrial areas	Location features, infrastructure, regional characteristics
<i>Institutional</i>	Economic and political structure, societal and cultural features	Legal frame work and regulations, attitude and norms of society, business support methods

Context can thus be seen as an important factor for understanding when, how, and why entrepreneurship happens and who becomes involved (Welter, 2010).

It is also evident that context is able to point out why certain entrepreneurs do recognize opportunities and others don't and why the results of entrepreneurial action differ depending on country, region, and other contexts (Baker, et al., 2005). By contextualizing entrepreneurship theory such as effectuation, by means of taking into consideration the situational and temporal boundaries for entrepreneurship (e.g. explaining country specific context in which the theory is applied), research questions and design can be correctly specified (Rousseau & Fried, 2001; Welter, 2010).

Though context regularly offers profounder insights on the matters of how individuals interact with external circumstances and in which way these circumstances influence individuals, it is still far too often that context is being taken for granted, its influence underrated or it is often controlled away (Johns, 2006).

## 2.2 Entrepreneurship in Russian Federation: Past & Present

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Theoretical context has to pay attention to temporal and historical aspects (Hess, 2004; Aldrich, 2009). Meaning, taking into considering the specific political context of Russian Federation and time frame when entrepreneurship takes place. Due to centralized control and high governmental involvement in economic planning and development during the Soviet era, very little legal small business development took place, meaning that legal entrepreneurship was virtually inexistent in Soviet Russia (Ageev, et al., 1995; Zhuplev & Shtykhno, 2009; Holmes, 2012). However, some scholar note that even though the government was the sole legal employer, capable of exploiting economic freedom and creativity, a substantial black market was thriving (Ageev, et al., 1995; McCarthy, et al., 1993; Puffer, et al., 2010). Here underground entrepreneurs were engaged in various sorts of commercial activity, profiting from often occurring product shortages within Soviet Union (Ageev, et al., 1995; McCarthy, et al., 1993; Rehn & Taalas, 2004; McCarthy & Puffer, 2008; Puffer, et al., 2010). As Rhein and Taalas (2004, p.237) proposed, the former Soviet societies are highly entrepreneurial, where governments "forced all its citizens to become microentrepreneurs, enacting entrepreneurship in even the most mundane facets of everyday life".

As a result of that, legal entrepreneurship in Russian Federation is a fairly recent phenomenon, which started to take shape during the collapse of the Soviet Union in the late 1980's – early 1990's (Ageev, et al., 1995; McCarthy, et al., 1993; Ojala & Isomäki, 2011). Due to the lack of tight governmental regulations during the turbulent transition from communism to capitalism and the newly available market opportunities, tremendous number of entrepreneurs took the liberty of starting a new business (Ageev, et al., 1995; Yavlinsky, 2001; Aidis, et al., 2008; Puffer, et al., 2010). Following a steep oil

and gas price and high demand, Russia's GDP has increased dramatically during the first decade of the 21<sup>st</sup> century resulting in a large private sector (Aidis, et al., 2008).

Central planning is considered as a fundamental factor of the Soviet system, it has had a major effect on the nature of Soviet and thus Russia's entrepreneur's mindset. The states historic heritage, like underdeveloped middle class, multi-cultural society, state-centered government, the communist ideology and the absence of reliable business laws, all have had a great deal of influence on the business activity and business mentality of the current Russian entrepreneurs (Ageev, et al., 1995). Due to governmental collapse following the dissolution of the formal Soviet Union, the old institutions were not directly replaced by the new ones, which resulted in the economic chaos where entrepreneurs had to find their own way of functioning by relying and operating according to cultural values and common practices (Puffer, et al., 200; Smallbone & Welter, 2009). This resulted in a number of obstacles which entrepreneurs in Russia constantly have to deal with like weak institutional situation, the unstable and often inconsistent regulations, absence of clear business laws and the lack of trust in courts. These factors hinder entrepreneurial development, thus leaving firms with a lack of stability and support and making Russia a fairly uncertain market to work in (Ageev, et al., 1995; Aidis, et al., 2008; Ojala & Isomäki, 2011).

Another issue is the legacy of favoritisms and corruption passed down from the Soviet past, resulting in many Russian simply accepting this fact as a norm (Gel'man, 2004; Aidis, et al., 2008; Holmes, 2012). It has been observed that corruption can bring a great deal of uncertainty into economical business development thus constraining the launch and growth of new organizations (Bowen & De Clercq, 2008). The Transparency International Corruption Perception Index, which annually ranks countries on their levels of corruptions by using survey and expert opinions, has Russia placed 127th, between Bangladesh and Pakistan, meaning that the level of corruption in the country is extremely high (Transparency International, 2013). Even former president Medvedev pointed out that corruption is Russia's society's most serious illness (Elder, 2008).

In the case of Russia, being a Post-Soviet country and experiencing fundamental political and economic changes, it became rich with institutional shortages and irregularities (Aidis, et al., 2008; Volchek, et al., 2013). These offer entrepreneurs profitable and rich context that creates new opportunities by exploiting the gaps left by new regulations and rules (Welter, 2010). As indicated earlier, entrepreneurs in emerging economies such as Russia are known to be highly active, while existing institutional constraints hamper their ambitions and growth expectations (Volchek, et al., 2013). At this point it is clear that Russia is still in pursuit of the best approach for the development of entrepreneurship, thus Russia is still considered to be the country of opportunities, risks and human potential (Ageev, et al., 1995; Aidis, et al., 2008; Volchek, et al., 2013).

### 2.3 Effectual context

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Overall scholars agree that Russian market is currently to be seen as an unstable working environment (Aidis, et al., 2008; Zhuplev & Shtykhno, 2009; OPORA, 2010-2011; Kelley, et al., 2011; Verhovskaya & Dorohina, 2012; Shirokova & Tsukanova, 2012; Volchek, et al., 2013). Uncertainty surely plays a major role in the choice of entrepreneur between causation and effectuation (Sarasvathy, 2001; Dew, et al., 2009; Chandler, et al., 2011). In order to operate more effectively in such an unstable environment, organizations need to move faster to adapt, than trying harder to make predictions (Wiltbank, et al., 2006). With regard to decision-making, in order to gain control over future outcomes under uncertain situations, the traditional view within the academic literature has focused on making better predictions in order to achieve the desired goals, thus following the traditional, casual logic (Dew, et al., 2009).

Within planning, the prediction is viewed as quite valuable where it enables control, thus giving an entrepreneur the freedom to choose the appropriate means to reach the goals set by relying on the casual logic (Wiltbank, et al., 2006). On the other hand, when comparing the levels of uncertainty entrepreneurs face in developed countries to the

levels of uncertainty when operating in transitional economy like Russia, additional difficulties are to be faced, resulting in an even greater uncertainty and instability, thus leading entrepreneurs to rely on informal institutions such as networks (Boisot & Child, 1996; Ahlstrom & Bruton, 2006; McCarthy & Puffer, 2008). Underdeveloped formal institutions are often main characteristic of such transitional economies, which results in an unstable environment and creates a void usually filled by informal ones. This means that entrepreneurs that operate in such transition economies are to face higher degree of uncertainty and risk than those in more developed economies. This is currently clearly the case with regard to entrepreneurs in Russia (Yavlinsky, 2001; Puffer, et al., 2010). As formal structures currently fail in Russia, the use of informal networks is also considered to be a prime aspect of Russia's entrepreneurs, where certain well connected entrepreneur are able to gain a considerable competitive advantage (Aidis, et al., 2008).

### 3 LITERATURE REVIEW

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This section of the report is devoted to the review of the applicable literature. Here the concepts of entrepreneurial decision-making stand central and shall be discussed in detail. Within this academic work entrepreneurial reasoning is debated by means of two different reasoning methods: causation and effectuation. This work focuses on entrepreneurs acting in different ways, often only working with means at hand and without specific goals set, frequently solely relying on own perceptions of the future environment (Sarasvathy, 2001). Furthermore aspects important to this work are subjects like past experiences, international aspects and features of Russia's context will be discussed.

#### 3.2 Entrepreneurial processes

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Entrepreneurship is considered to be complex, disordered, and lacking any notion of linearity (Neck & Patricia, 2011). Thus academics agree that more attention should be paid to the behaviour of the entrepreneur and entrepreneurial processes (Gartner, 1988; Sarasvathy, 2008). Observing entrepreneurs along their decision-making path can help researchers understand the influential factors of these decisions (Langley, 1999).

A good definition of entrepreneurial processes is given by Bygrave and Zacharakis (2011, p.2), it "includes all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them". According to Sarasvathy and Read (2005, p.56): "the entrepreneurial process is conceived as a collection of decision tasks such as selecting an idea or opportunity to begin with, creating a legal entity, garnering resources, bringing stakeholders on board, managing growth and exit strategies, and so on". Moroz and Hindle (2011, p.9) indicated, there are various models of entrepreneurial processes descriptions and currently no unified measure exists and that "concepts and theories believed to be significant to the entrepreneurial process, such as intentions (Krueger, et al., 2000), bricolage (Baker & Nelson, 2005), opportunity discovery (Kirzner, 1997), effectuation (Sarasvathy, 2001),

counterfactual thinking (Gaglio, 2004), and innovation (Drucker, 1985)". This leads to the fact that researching entrepreneurial decision-making is a very complex and challenging task (Kalinic, et al., 2014).

As indicated, over the past years considerable number of scholars have focused their attention on entrepreneurial logic, with Sarasvathy being one of the leading researchers on one of the emerging theories of entrepreneurship: effectuation (e.g. 2001; 2008; 2014). This theory distinguishes two types of reasoning: causation, where goals are set and means are given, only thing left to do it to find the best way to reach the target (planning) and the second being effectuation, here the goals are not set and means are given (intuition) (Sarasvathy, 2001; Dew, et al., 2009). It is widely presumed that what can be predicted can also be controlled, thus within strategy making prediction is viewed as a central variable (Wiltbank, et al., 2006).

Causation and effectuation are considered to be different approaches, with neither being comprehensively superior, where entrepreneurs use a combinations of both approaches in real-life settings (Sarasvathy, 2001; Berends, et al., 2014). It has been suggested that within small firms, effectuation is the logic to start with which grows over time into casual logic (Berends, et al., 2014). Furthermore, effectuation is viewed as a flexible process, which takes advantage of environmental opportunities as they arise, where entrepreneurs learn as they go (Perry, et al., 2011). In her earlier research, Sarasvathy (2001) pointed out that 63% of entrepreneurs used effectual rather than causal logic for about 75% of the time. According to Berends et al. (2014), the logic of effectuation fits well with the novice entrepreneurs or smaller companies, where resources are scares, few project are at hand and a high level of flexibility is enjoyed.

### 3.2.1 Causation

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Causation is currently viewed as a standard and traditional understanding of the way a business is launched and operated (Sarasvathy, 2001; Dew, et al., 2009). It has been observed that typically within a corporate environment first an analysis of the markets is carried out through casual logic in order to indicate what part of the market to tackle and on basis of that a plan with a certain strategy is derived (Anderson, 2011; Chandler, et al., 2011).

Traditional literature on entrepreneurship and business planning is also filled with casual logic approach (Timmons & Spinelli, 2004; Scarborough & Zimmerer, 2003), as well as literature on global international business (Doole & Lowe, 2004). Here the preliminary process begins with an analysis of the internal and external environments of the organization in question, then markets and market entry strategies are chosen and implemented based on the initial findings (Andersson, 2011).

Rational planning is considered to be an important characteristic of the casual logic where it is considered that as uncertainty increases, organizations that pay close attention to the analysis of the market and prediction of the future situations will eventually perform much better than organizations that pay less attention to those factors of business dealings (Priem, et al., 1995; Goll & Rasheed, 1997; Brews & Hunt, 1999; Wiltbank, et al., 2006). The authors agree that in cases of uncertain situations, rational planning can provide successful guidelines for future actions.

On the other hand, several other scholars suggest that such element of casual thinking as planning will only slow the pace of adaptation and possibly blind the firm to vital changes within its external environment when operating in an uncertain market (Mintzberg, 1990; Schomaker, 1993).



### 3.2.2 Effectuation

A more recent stream of research led by Sarasvathy (e.g. 2001; 2005; 2008; 2014) indicated two types of thinking: causation, where goals are set and means are given, only thing left to do it to find the best way to reach the target (planning). The second logic is effectuation, here goals are not set and means are given (intuition). Effectuation consists of three categories of means: Knowledge, Identity and Networks. In order to envision the possibilities to be accomplished, entrepreneurs start with looking at who they are, what they know, and whom they know. Within effectuation, the emphasis lies on future events that can be controlled rather than those that can be predicted (Sarasvathy, 2001). Figure 1 depicts the dynamic effectuation model of Sarasvathy (2001):

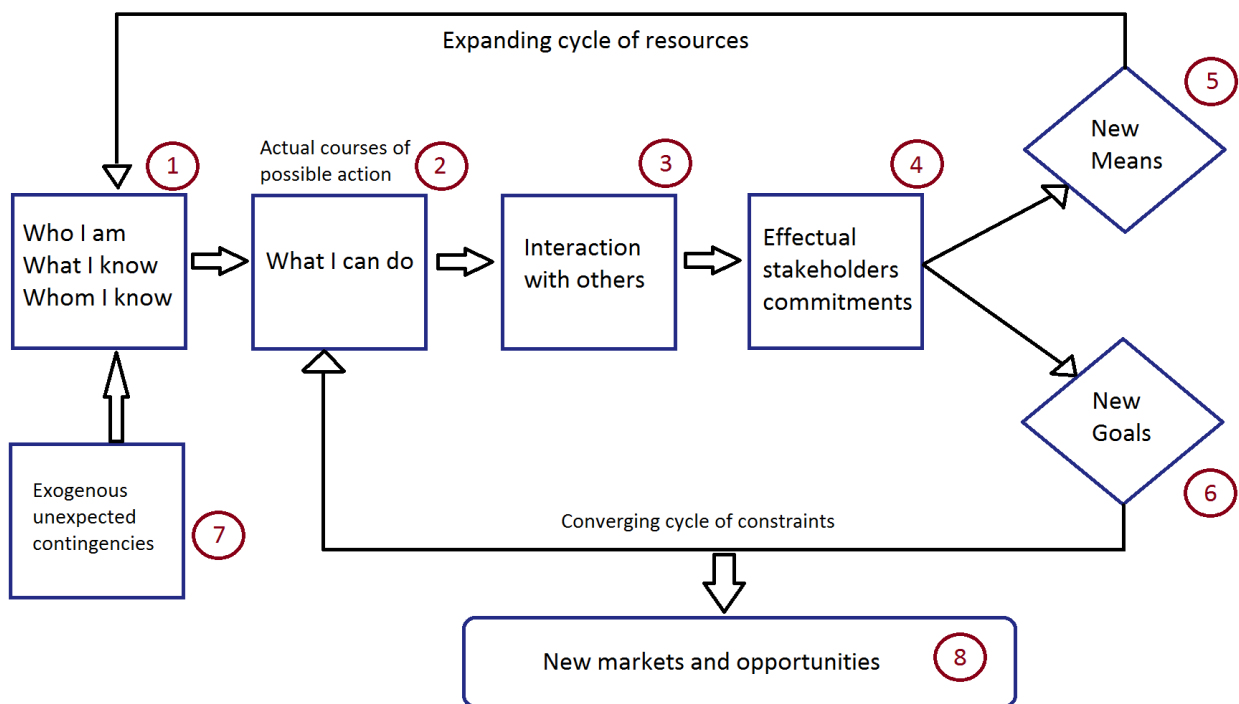


Figure 1: Sarasvathy's Dynamic Model of Effectuation (2001)

Furthermore, Sarasvathy (2008) indicated three elements of the effectual problem space:

1. *Knightian uncertainty* – the future outcome probabilities are impossible to calculate.
2. *Goal ambiguity* – goals are unclear nor structured.
3. *Isotropy* – doubt with regard to which elements of the environment are important.

Table 2 best illustrates the main distinctions of the two mind sets, along with the effectuation principles according to the leading researcher on effectuation Sarasvathy (2001; 2008):

*Table 2: Causation and Effectuation Principles (Sarasvathy 2001; 2008)*

<b>Topic</b>	<b>Causation</b>	<b>Effectuation</b>
<b>Future view</b>	Past is continued by the future, thus prediction is a possibility and necessity. And if it can be predicted, it can be controlled	<b>Pilot-in-the-Plane Principle</b> Future can be shaped and thus prediction is difficult and useless.
<b>Action taking initiative</b>	Goal-oriented. Goals determine sub-goals, actions and stakeholders.	<b>Affordable-Loss principle</b> Means-oriented. Here goals appear due to the possible actions imagined and stakeholders involved.
<b>Resources and risk</b>	Focus on expected return. Raising needed resources in order to realize the opportunity.	<b>Bird-in-Hand principle</b> Affordable loss. Pursuit of opportunity through means one can afford to risk. 3 main factors play a role here: identity (who I am), knowledge (what I know), and networks (whom I know).
<b>Attitude toward outsiders</b>	Competitive analysis is used in order to evaluate and create partnerships where ownership is limited as much as possible.	<b>The Crazy-Quilt Principle</b> Partnerships are used to create new markets.
<b>Attitudes toward unexpected contingencies</b>	Contingencies are to be avoided through planning and predictions.	<b>Lemonade Principle</b> Contingencies are seen as opportunities and are to be leveraged.

Effectuation is considered to be the reasoning that is mostly used by the entrepreneurs, however “both causation and effectuation are integral parts of human reasoning that

can occur simultaneously, overlapping and intertwining over different contexts of decisions and actions" (Sarasvathy, 2001, p.245). Within effectuation the goals are emerging, as opposite to causation, where the goals are defined prior to the decision-making (Sarasvathy, 2001). Effectuation has been observed to be widely used by expert entrepreneurs, while novice entrepreneurs tend to follow more casual reasoning (Dew, et al., 2009; Harms & Schiele, 2012). It is also evident that effectuation has a positive effect on new venture development and performance (Cai, et al., 2014). Due to the fact that effectuation utilizes means available on hand as bases for the future decisions, future predictions are thus obsolete (Sarasvathy, et al., 2014). Meaning that during unpredictable situation, like new venture forming, effectual reasoning is particularly helpful (Dew, et al., 2009).

These two mindsets can be characterized by the presence of structure within casual mindset and lack of it within effectuation. Effectuation can also be described as a dynamic process with two concurrent cycles of constraining goals and obtaining means, where the first cycle increases the amount of resources and the second increases limitations on the firm that over time result in explicit goals (Sarasvathy & Dew, 2005; Sarasvathy, 2008).

Assumptions made of the real world are key to effectuation and the actions taken by the entrepreneur are based on these (Sarasvathy, 2008). Bhidé (2000) also supports these claims, by saying that starting entrepreneurs usually don't have an original idea nor do they possess extensive business experience, meaning that funds are scarce and own capital has to be used. Recently, it has been indicated that in situations when resources are scarce and level of uncertainty is high effectuation shapes decisions and directs action through information and competences on hand (Kalinic, et al., 2014).

### 3.3 Influence of Experiences

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As research shows, there are several factors that might be affecting the decisions entrepreneur makes, like for example entrepreneur's human capital, entrepreneurial experience and education (Mitchell, et al., 2007; Dew, et al., 2009). Therefore, "future research should explore the relationship between these determinants and causation and effectuation processes" (Chandler, et al., 2011 p.387).

Entrepreneurs are seen as individuals who are greatly influenced by their experiences, which help them develop logic as well as cognitive limitations (Andersson, 2011). Their mindset is developed through a mix of personal experiences, interaction and learning from others and the influence of the networks around them (Aldrich, 1999). Experiences can be described as events that happen in the life of an individual and are also perceived by the individual in question (Quiñones, et al., 1995).

Scholars indicated several advantages of having a prior relevant experience. For example more experienced individuals are able to more effectively process new information when compared to less experienced individuals. It can consequently be expected that more experienced entrepreneurs will thus show higher levels of creativity and innovativeness (Westhead, et al., 2005). One of the academic studies indicated that individuals are able to make effective international strategic decisions by relying on personal experiences and background as opposed to market research (Nielsen & Nielsen, 2011). This is in line with effectuation theory which denounces the use of market research in favor of using own resources and knowledge for further business development. These and other experience-related matters will be further elaborated on in the following sub-chapters.

#### 3.3.1 Influence of Formal Education

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Entrepreneurs mostly have higher level of education as compared to their regular employment counterparts, meaning that education is closely related to entrepreneurship. However, there is still an ongoing discussion with regard to the

influence education has on the entrepreneurial success in both academic and popular literature (Robinson & Sexton, 1994). In his early work Schultz (1959) mentioned that knowledge offers individuals higher cognitive abilities, resulting in higher levels of productivity and efficiency adding to increased human capital. It is logical that entrepreneurs with such high quality human capital are more likely to better recognize and exploit business opportunities (Davidsson & Honig, 2003). This improved recognition of business opportunities can be seen as a contribution to one of the effectuation principles, which deals with attitudes toward contingencies. This principle is also known as the "Lemonade" principle (Sarasvathy, 2008). It points to better recognition and leveraging of business opportunities (Sarasvathy, 2001).

Through education individuals are able to increase their general and industry specific knowledge base (Robinson & Sexton, 1994). By helping in the incorporation and accumulation of new knowledge, as well as helping to adapt and integrate to new situations, previously acquired knowledge plays a crucial role in the intellectual performance (Weick, 1996). Several scholars indicated that the probability of starting own business and its profitability greatly depends on the increasing level of education. Similar relationship is evident with regard to experience and its effects on self-employment and business profitability, however in this case the influence is stronger. Furthermore the impact of both experience and education tend to increase along with ones level of experience (Robinson & Sexton, 1994; Davidsson & Honig, 2003).

Considering the above stated information, education can be viewed as a contributing factor to the "Bird-in-Hand" principle of effectuation (Sarasvathy, 2008), particularly to increase of the knowledge (What I know) factor of the principle. This leads to the formulation of the following hypothesis:

*H1a: The longer the education period of Russian novice entrepreneur, the more effectual logic is expected to be observed.*

Contradictory to that, by means of the neoclassical theory it has long been assumed that when in chase of entrepreneurial opportunities, entrepreneurs engage in rational, goal-driven behaviors (Bird, 1989). This neoclassic goal-driven decision-making behavior dominated the entrepreneurial decision model taught in many business schools during the most of the 20<sup>th</sup> century and is referred to as the causation model (Sarasvathy, 2001; Perry, et al., 2011). The main cause for the causation model being a default one within entrepreneurial education is that it offers a clear causal model for covering the various elements of business operations, planning and different strategies associated with new business creation (Mäkimurto-Koivumaa & Puhakka, 2013). This information leads to the following hypothesis:

*H2b: The longer the education period of Russian novice entrepreneur, the more casual logic is expected to be observed.*

As mentioned earlier, formal education is considered to be a vital element of human capital, which is able to support the growth of knowledge that is needed to develop skills required for a successful entrepreneur. However, formal education is of course not the only component of human capital which also includes international and domestic work experience and non-formal education, like training and seminars outside formal lectures (Becker, 1964; Davidsson & Honig, 2003). Several of these components will be discussed in the following chapters.

### 3.3.2 Influence of Work Experience

Work experience is described as “events that are experienced by an individual that relate to the performance of some job” (Quiñones, et al., 1995, p. 890). Previously acquired work experience is argued to be an important component of human capital for an individual (Bruderl, et al., 1992). It is even suggested to be the main indicator of overall human capital (Castanias & Helfat, 2001) and serves as a tool to develop the general and specific human capital skills necessary to become future entrepreneur (Fairlie & Robb, 2005). Meaning that lack of suitable work experience could result that individuals face troubles while taking on the path of starting own business (Kim, et al., 2006).

Several advantages with regard to possession of prior job experience have been indicated. First of all, it has proven to have a positive effect on job performance (Quiñones, et al., 1995). It can also help to buildup and properly make use of new knowledge (Ucbasaran, et al., 2008). In addition, it can empower individuals to better adapt to new circumstances (Davidsson & Honig, 2003), increase the level of productivity (Parker, 2006), increases knowledge base (Robinson & Sexton, 1994; Guile & Griffiths, 2001), increase the level of confidence (Kim, et al., 2006) and improve related planning and managerial skills required for a new company formation (Kalleberg & Leicht, 1991). Prior managerial experience can also help develop skills needed to organize and manage various undertakings during the early phases of entrepreneurial activity (Boden & Nucci, 2000). Previous entrepreneurial experience for example could provide the individual with advanced problem-solving and management skills (Serarols-Tarrés, 2006). This contribution to this wide-range of business related skills can be seen as an addition to the 'Bird-In-Hand' effectuation that relates to the build-up of knowledge (What I know) through information accumulated by entrepreneur through work experience principle (Sarasvathy, 2001; 2008).

Furthermore, through work experience individuals are able to develop networking and team working skills (Guile & Griffiths, 2001). Individuals are also able to access various social networks which can be useful for "market information, access to capital, hiring employees, establishing reputations, and developing supplier and customer relationships" (Kim, et al., 2006, p. 9). These additions to the ability of creating and developing human networks can be seen as a contribution to the so called "Crazy-Quilt" principal of the effectuation that refers to the attitude of the individual towards creating new partnerships needed for further market development (Sarasvathy, 2001; 2008). By being able to better communicate to individuals, build networks and understand the importance of communications, entrepreneur further enchases this principle of effectuation.

Additionally, relevant work experience can provide vital learning opportunities (Kim, et al., 2006). For example assuming that such a work experience occurs within the new venture's industry, individuals can rely on the knowledge of their industry to identify potential opportunities and other industry-related conditions as well as develop confidence in their ability to identify promising opportunities (Shane, 2003). Thus by better identifying business opportunities, the "Lemonade" principle of the effectuation theory is influenced, which encourages to see opportunities in every (unforeseen) situation (Sarasvathy, 2001; 2008).

Summarizing the above stated information, work experience affects three principles of effectuation - "Bird-In-Hand", "Crazy-Quilt" and "Lemonade", thus the following hypothesis is proposed for testing within this research:

*H2: The longer the work experience of Russian novice entrepreneur, the more effectual logic is expected to be observed.*

### 3.3.3 Influence of International Study Experience

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It is not surprising that international experience has been getting more attention and is now widely seen as an important asset (Sambharya, 1996; Carpenter, et al., 2001) and as a potential competitive advantage (Spreitzer, et al., 1997). Experience acquired during study or living abroad during the early adulthood have great influence on the shaping of individuals identity (King & Ruiz-Gelices, 2003). This is exactly the case with regard to novice entrepreneurs that were interviewed for this master thesis, where a number of subjects indicated to possess prior international or and/or study experience. This addition to individual identity corresponds to one of the principle of effectuations - the "Bird-In-Hand", particularly to one of the aspects of this principle – knowledge (What I know) (Sarasvathy, 2001; 2008).

Living overseas creates ideas through experience with a different, sometimes more advanced commercial environment (Clark, et al., 2009). International study experience influences personal growth of students, by positively contributing to self and others acceptance, responsibility acceptance, general maturity and independence (Wilson,



1992). It also facilitated students in developing skills and attitudes required to successfully function in an interdependent society (Hutchins, 1996). Prior international non-work experiences, like studying or tourism are likely to have a direct link with the extent of one's foreign country adjustment (Bandura, 1997). By being able to survive in a foreign environment, gaining travelling skills and increased ability to share knowledge and experience with others student greatly boosted their self-confidence and increases cross-cultural awareness levels (Black & Duhon, 2006). Students also indicated to have without the comfort and security of family and familiar environment, gained knowledge, survival skills, non-verbal communication skills and coping skills during their study abroad period (Carlson, et al., 1990; Zhai & Scheer, 2002; Clark, et al., 2009).

International education experience also facilitated students to become a more globally minded persons (Clark, et al., 2009). Several researches have suggested that time spent in a foreign country may encourage personal development, alter worldviews, as well as be used as an enrichment for a résumé (e.g. Duke, 2000; Toncar & Cudmore, 2000; Black & Duhon, 2006). Olson and Kroeger (2001) indicated adaptability, empathy, cross-cultural awareness, intercultural relations, and cultural mediation as possible beneficiaries. These contributions to the personal and business-related skills of the individual can be seen as influential factors for the "Bird-in-Hand" principle of effectuation, in particular to the knowledge (What I know) factors of the principle (Sarasvathy, 2001; 2008).

International education has shown to increase student's appreciation and awareness of cultural diversity by offering opportunities to freely contact individuals with different philosophies and morals (Zhai & Scheer, 2002). International study experience also enriches student intercultural communication skills "effective intercultural communicators must have an understanding of cultural communication differences, an ability to overcome those barriers, and a desire to use those skills" (Williams, 2005 p.359). Intercultural communication varies from other intercultural proficiencies in that it focuses on the ability to have successful interactions in different cultures and can also be described as a combination of skills that enable individuals to effectively connect

with others (Clark, et al., 2009). This improvement in communication abilities can positively contribute to the "Crazy-Quilt" principle of the effectuation, main concern of which is creating partnerships for further market development (Sarasvathy, 2001; 2008).

Considering the information stated above, which indicates that longer study abroad periods positively contributes to the accumulation of skill and knowledge, while also improving communication skills, thus positively influencing the "Bird-in-Hand" and "Crazy-Quilt" principles of the effectuation theory, the following hypothesis is proposed:

*H3: The longer the duration of the international study experience Russian novice entrepreneur has, the more effectual logic is expected to be implemented during entrepreneurial decision-making process.*

### 3.3.4 Influence of International Work Experience

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Individuals, who choose to move to another country in order to gain professional experience are considered to be taking an essential and often strategic step in their own personal development by actively engaging into the directing of their own life paths (King & Ruiz-Gelices, 2003). Human capital in form of fresh ideas and skills may be acquired by working abroad, where longer overseas duration conveys new skills that are useful when returning to the home country (McCormick & Wahba, 2001).

Individuals with higher level of international work experience are more likely to have acquired firsthand knowledge regarding the advantages of having an international partnership, more likely to be a part of a foreign business network and are also more likely to have established skills needed to spot and negotiate with companies overseas (Reuber & Fischer, 1997). When ventures find themselves in difficult strategic situations, partnerships offer so much needed solid resources like certain skills and financial support, but also more abstract resources like legitimacy and market power (Eisenhardt & Schoonhoven, 1996). International work experience is likely to positively contribute to organization's performance by better management development, smoother direction and regulation of international operations and improved information management and

processing between internal and external (international) network (Sambharya, 1996). It is furthermore expected that the more international work experience one possesses the more use of strategic partnership is expected to be made (Reuber & Fischer, 1997). These findings indicate that international work experience can be a contributing factor to the "Crazy-Quilt" principle of the effectuation theory, which views partnership as essential part of business development (Sarasvathy, 2001; 2008).

Considering that past international experience provides entrepreneurs with direct opportunities to acquire a great diversity of skills, leading to the fact that greater international experience, be it one single lengthy stay or several short visits, is thus associated with improved general and work adaptation (Takeuchi, et al., 2005). Furthermore individuals receive intercultural communication, relocation to foreign environment, adjustment to foreign environment and cognitive skills through international work experience (Takeuchi, et al., 2005; Black & Duhon, 2006). International work experience also helps individuals acquire valuable information with regard to the inner functioning of a foreign culture. This information may help to cultivate certain capabilities needed in order to cope with uncertainties and to operate in complicated work environments by smoothing out the new setting adjustment (Kanungo & Misra, 1992), or by developing a certain adjustment pattern to deal with uncertainties (Takeuchi, et al., 2005). As uncertainty plays a major role in the choice of entrepreneur between causation and effectuation (Sarasvathy, 2001; Dew, et al., 2009; Chandler, et al., 2011) with effectuation being more suitable for uncertain situation (Sarasvathy, 2001) it can be suggested that these capabilities and patterns refer to the use of effectuation reasoning among individuals.

Several academics mentioned that by exposing individuals to different institutional environments, languages and values, international work experience can provide individuals with unique global management skills (e.g. Ricks, et al., 1990). It can also enlarge their global networks through international work experience in both the resource-based and capability-based perspectives (Edstrom & Galbraith, 1977).

Subsequently, the acquired skills, cognitive complexity and broader networks resulting from international work experience have been argued to offer individuals with unique and strategic knowledge helpful in running and expanding a business (Carpenter, et al., 2001). Entrepreneurs who live and work abroad for a longer periods are more likely to acquire knowledge with regard to the association between global capabilities and processes (Kobrin, 1988; Lublin, 1996). By visiting foreign countries, individuals get to know new societies, conducts and standards of those cultures through observations or direct experiences (Bandura, 1997). Furthermore, individuals with extensive international work experience are also more likely to have established sets of cognitions with regard to the people, roles, or events that administer social behavior, which can help future adaptation to new environments (Fiske & Taylor, 1984; Takeuchi, et al., 2005). These additions to personal and business-related skills are thus contributing to the “Bird-in-Hand” principle of effectuation theory, particularly to the knowledge (What I know) aspect of the principle (Sarasvathy, 2001; 2008).

Considering the information from the academic literature mentioned above, it is evident that longer international work experience enhances the “Bird-In-Hand” (Working with own means and skills) as well as the “Crazy Quilt” (partnerships) of effectuation, while also helping to operate in uncertain environment, where effectuation is more suitable. On basis of this information the following hypothesis can be formulated:

*H4: The longer the duration of the international work experience, the more effectual logic Russian novice entrepreneur is expected to use during entrepreneurial decision-making process.*

## 4. METHODOLOGY

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This section of the report is meant to acquaint the reader with the methodological part of the research. First of all the unit of analysis will be elaborated on. Then data collection will be explained. Followed by the operationalization of the research and analysis of the data.

This qualitative research is of explanatory nature, meaning that it is focused on exploration of fresh concepts through data collection and analysis, while also giving way for future research (Babbie, 2011). In order to positively contribute to the validity of the research, this choice for the country of analysis was based on my own personal interests, connections and of course native language. Another factor that contributed to the structure of the report was the fact that more than half of the respondents studied abroad, thus making a comparison between international and non-international experience possible.

### 4.1 Units of analysis

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Gartner (1988) and Davidsson and Honig (2003) pointed out, entrepreneurial activity must be studied during the initial stages of organizational creation so for this quasi-experimental study 20 novice entrepreneurs that were ready to contribute to this research had to be chosen on bases of certain criteria, also called quota sampling. First of all they had to be novice entrepreneurs, meaning they are fairly new to entrepreneurship and just started a business. This meant that expert entrepreneurs were ruled out. Second criteria was that they had to be operating in Russia, as the area of research of this paper within EPICC project is Russian Federation.

Quest for participants was done by using network of family, friends and associates and by visiting an entrepreneurship conference in Moscow, where about 150 nascent and novice entrepreneurs took part in several entrepreneurship lectures and workshops. Another sample of data of 20 Russia's novice entrepreneurs was acquired through a fellow student, also an EPICC project participant. This way, the sample size totaled 40

participants. It might not seem like a statistically descent size, however it must be taken into consideration that analyzing think-aloud protocols is very time consuming, thus even the data from small population can be considered sufficient (Nielsen, 1994). For her research, Sarasvathy (2008) had a sample size of 27, so 40 can definitely be considered adequate.

## 4.2 Data collection

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The gathering of data was done through one, maximum two hours personal interviews. The interviews were conducted using a think-aloud method, where every thought that comes to mind of the entrepreneur was meant to also come out of their mouth, all while being recorded. This method is believed to increase the level of observed behavior compared to the silent approach (Ericsson & Simon, 1993). Sarasvathy (2008, p.21) pointed out that: "There is also evidence that think-aloud verbal protocols are a fruitful method for studying the decision-making processes of entrepreneurs." The think aloud method often represent a distinctive information source on cognitive processes with the goal of explaining every step taken by the participant (Somerén, et al., 1994).

During the interviews, participants were requested to work on a 10 question business case, which called out to start a coffee corner from scratch and work toward a major corporation, eventually selling the business or going for an IPO. This case can be found in Appendix I. The interviews are to be recorder and later transcribed for further coding and statistical analysis.

In order to receive a feedback for future research design, at the end of the interview a number of questions were asked with regard to the way the interviewee experienced working on the case. Please refer to Appendix III for this question list. Afterwards interviewees were asked to fill out a number of questionnaires as a part of exploratory research. First questionnaire is meant to collect company information and indicate the way corporate decisions come about, which is based on the work of Chandler et al. (2011), who proposed the causation and effectuation as unconventional new venture

creation processes used by entrepreneurs and pointed out that: "While Sarasvathy has done a masterful job of articulating the constructs, our research addresses the next critical step in advancing this research — the development of validated measures of both causation and effectuation processes. Thus, we contribute by developing measures and analyzing the empirical distinctions between causation and effectuation". This questionnaire can be found in Appendix IV.

The second questionnaire dealt with a more personal, demographic information, like educational level and work experience. Furthermore it was enriched by a 34 items questionnaire developed by Hofstede - The Values Survey Module 2008 (VSM 08) which is developed in order to make a comparison of values influenced by culture between similar respondents from different geographical regions. This questionnaire can be found in Appendix V.

### 4.3 Operationalization

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First of all a trial interview took place on the university premises, with a Dutch novice entrepreneur being a trial interviewee. University supervisor was present in order to make sure interviewer was giving correct instruction and recording took place in the proper manner. The data from this interview also contributed to the research on Dutch novice entrepreneurs within the EPICC project.

Prior to the interviews, the participants were not provided with any information with regard to the type of experiment and/or its content. This was done to ensure that they do not think about the possible mechanisms or the outcomes of the business case. Before the start of each interview a short overview of the research project and what is expected from the participant was handed out. It mainly specifies the nature of the experiment and how to deal with it. The interviewer is not to speak during the interview as to avoid providing distractions or giving directions, only when the interviewee gets stuck or forgets to speak his or her mind, can the interviewer involve in the interview

process. All these matters are also verbally discussed with the participant. This short overview can be found in Appendix II.

Before the start of the interview, the interviewees were given a few moments to adjust to the setting, try speaking their mind out loud, while the audio recording equipment was being checked. Comfortable chair and table were provided and there was always a glass of water available, along with pen, piece of paper and a calculator. Furthermore issues of privacy and non-disclosure were discussed, as to indicate that no personal information will be made public. Prior to start of the experiment, instruction are made clear again in verbal and written form. These preparations are meant to put the subjects at ease, thus giving a possibility to think freely and use their creative mind when tackling the business case issues. All the forms, case and related information was translated into Russian, the native language of the entrepreneurs in question and the interviewer. This was done in order to remove the language barrier, thus contributing to the internal validity of the research.

Important part of the research is the think aloud method. The participants are expected to verbalize every thought that comes to mind while working on the case. This method calls for a quiet, undisturbed atmosphere, where subjects feel at ease and are not distracted in any way (Somerén, et al., 1994). They also continued to indicate that: 'The think aloud method can be used to investigate differences in problem-solving abilities between people, differences in difficulty between tasks, effects of instruction and other factors that have an effect on problem-solving' (Somerén, et al., 1994, p.9). All of the interviews were thus recorded and later transcribed for quantitative research analysis.

The business case involved in this experiment was based on the research of Sarasvathy (2001) where the questions are constructed in such a way as to provide an insight in the entrepreneurial processes of the entrepreneur. This is done in order to further be able to indicate whether causation or effectuation is observed. Also the questioners with regard to the information about the company and entrepreneur are meant to furthermore



enrich the understanding of the mindset of the entrepreneur with regard to the usage of the two reasoning methods. This is done by looking at the features of the effectuation and causation with regard to future views, contingencies, resources, competition, means and goals. The outcomes of these questioners were later coded and analyzed and will be further elaborated on in the next section of this research report.

#### 4.4 Data analysis

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Important part of the data analysis consists of transforming the acquired qualitative data from the interviews into quantitative data. For this first after the sessions were recorder, each individual case had to be transcribed into text protocols. The typing out of the session's protocols is vital in order to be able to apply reliable coding procedures, which is vital for further research since it is a very problematic and hence untrustworthy to directly compare the text protocols (Somerén, et al., 1994). An English language translation example of one of the protocols can be found in Appendix VI. The coding scheme based on the theory of effectuation was provided, according to which further analysis has been carried out.

*Table 3: Effectual and causal codes, based on Sarasvathy (2008: p.55).*

<b>Causal</b>	<b>Effectual</b>
P-Prediction of the future	C-Creation of the future
G-Goal-driven	M-Means-based
R-Expected returns	L-Affordable loss
B-Competitive analysis	A-Use of alliances or partnerships
K-Avoid contingencies	E-Embrace contingencies
X-Causal (no subcategory given)	N-Effectual (no subcategory given)

As mentioned in Table 3, coding scheme consisted of several features, where a distinction between causation and effectuation is made. Each protocol was carefully scanned for patterns which could be labeled according to the scheme. For example, when an individual was referring to certain comparison to the completion, that part of the protocol could thus be labeled as B-Competitive Analysis, which is a part of causation. This coding scheme is further elaborated on in Appendix VII.

The coding was meant as an analysis tool, later to be used in the SPSS analysis of the effectuation theory. Coding should be consistent, repeatable and clear (Burla, et al., 2008) and thus in order to check the coders ability to carry out a proper coding job, one of the interviews was translated into English, and then re-coded by the university supervisor with an acceptable intercoder reliability of 65%, and thus a go-ahead for further coding. An example of coding protocol can be found in Appendix VIII.

After the coding has been conducted, all the information from the questionnaires and coding protocols had to be put into an SPSS file for further analysis and hypothesis testing. This SPSS data sheet was provided by the EPICC project management, with all the needed variables entered as a template. Each question for each representative was entered in the SPSS data file. Additionally, individual coding revealed the causation-effectuation ratio along with the VSM index.

After the data set was completed, it became possible to test the proposed assumptions using the multiple regression analysis. It is considered to be a good method for testing of a relationship between one dependent and one or several of independent variables (Huizingh, 2007). Before conducting the analysis, data had to be tested for normal distribution by looking at skewness and kurtosis. General rule is that the values should be between -2 and +2 for normal distribution assumption to be valid and to further be able to execute multiple regression analysis.

Within the data set there are clear values for the years of work experience, years of education. Years of international experience variable had to be split into work and education, which was also made possible because of the information provided in the questionnaire with regard to the type of international experience. The assumption were tested at 5% significance level ( $\alpha=0.05$ ). After the calculations were done, explanations of the results will follow which will be further elaborated on in Chapter 5 and 6.

## 5. EMPIRICAL OUTCOMES

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This section is devoted to the analysis of the data collected during the research. The proposed hypothesis will be analyzed and emphasized on using empirical quantitative methods of statistical analysis. First the hypothesis analysis is presented, which consists of check for normality assumptions and regression analysis. Finally the outcomes of the analysis will be provided and elaborated on, pointing out whether hypothesis are statistically significant or not.

Regression analysis represents a favorable tool in order to check for a relationship between a dependent and one or several independent variables, assuming there is a casual relationship between the variables in question (Huizingh, 2007). Prior to the start a of the multiple regression analyses, the dependent variables were tested for the normality assumption. Both dependent variables, effectual logic (share of effectuation) and casual logic (share of causation) were normally distributed: the mean and median were closely located towards each other, the skewness and kurtosis were between 1 and -1, the histogram displayed a normal distribution, where the assumption of normality was met, and the Q-Q plots fulfilled the assumption of the normality of the residuals. Further information on this matter can be found in Appendix IX and Appendix X which depict the correlation tables of the variables in question.

To estimate the effect of education period, work experience, international study experience and international work experience on causal and effectual logic, multiple regression analyses were performed. Table 5 presents the results of these multiple regression analyses. Within the dependent variable logic, an increasing value indicates an increase in causal logic and a decreasing value indicates and increase in effectual logic. Furthermore, variables "gender" and "age" were included in the analyses for the role of test variables.

Table 4: The effects of study, work, international study and work experience on causal and effectual logic

	Unadjusted Model			Adjusted Model		
	B	T-value	P-value	B	T-value	P-value
Intercept	0.651	10.888	<0.001	0.567	3.879	<0.001
Education period	-0.009	-0.800	0.429	-0.010	-0.918	0.365
Work experience	-0.012	-2.638	0.012*	-0.014	-2.404	0.022*
International work experience	-0.074	-1.712	0.096	-0.047	-1.053	0.300
International study experience	-0.077	-2.451	0.020*	-0.067	-2.096	0.044*
Gender				0.067	1.974	0.057
Age				0.003	0.520	0.606
<b>Model statistics</b>	R <sup>2</sup> =0.287, F=3.427, P=0.019*			R <sup>2</sup> =0.365, F=3.063, P=0.018*		
<i>Note. N=39. *P&lt;0.05, The dependent variable = causal logic: Increasing value indicates an increase in causal logic, a decreasing value indicates and increase in effectual logic.</i>						

First of all, the unadjusted model is a significant model ( $F=3.427$ ,  $P<0.05$ ) and explains 29% ( $R^2=0.287$ ) of the variance in causal and effectual logic. In this model, there is a significant relation with work experience of a Russian novice entrepreneur and effectual logic ( $B=-0.012$ ,  $t=-2.638$ ,  $P<0.05$ ). An increase in work experience of a Russian novice entrepreneur results in an increase in effectual logic. Moreover, there is a significant effect of having international study experience as a Russian novice entrepreneur on effectual logic ( $B=-0.077$ ,  $t=-2.451$ ,  $P<0.05$ ). Russian novice entrepreneurs who have international study experience have also significant more effectual logic compared to Russian novice entrepreneur who don't have international study experience. However, there was no effect of education period ( $B=-0.009$ ,  $t=-0.800$ ,  $P>0.05$ ) and international work experience ( $B=-0.074$ ,  $t=-1.712$ ,  $P>0.05$ ) on both effectual and causal logic.

Secondly, the adjusted for age and gender model is also a significant model ( $F=3.063$ ,  $P<0.05$ ) and explains 36% ( $R^2=0.365$ ) of the variance in causal and effectual logic. In this, adjusted for age and gender model, there is a significant relation between work experience of a Russian novice entrepreneur and effectual logic ( $B=-0.014$ ,  $t=-2.404$ ,  $P<0.05$ ). While keeping gender and age as a constant, an increase in work experience as a Russian novice entrepreneur results in an increase of effectual logic. There is also a significant effect of international study experience as a Russian novice entrepreneur on effectual logic ( $B=-0.067$ ,  $t=-2.096$ ,  $P<0.05$ ). While keeping gender and age as a constant,

having international study experience as a Russian novice entrepreneur results in an increase of effectual logic. However, there was no significant effect of education period ( $B=-0.010$ ,  $t=-0.918$ ,  $P>0.05$ ) and international work experience ( $B=-0.047$ ,  $t=-1.053$ ,  $P>0.05$ ) of a Russian novice entrepreneur on causal and effectual logic.

## 6 DISCUSSION AND CONCLUSION

This concluding section of the main body of this research report will first of all discuss conclusion and reflection of the research. Followed by several limitation and recommendations for academics and practitioners.

### 6.1 Conclusion

The main goal of this research was to indicate if the decision-making process of novice domestic entrepreneurs in the particular context of Russia is influenced by experiences, with particular focus on the (international) experiences. The core of this work consist of the effectual logic (intuition) theory, which can best be described as means and future-shaping oriented, as opposed to the more familiar logic thought in business schools: causation (planning), where goals are pre-set and future is predictable.

The results from applying effectuation theory to a fairly young and unstable environment as Russia, along with the statistical conclusions were summed up in a number of assumptions which are depicted in the Table 5 below:

*Table 5: Hypothesis results overview*

#	Hypothesis	Statistical outcome
1a	<i>The longer the education period of Russian novice entrepreneur, the more effectual logic is expected to be observed.</i>	Rejected
1b	<i>The longer the education period of Russian novice entrepreneur, the more casual logic is expected to be observed.</i>	Rejected
2	<i>The longer the work experience of Russian novice entrepreneur, the more effectual logic is expected to be observed.</i>	Failed to reject
3	<i>The longer the duration of the international study experience Russian novice entrepreneur has, the more effectual logic is expected to be implemented during entrepreneurial decision-making process.</i>	Failed to reject
4	<i>The longer the duration of the international work experience, the more effectual logic Russian novice entrepreneur is expected to use during entrepreneurial decision-making process.</i>	Rejected

During a thorough literature review it became evident that international and domestic experiences can have great effect on entrepreneur's decision making-process. According to the studied material, it can greatly enrich human capital of the individual, thus contributing to further development of skills (McCormick & Wahba, 2001). As one's resources are essential part of effectual logic, this increase could possible lead to the increase in usage of effectual logic within entrepreneurial decision-making process. Also context of the operational environment should not be underestimated, as it can have a profound effect on how, why, when entrepreneurship happens, who is involved and what processes affect entrepreneurial decision-making. The empirical data analysis of the collected information showed quite a contradictory picture to the studied literature.

The first hypothesis 1a and alternative hypothesis 1b that came out of the literature review consisted of two contradictory assumptions: first one dealt with effect of the length of educational period on effectual logic. The second dealt with same independent variable (length of educational period) but compared to the effect on casual reasoning: the longer the period, the more effectuation or causation is expected to be used. Statistical analysis indicated that educational period did not have a significant impact on the share of effectuation and causation used by novice entrepreneurs in Russia. This outcome could be explained with the fact that as academic literature indicated, most schools do not teach effectual logic. Especially in Russian schools, where educational programs are still often based on old fashioned soviet perceptions, where even a general topic of entrepreneurship is only now starting to receive some kind of decent attention.

By further investigating assumption 2 of the research, the outcomes of the SPSS analysis indicated that there is a significant relationship between the years of work experience and effectual reasoning used by the entrepreneurs within the research sample. This could mean that effectuation is something learned through experience. Earlier research pointed out that the more experience individuals gets, the more effectual logic is to be observed. The outcomes of the statistical testing of this assumption is in line with

literature review findings, indicating that practical work experience is where effectuation can be learned through set of skills and knowledge acquired through working practice.

Third hypothesis dealt with the impact study abroad experience has on the share of effectuation observed within the decision-making process: it was proposed that the longer this period is, the more effectual logic is expected to be observed. Empirical outcomes have indicated that this assumptions cannot be rejected. Study-abroad programs indeed seem to have a significant impact upon the level of effectuation with entrepreneurial decision-making process. This outcomes of the statistical analysis of this assumption support the finding of the academic literature.

Hypothesis number 4 proposed the level of observed effectuation rises along with the amount of years spent working abroad. On basis of the statistical analysis, this hypothesis had to be rejected, there was no significant relationship between the years spent working abroad and level of effectual logic within the researched sample.

Furthermore, according to the literature review, starting entrepreneurs tend to rely more on the casual logic. However when looking at the distribution of the levels of observed causation and effectuation of Russia's novice entrepreneurs, contradictory picture comes to light. The proportion of effectuation and causation is 51% and 49% respectively, meaning that researched individuals use about the same amount of causation as effectuation during their decision-making process. So it can be suggested that in practice both reasoning methods can coexist.

Overall the results indicate sometimes quite a surprising picture which is not always in line with the researched literature. For example the length of international study period has been proven to have a significant effect on effectuation, while working abroad period does not seem to have any effect on the level of effectuation. While both are international experiences, the difference could be explained by the fact that different type of learning takes place when at work place or at university. It could be that



entrepreneurship is encouraged in the university, but discouraged at work place. So the type of company and the country of international assignment could play a major role. So limitations of this research could very well serve as an explanation for the different results acquired. It could also very well be that certain individuals are either born with certain effectual logic embedded in the mind or not. Early upbringing for example could also have some effect on the level of effectuation.

The main goal of this particular research was to offer methodologically sound empirical observations resulting in an improved understanding of aspects of human and social capital that may be influential during the initial phases of the entrepreneurial action. In particular to investigate the impact international and domestic experiences have upon the entrepreneurial reasoning of novice entrepreneurs within the context of Russian business environment. Through literature review and further scientific analysis this aim has been achieved. It was indicated that through accumulation of skills and practical knowledge, work and international study experience have significant influence on the levels of effectuation observed within the decision-making process of Russia's novice entrepreneurs.

## 6.2 Limitations

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There is rarely and academic study or a research that does not possess any limitations. Especially considering the fact that researching entrepreneurial decision-making is a very complex and challenging task (Kalinic, et al., 2014). Thus within this master thesis project several limitations are applicable which will be discussed in this section of the report.

First of all it must be taken into account that international experience is country specific (Lehner, 1996) since every country has its own distinct culture and that the way companies do business differs from country to country (Hofstede, 1980). Considering the fact that entrepreneurs and context greatly differ (Hofstede, 1984; Zahra, 2007; Welter, 2010), it can be tricky generalizing the outcomes to broader entrepreneurial population of Russia. It is also certain that the perception and influence of experiences

can vary greatly depending on the country one is living in and on the country one is coming from. Say for example, a student from Germany coming to live in Holland is not up for a major culture shock. However when somebody from a third world country would come to study or work in Holland, culture shock would definitely be more evident. As Clark (2009, p.178) pointed out: "the experiences of students at other locations may be dissimilar because they are exposed to different cultures and programs of study. Contrasting the development of intercultural sensitivity of students exposed to varied cultures and studying for different lengths of time could allow for the better understanding of how this intercultural proficiency transpires."

It must also be noted that this is not fully controlled study, since there is a high probability of other important experiences occurring during the international experience which could have affect future behavior of the entrepreneurs in question.

It could also for example happen to appear that those who option to go to a foreign country are more developed and/or talented individuals and are more keen on facing uncertain situations (McCormick & Wahba, 2001). Or that individuals and firms with higher level entrepreneurial knowledge and capabilities, are likely to follow an international path (Volchek, et al., 2013). It has been observed that entrepreneurs who have prior international experience are more likely to internationalize in the future (Chen & Yu, 2008) and that firms with higher level of knoweldge of foreign markets show more international ambitions (Filatotchev, et al., 2009).

Furthermore think-aloud method has several limitations. For example errors in the memory of the interviewee can make the data invalid and subject might not be verbalizing all the thoughts that come to mind. In addition to that, some individuals find it difficult and unpleasant to speak their mind in this way thus there is a visible difference in the protocols. The influence of these limitation was minimized by prior interview instructions of non-disclosure and pleasant interview environment, however they remain none the less.

### 6.3 Recommendations

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The future research could be more fine-tuned for the international aspect by adding more specific questions to the questionnaires, like specifying the years of international experience by type and country. During this research there was no possibility for students to separately add the years spent as tourist, years working or studying a foreign country, only overall number of years spent abroad, destination and purpose of the visit were specified. But it is plausible that subject could have gone on holiday to one country, than studied in another and worked somewhere else. Such distinction could definitely add more value and understanding to the general picture.

Researchers could use the findings of this real-life study in order to take the discussion further to more advanced researches in the field of entrepreneurial process and the effects of effectuation. Statistical analysis indicated that work experience and international study experience could have an effect on the usage of effectual logic by Russia's novice entrepreneurs. This could be taken as a starting point for further research in order to further investigate this relationship. Academics could for example use the same variables for different population groups, countries, gender and so on.

Another interesting possibility would be to conduct similar research with regard to expert entrepreneurs or to compare the novice and expert entrepreneurs. A comparison between developing and developed countries could be another angle of the possible future research, taking the context of the research to another level. Zahra (2007, p.448) called out for future research to concentrate on "entrepreneurial decisions or the processes entrepreneurs follow in making these decisions, finding opportunities, and organizing their nascent companies." He continued to say that by pointing out which vital variables might influence the outcomes of the research, such more process-oriented research could greatly contribute to the overall understanding of central content related issues and increase researchers interest in examining important contextual variables that explain the variance noted in their variables of interest. These variables are of chaotic nature and can greatly enrich the understanding of the decisions

entrepreneur makes, leading to further solid outcomes that can lead to a more innovative theory testing and construction (Zahra, 2007).

Furthermore, some researchers suggested to also look at the type of education of entrepreneur, as there is a possibility of major differences between types of education (Robinson & Sexton, 1994; Berglann, et al., 2011). It could very well be that some types of education, like mathematics for example, being a very precise science, thus tends to lean on a more step-by-step casual thinking. This would lead to greater influence of casual logic within the mind of the student. Whereas art studies and for example marketing studies could be more of an effectual type of educational studies. Here the students are encourage to take a less casual approach to their thinking, by promoting creativity and out-of-the-box thinking, thus taking a more effectual approach to the decision-making process. This distinction between types of education could not be carried out within this research due to time limits, but can be a good start for future research.

As for practical advice, educational staff could use the outcomes of this research in order to point out the advantages of the study abroad programs. By promoting international education, universities can prepare student for the ever growing multicultural job market and international venture development, thus increasing chances of students of securing an (inter)national workplace or a cross-border business venture. They could also take into consideration the fact that effectuation does not deserve enough attention in current educational programs. Thought according to the past research, effectuation is something entrepreneurs constantly use in their decision-making process. Through literature review of this research it became evident what great advantages it can have, especially in uncertain environments. Thus this paper could be used as another argument calling for more effectual-oriented educational programs.

Looking at the results of this research, starting entrepreneurs could put more of their attention from study to practice, as according to the statistical outcomes, work

experience seems to encourage effectual thinking. Furthermore, on basis on this work international career enchasing programs could be promoted in big and small corporations. They seems to encourage effectual thinking, which could further help big corporations become more flexible and creative.

## 6.4 Reflection

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It cannot be ruled out any more that effectuation is a phenomenon that is proven to be used by entrepreneurs on a great scale. This has been confirmed through previous research and again by means of this research paper. Thus more attention should be paid to the theory of effectuation in academic and business worlds.

For me personally, being a more effectual type of entrepreneur, I would say that previous work experience can definitely enhance effectuation. My opinion is that this has to do with the fact that one might be less afraid of trying to shape the future and take matters into own hands when more experience and knowledge (Who I know, What I know) is on hand. Furthermore, I have gone through an international study experience myself at quite a young age and I can confirm that such an experience definitely increases overall awareness and communication skills, thus again contributing to the effectual reasoning.

However, a more philosophical question might be: does one need more effectuation or causation in life? It could very well be that one entrepreneur will do just fine by using more effectuation or causation in their decision-making process. Again it all depends on the context, like type of business, operation environment, future plans and of course the individual. Some individuals might be more of a casual or effectual type and shifting in a favor of another reasoning could be a very challenging, unpleasant and maybe even unneeded task. So I think the practical challenge for every entrepreneur would be to figure out an optimal balance between causation and effectuation, without totally excluded one or the other, as they both can offer substantial competitive advantage.

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## Appendix I

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### THE CASE

#### Introduction

In the following experiment, you will solve ten decision problems. These problems arise in the context of building a new company for an imaginary product. A detailed description of the product follows this introduction.

Before you start on the product description and the problems, I do need one act of creative imagination on your part. I request you to put yourself in the role of the lead entrepreneur in building this company -- i.e., you have very little money of your own to start this company, but you have about five years relevant working experience in the area.

#### Description

Since some time, you have been thinking of starting a coffee-corner at your university. Your inspiration for this came from the fact that when you, as a student, want to get a fresh cup of coffee, there was no possibility. You did not like the coffee from the machines which are available in the university buildings. Next to that, you had to pay an amount of money, which was in no relation to the quality of the coffee. You have been working in a coffee corner in your hometown for 5 years so you know what goes around

You saw the success of other coffee corners, but since these were from expensive franchisers, you thought that it should be possible to still start your own. In several reports in newspapers and magazines you read that there is an increasing demand for drinking coffee in your home country.

You have taken all possible precautions regarding intellectual property. The name of your company is *Coffee, Inc.*

Problem 1: Identifying the market

Before we look at some market research data, please answer the following questions -- one at a time:

1. Who could be your potential customers for your coffee corner?
2. Who could be your potential competitors?
3. What information would you seek about potential customers and competitors -- list questions you would want answered.
4. How will you find out this information -- what kind of market research would you do?
5. What do you think are the growth possibilities for this company?

## Problem 2: Defining the market

In this problem you have to make some marketing decisions.

Based on secondary market research (published sources, etc.), you estimate that there are three major segments who are interested in drinking coffee at your coffee corner:

<u>Segment</u>	<u>Estimated total size</u>
Students	40.000
Staff members	20.000
Visitors (annually)	10.000

- The estimated value of regular coffee sales in your home country is €448 Million
- The estimated value of specialized coffee sales €100 Million.

Both are expected to grow at a minimum rate of 5% p.a. for the next 5 years.

The following are the results of the primary (direct) market research that you have completed.

***Survey #1 – Students, staff members and visitors were asked via questionnaires to express their interest in a coffee corner. Also, they were asked to indicate what they were willing to spend on coffee.***

In total, 1000 people were asked and 500 filled out the questionnaire.

<u>Willing to pay (€)</u>	<u>Students (%)</u>	<u>Staff members (%)</u>	<u>visitors (%)</u>
0,50 – 0,75	52	26	45
0,75 – 1,00	30	38	32
1,00 – 1,25	16	22	15
1.25 – 1,75	2	9	8
1,75 – 2,50	0	5	0
Total	100	100	100

***Survey #2 -- The prices of coffee, offered during lunch breaks in between lectures***

<u>Willing to pay (€)</u>	<u>Students (%)</u>	<u>Staff members (%)</u>	<u>visitors (%)</u>
0,50 – 0,75	65	21	51
0,75 – 1,00	25	49	42
1,00 – 1,25	10	19	7
1.25 – 1,75	0	8	0

1,75 – 2,50	0	3	0
Total	100	100	100

### ***Survey #3 -- Focus Group of educators (high school and community college teachers and administrators)***

Staff members of the university who participated in the focus group found the plan of the coffee corner very interesting – but indicated that the range of coffee could potentially be expended before they would be willing to spend €1,50 or more. With the current offer, they would be willing to pay €1,00 - € 1,25 and would demand a bonus system in which they could save up for discounts after a certain amount of coffee drunk.

Both at the lunch and the focus group, participants are very positive and enthusiastic about the coffee corner. They provide you with good feedback on specific features and also extend suggestions for improvement. But the staff members are particularly keen on going beyond the regular coffee aspect; they make it clear that much more diversity would be required in trying to market the product to them. They e.g. indicate that there are companies which might be capable of printing advertisement on cups for discounts on the coffee.

Based on all your market research, you arrive at the following **cost estimates for marketing your product.**

Internet	€200 upfront + €50 per month thereafter
Newspapers	Relatively cheap -- but ads could cost €500 upfront
Cinema	€2000 to 4000 per month, with €1000 upfront
Commercials on Local TV	€5000 to 10.000 upfront

Direct advertisement elsewhere (think of sport-canteens, handing out lighters with advertisement, etc)      Involves recruiting and training 'sales representatives'

### Competition

None of the following four possible competitors sell cheap quality cups of coffee in the center of your hometown - you are unique in this respect.

Company	General price level per cup of coffee	Revenue	Where to be found
Starbucks	€ 5,00	€6.5 billion	Large cities / global
Peet's	€ 4,00	€225 million	Large cities / mostly USA
Coffee Bean	€ 4,50	€130 million	Large cities / global
Douwe Egberts store	€ 2,50	€25 million	Large cities/ Netherlands



The coffee corner companies are making a **net return of 25% on sales**.

At this point, please take your time and make the following decisions: (Please continue thinking aloud as you arrive at your decisions)

Which market segment/segments will you sell your product to?

How will you price your product?

How will you sell to your selected market segment/segments?

### Problem 3: Meeting Payroll

You have started the company on a shoestring, using face to face promotion as your primary source of marketing. You are six months into marketing your product. You have priced the products at the low end of the surveys at 0.50 – 0.75 euro. You have about 3000 customers per month. Based on numerous suggestions provided by your customers, you believe you can start selling special coffees in the range of 1.25 – 1.50 euro. This would especially be the case when you would redesign the interior of the coffee corner to make it into a more upscale coffee corner.

You have invested the last of your savings and maxed out your credit cards in order to make sure you have the coffee asked for in stock-- You need this to participate in a competition on where 'Architecture meets Catering', where you will get a lot of exposure.

You have four employees -- and you are out of cash to meet the next payroll. You estimate you need 30,000 euro to survive the next three months and to come up with a supercool store design to be able to participate in the competition. You have the following four options:

1. Borrow from your girlfriend's parents -- they are not overly wealthy, but could probably get their hands on 30,000 euro if they needed to.
2. Borrow from some old friends from the university and your old student job.
3. Convince your parents to take out a mortgage on their house.
4. Convince your employees to wait out the period.

Which of these options would you choose? Why?

Problem 4: Financing

Your store design has won the first prize in the New talent category at the 'Architecture meets Catering' competition. This in turn has led to inquiries from large coffee suppliers such as Nestlé Netherlands B.V. to market the concept (with full multi-media exposure) nationally. You estimate that it will take you six months to develop the concept in more detail and about three months after that to actually roll it out on three main channels -- Web, national newspapers and national TV. The coffee will be priced at 4.00 euro per unit. You estimate that you will need 150.000 euro till break even (by the third quarter of the second year) -- this includes enhancing the concept, putting in place excellent (support) staff, full-blown advertising and web links, and the development of a small direct sales staff for selling on site.

You estimate the following sales projections for the first five years (You are at the beginning of Year 1 now):

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	€ 100,000	€ 150,000	€ 300.000	€500.000	€1 M
Profits	€ < 0	€ 20.000	€40.000		€200.000
					€300.000

You have three financing options:

Option 1

A venture capitalist who specializes in startup companies in catering and adjacent areas, is willing to finance you € 150.000 for 48% of your company.

Option 2

A friend of the family who has extensive experience in catering is eager to go into partnership with you -- for 33% of the company. He is able to invest €150.000 but wants to work for the company at a base salary of €40,000 per year. He agrees to accept a minimum level of €30,000 for the first two years to keep his family going and defer the rest to when the company starts making money. You like and respect this man and have no personal feelings against him.

Option 3

You can continue the company with internal cash flow -- grow at a much slower pace.

Which option would you choose? Why?

If the venture capitalist is also willing to take only 33% of the company, which option would you choose?

Problem 5: Leadership/Vision

You have found the financing and have signed a contract with two major coffee suppliers to market your product. You have hired new staff and moved into new premises. A national newspaper is doing a series of stories on local entrepreneurs and wants to do a story on you -- you know that this interview would be a defining moment in the development of your company and you see this as an opportunity to convey to the world (and to your new employees) your vision for your company's future. This newspaper article series has been very successful; it routinely gets picked up by other national papers and TV networks. One of the reasons for its success is its headline which consists of a one-line quote that captures the entrepreneur's vision for the company -- to be achieved by the year 2012.

You have come up with several possibilities for the one-liner:

1. Starbucks is the past -- *Coffee inc* is the future.
2. We aim to have at least a thousand employees by the year 2014.
3. The fastest growing coffee caterer.
4. Invest in *coffee inc*—Enjoy the Dutch tradition.

Which one of the above do you choose? Why? If you do not choose any of them and want to come up with ideas for an alternative, please do so.

Problem 6: Product Re-development, Part One

You are almost at the end of your fifth year in operation -- you have just managed to break even (later than you projected). You have opened the doors to all three segments (students, staff, visitors). Sales, while they are steady and continuous, are rather 'colourless' and you start doubting whether you will ever reach your growth targets. You decide to conduct a serious market research initiative in order to find out how to grow your sales. You organize focus groups with both existing customers and potential new customers. The main problem seems to be the "great divide" between the regular coffee and the specialized products. Over 90% of the participants in your focus groups find the regular products very interesting. But when it comes to the specialised coffees, there is a clear division of opinion. The participants who primarily enjoy the regular coffees almost *never* bother to go and buy more expensive coffees and wonder why all that '*elite stuff*' is there; and those who are primarily interested in the specialised coffees think that the regular products downgrade the atmosphere.

How do you respond to this feedback?

### Problem 6: Product Re-development, Part Two

You go back to the origins and think of a concept which could provide solutions to both parties. You come up with a solution in which you have 1 existing shop and 1 new shop. Shop number 1 (the existing shop) is for more regular coffees, the new shop is for exclusive coffees and teas. With the exclusive shop one should think of specialized Asian, South American and African coffee specialties, which would result in a total amount of 30 different types of coffee. Teas will come in a variety of 20 types. Also, exclusive cakes and pastries are sold. Next to this, customers can also borrow books, read newspapers and have access to free wireless internet. In the regular coffee booth, you plan to sell 8 different regular coffees, like plain cappuccino, espresso, etc, and add 5 regular teas (e.g. China Blossom and Rooibos) and limited variety of donuts and muffins.

You first start to promote the idea with the exclusive shop with a variety of 15 different coffees and 15 different teas, and also a smaller variety of cakes and pastries than you eventually will include. This together with free newspapers and free wireless internet is what you show to the focus group. It turns out that especially the exclusive shop is received very enthusiastically and customers are willing to pay 2 to 2,5 times as much as asked previously.

One of the requirements is however that you have to extend to what you had in mind (the 20 teas, 30 coffees, the books, newspapers and free wireless internet). You have to decide whether to undertake this massive concept change or to focus completely on one of the two concepts. If you want to extend it will cost you as much as 200.000 euro and a separate marketing effort.

Year	1	2	3	4	5	6	7	8
Estimated Sales (€M)	0.10	0.50	1	6	12	18	24	30
Actual Sales (€M)	0.14	0.48	0.84	2.8	4.2			

Which of the two options do you choose? Why?

Assuming you have decided to go in for the extension, you have to choose one of the following three options:

1. Undertake the redesign effort in-house -- Estimated Cost: €250.000 .
2. Out-source the redesign to the new company within your home-country-- Estimated Cost: € 200.000
3. Out-source the redesign to the new company outside your home-country-- Estimated Cost: € 100.000

Which option do you choose? Why?

Problem 7: Growing the Company, Part One

You are almost at the end of the sixth year of business. You are now running two types of shops—under the umbrella of Coffee inc.

- Plain Coffee (sales between 1.00 – 5.00 euro) where you sell a limited amount of regular coffees and teas and a basic amount of donuts, muffins and chocolates
- Exquisite (sales between 5.00 – 15.00 euro) where you offer the 'complete picture'

Your number of outlets and therewith the new coffee shop managers has swelled to twenty from the original three and you are continuing to expand your sales force and develop an even better concept of Exquisite for more upscale areas in town. Greg Thomas, who is an excellent salesman (dealing with the regular coffees previously) and has headed the sales team since Day One, has clearly not kept up with the issues of growing the company -- he is definitely not the person to lead the new Exquisite. How will you deal with this situation?

Year	1	2	3	4	5	6	7	8
						Revised		
Estimated Sales (€M)	0.10	0.50	1	6	12	6	12	20
Actual Sales (€M)	0.14	0.48	0.84	2.8	4.2	8.6		

Would you:

1. Fire him?
2. Hire a new sales manager to head the sales team? If so, would you consult with Greg before doing so? How would you break the news to him?

Please feel free to elaborate on any other way of dealing with the situation.

### Problem 7: Growing the Company, Part Two

Although the company has been growing for a while now, you are trying to keep the entrepreneurial culture of the company alive. But you begin to notice that your partner is fostering a more "corporate ambiance" -- long and unnecessary meetings, complicated organization charts, colorful expense accounts, "consultants" to "optimize market potential", and so on. When you try to talk with him about it, he argues that it is time for the company to go "corporate" -- that such a "professional" image would actually be good for the bottom line.

Year	1	2	3	4	5	6	7	8
						Revised		
Estimated Sales (€M)	0.10	0.50	1	6	12	6	12	20
Actual Sales (€M)	0.14	0.48	0.84	2.8	4.2	8.6	20	27.5

How will you deal with this situation? Do you think it is time for *Coffee Inc.* to go "corporate"?



Problem 8: Hiring Professional Management

You are now in the eighth year of your company. You are doing very well -- surpassing growth targets and building reliable market share. Your sales are €27,5 Million and you project a growth rate of at least 25% per year for the next three years.

Year	1	2	3	4	5	6	7	8
						Revised		
Estimated Sales (\$M)	0.10	0.50	1	6	12	6	12	20
Actual Sales (\$M)	0.14	0.48	0.84	2.8	4.2	8.6	20	27.5

Your Board's advice is to hire professional management to run the company so you can focus on issues of new growth and new strategic initiatives. Assuming you have already developed a short list of three high-potential candidates to interview for the position of **Chief Operating Officer** (COO), how would you prepare for the interview?

List questions you would ask, techniques you would use, and critical issues you would take into account in hiring this person.

Problem 9: Goodwill

At this point, you are approached by the principal of an inner city school in your area, who also works with 10 other schools such as hers -- she believes that Exquise could be a perfect learning environment for her students in her Catering study program.

She requests you to work with a couple of really enthusiastic teachers to develop some elementary learning materials for the students to work on in the Exquise shops. The project would mean not only an investment of €100.000 (approx.) for modifications, but also a substantial chunk of your time for about six months during development and then about 10 sessions of classroom participation per year for a couple of years at least.

Note: Your sales are €27,5 Million and you project a growth rate of at least 25% per year for the next three years.

Will you take the initiative for this project?

If not, why not?

If yes, would you:

- a) Donate the product?
- b) Sell it at cost?
- c) Sell it at your regular profit margin?

Why?

Problem 10: Exit

You are now in the tenth year of your company -- *Exquise* is a great success and thanks to your new targeted strategies, even *Plain Coffee* is growing satisfactorily. You have acquired three other profitable catering concepts. You are doing €45 Million in sales and project that you will reach €70 Million within a year. At this time you face two possible directions for your company.

Direction 1

Your accountants and bankers think that this is a good time for you to take the company public. The Initial Public Offering (IPO; new stocks) market is booming and catering is in a solid upward trend. They estimate you should make an initial public offering of 2 million shares at €30 per share. The company has a total of 12 million shares outstanding.

Direction 2

At this point in time, Starbucks approaches you and makes an offer for your company -- it seems they have decided to get in on the more exclusive segment and have decided to enter the arena through acquisitions -- they see you as a perfect fit for their strategy and offer you €300 Million.

Year	1	2	3	4	5	6	7	8	9	10
						Revised				
Estimated Sales (€M)	0.10	0.50	1	6	12	6	12	20	30	45
Actual Sales (€M)	0.14	0.48	0.84	2.8	4.2	8.6	20	27.5	38	70

Which of the above two directions do you choose? Why?

End

## Appendix II

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### **The experiment and your role in it.**

#### Introduction

The purpose of this study is to find out how people go about setting up a new company. This applies in particular to determine what processes they go through while starting their own business.

An example in the personal sphere: it is your turn to cook. There are people who first recipe from the internet, then write a note on the ingredients, and then going to the supermarket to buy products. When they get back, exactly as recipe ingredients at the right time (the recipe) to scramble and come with such a delicious meal. There are also those first go and see what they have in the fridge already. Then treat them with resources to work. On intuitive they throw some ingredients together that is not entirely clear whether it will be at the right moments. The result: a delicious meal. This is also how entrepreneurs differ from each other. Some do everything very structured, others do it by feel. These differences we want to measure in this study.

In this study you will be asked when making the case by speaking your mind.

Below is some information regarding the purpose of the case and how it should be executed. Furthermore, some guidance that can help you verbalizing your thoughts and the role of the experimenter are explained. Read the information carefully. Then the experimenter will ask if everything is clear. If so, you will get some short exercises to practice thinking aloud. Then the experimenter gives you the case. Think aloud as soon as you instructed.

#### The purpose of the assignment

The purpose of the command you will execute is: setting up a new company, a coffee corner. Information with respect to the coffee corner can be found in the case. The idea is that you verbalize what you think while going through the case.

Your contribution to this research is not only theoretically important. The results will be used in a later phase of the study to gain more insight into the workings of more experienced entrepreneurs with large, publicly traded companies. Based on this knowledge we will get insight in the processes of entrepreneurial businesses. The fictional company is very similar to companies in the real practice which the processes must be improved. The way you execute the case also largely determines what improvement proposals can later be made to such companies.

#### The execution of the case

You are not bound by what you think in general or what you might think is logically correct but may find your own personal use logic. Again, there is not one proper way of how to proceed. Many ways of following the steps may be appropriate.

If you need some factual information (eg technical details of coffee machines) that you cannot be found in the background you may formulate assumptions (for example, assume that such a device should be able to produce 50,000 cups of coffee before a service is due). Do this only when absolutely necessary.

Take, if you think it makes sense, notes. It may be difficult to assign responsibility entirely from your memory to perform and the risk that during the execution of the case the order gets lost. Incidentally, you may feel free to start over completely or partially.

### The task

You have two hours available for this task. Then a short interview will follow. You can use pencil and paper and, if you want, from a calculator.

### The role of the experimenter

The experimenter is only present to make sure you verbalize your thoughts and record your actions. He or she does not give you additional information. If you forget to share your thoughts by speaking, the experimenter can point this out.

### Thinking aloud

Remember, during the execution of the assignment, to keep talking aloud. Speak every thought that comes to mind immediately, even if you believe it has nothing to do with the assignment or if you are not sure if the idea is correct. We will analyse how the case runs rather than looking at the "rightness" of your thoughts but especially to the completeness of its appearance.

Try not to notice explain or summarize to the experimenter. This may interfere with performance of the contract.

## **Appendix III**

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### **Interview questions – referring to the case**

1. At what points in the case did you choose an option or direction that was not mentioned in the case description?
2. In case you chose an option not mentioned in the case description, could you explain what the alternatives were and what your motives were for selecting your option of choice?
3. Were there any moments when you felt like you could not proceed with the assignment, for example because of missing background information, unclear questions, or for another reason? In case this happened, how did you deal with this situation – how did you proceed?
4. In this assignment, you came up with a way of starting and growing a new venture. Could you explain your rationale for this in a nutshell?
5. If you had to do the assignment again, would you do anything differently?
6. Was there enough time to execute the assignment?
7. Did you find it difficult or annoying to discuss your ideas while working through the case?
8. Do you feel that you have been able to express your thoughts properly and completely?

End

## Appendix IV

Interviewer Name: \_\_\_\_\_  
 Interviewee Name: \_\_\_\_\_  
 Code number interview: \_\_\_\_\_ (same as for the biographical info)  
 Email interviewee: \_\_\_\_\_  
 Name / website of student company;: \_\_\_\_\_ -

Short description of student company (what business are you in):

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Founding date: \_\_\_\_\_  
 Founding place: \_\_\_\_\_  
 Number of founders (including entrepreneur): \_\_\_\_\_  
 Current number of employees (including all founders, in full time equivalents): \_\_\_\_\_  
 Annual turnover in country currency: \_\_\_\_\_ (amount) \_\_\_\_\_ currency

To what degree did you start your enterprise because you had no other option for work?

Not at all	A little	Somewhat	To a large extent	absolutely

To what degree did you start your enterprise because you wanted to become independent or increase your income

Not at all	A little	Somewhat	To a large extent	absolutely

(Measures for necessity vs. opportunity taken from GEM)

Please answer this questionnaire on the basis of reflecting on your own company.

Please have a look at the following statements. Now, circle 1 answer out of 5, in which you indicate you to degree to which you do not agree or agree to the statement.

	Do not agree	Agree little	Agree somewhat	Mostly agree	Fully agree
We analyzed long run opportunities and selected what we thought would provide the best returns					
We developed a strategy to best take advantage of resources and capabilities					
We researched and selected target markets and did meaningful competitive analysis					
We designed and planned business strategies					
We organized and implemented control processes to make sure we met objectives					
We had a clear and consistent vision for what we wanted to do					
We designed and planned production and marketing efforts					
We experimented with different products and / or business models					
The product/service we now provide is essentially the same as originally conceptualized					
The ultimate product/service we now provide is substantially different from than we first imagined					
We tried a number of different approaches until we found a business model that worked					
We were careful not to commit more resources than we could afford to lose					
We were careful not to commit more money than we were willing to lose with our initial business idea					
We were careful not to lose more money that the company would be in					



real trouble financially if things didn't work out.					
We have allowed the business to evolve as opportunities have emerged					
We adapted what we were doing to the resources we had					
We were flexible and took advantage of opportunities as they arose.					
We avoided courses of action that restricted our flexibility and adaptability.					
We evaluated the set of resources and means we had at our disposal and thought about different options					
We experimented with different products and/or business models					
We started out very flexibly and tried to take advantage of unexpected opportunities as they arose					
We used a substantial number of agreements with customers, suppliers and other organizations and people to reduce the amount of uncertainty					
We used pre-commitments from customers and suppliers as often as possible					
We tried to get resource commitments and sales commitments as early as possible					

Note 1: Scales from Chandler et al. (2011): Causation and effectuation processes: a validation study. *JBV*, 26(3), 375-390, Table one / Table 2 (last item us)

Note 2: When you have used the previous questionnaire, you need to recode (make sure the items show in the right direction), and go back to the entrepreneur to ask the missing questions.

## Appendix V

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### Biographic information

Name of Interviewer: \_\_\_\_\_

Name of Interviewee: \_\_\_\_\_

Nationality of interviewee: \_\_\_\_\_

Email for future contact: \_\_\_\_\_

Number of interview: \_\_\_\_\_

Student of \_\_\_\_\_ (discipline, eg. Business administration),

Level \_\_\_\_\_ (Bachelor, Master, PhD; other)

\_\_\_\_\_ (Name of University) in

\_\_\_\_\_ (City)

\_\_\_\_\_ (Name of Country)

Years of university education: \_\_\_\_\_ (years)

Years of working experience: \_\_\_\_\_ (years)

Years of working experience with entrepreneurship/leadership component OUTSIDE own  
company \_\_\_\_ years)

Date of birth: \_\_\_\_\_

Sex: \_\_\_\_\_ male / female

Place of birth: \_\_\_\_\_ (city, country)

Religion: \_\_\_\_\_

Marital status: single / living together / married

Children: yes / no

International experience \_\_\_\_\_ years

As \_\_\_\_\_ (student/ worked / raised as a kid / ..... other)

In \_\_\_\_\_ (country)

Family background: at least one parent employed in private company / employed as public  
servant / entrepreneur

Parents income (in rel. to county average): lower quartile / middle half / upper quartile

### INTERNATIONAL QUESTIONNAIRE (VSM 08)- page 1

Please think of an ideal job, disregarding your present job, if you have one. In choosing an ideal job, how important would it be to you to ... (please circle one answer in each line across):

1 = of utmost importance  
 2 = very important  
 3 = of moderate importance  
 4 = of little importance  
 5 = of very little or no importance

01. have sufficient time for your personal or home life	1	2	3	4	5
02. have a boss (direct superior) you can respect	1	2	3	4	5
03. get recognition for good performance	1	2	3	4	5
04. have security of employment	1	2	3	4	5
05. have pleasant people to work with	1	2	3	4	5
06. do work that is interesting	1	2	3	4	5
07. be consulted by your boss in decisions involving your work	1	2	3	4	5
08. live in a desirable area	1	2	3	4	5
09. have a job respected by your family and friends	1	2	3	4	5
10. have chances for promotion	1	2	3	4	5

In your private life, how important is each of the following to you: (please circle one answer in each line across):

11. keeping time free for fun	1	2	3	4	5
12. moderation: having few desires	1	2	3	4	5
13. being generous to other people	1	2	3	4	5
14. modesty: looking small, not big	1	2	3	4	5

**INTERNATIONAL QUESTIONNAIRE (VSM 08) – page 2**

15. If there is something expensive you really want to buy but you do not have enough money, what do you do?
1. always save before buying
  2. usually save first
  3. sometimes save, sometimes borrow to buy
  4. usually borrow and pay off later
  5. always buy now, pay off later
16. How often do you feel nervous or tense?
1. always
  2. usually
  3. sometimes
  4. seldom
  5. never
17. Are you a happy person ?
1. always
  2. usually
  3. sometimes
  4. seldom
  5. never
18. Are you the same person at work (or at school if you're a student) and at home?
1. quite the same
  2. mostly the same
  3. don't know
  4. mostly different
  5. quite different
19. Do other people or circumstances ever prevent you from doing what you really want to?
1. yes, always
  2. yes, usually
  3. sometimes
  4. no, seldom
  5. no, never
- 20 . All in all, how would you describe your state of health these days?
1. very good
  2. good
  3. fair
  4. poor
  5. very poor
21. How important is religion in your life ?
1. of utmost importance
  2. very important
  3. of moderate importance
  4. of little importance
  5. of no importance
22. How proud are you to be a citizen of your country?
1. not proud at all

2. not very proud
3. somewhat proud
4. fairly proud
5. very proud

**INTERNATIONAL QUESTIONNAIRE (VSM 08) – page 3**

23. How often, in your experience, are subordinates afraid to contradict their boss (or students their teacher?)

1. never
2. seldom
3. sometimes
4. usually
5. always

To what extent do you agree or disagree with each of the following statements? (please circle one answer in each line across):

- 1 = strongly agree
- 2 = agree
- 3 = undecided
- 4 = disagree
- 5 = strongly disagree

24. One can be a good manager without having a precise answer to every question that a subordinate may raise about his or her work

1    2    3    4    5

25. Persistent efforts are the surest way to results

1    2    3    4    5

26. An organization structure in which certain subordinates have two bosses should be avoided at all cost

1    2    3    4    5

27. A company's or organization's rules should not be broken - not even when the employee thinks breaking the rule would be in the organization's best interest

1    2    3    4    5

28. We should honour our heroes from the past

1    2    3    4    5

**INTERNATIONAL QUESTIONNAIRE (VSM 08)- page 4**

Some information about yourself (for statistical purposes):

29. Are you:

1. male
2. female

30. How old are you?

1. Under 20
2. 20-24
3. 25-29
4. 30-34
5. 35-39
6. 40-49
7. 50-59
8. 60 or over

31. How many years of formal school education (or their equivalent) did you complete (starting with primary school)?

1. 10 years or less
2. 11 years
3. 12 years
4. 13 years
5. 14 years
6. 15 years
7. 16 years
8. 17 years
9. 18 years or over

32. If you have or have had a paid job, what kind of job is it / was it?

1. No paid job (includes full-time students)
2. Unskilled or semi-skilled manual worker
3. Generally trained office worker or secretary
4. Vocationally trained craftsperson, technician, IT-specialist, nurse, artist or equivalent
5. Academically trained professional or equivalent (but not a manager of people)
6. Manager of one or more subordinates (non-managers)
7. Manager of one or more managers

33. What is your nationality?

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34. What was your nationality at birth (if different)?

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**Thank you very much for your cooperation!**

## Appendix VI

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### EPICC Project - Think- Aloud verbal protocol

**Interviewer:** Kirill Garnets (green text)

**Interviewee:** Dimitriy Vorobiev (black text)

**Interview code:** RUS11

**Date:** 17.08.2012

#### **Problem 1 Identifying the market**

**Problem number 1** (case) Who could be your potential customers for your coffee corner? Who? Students, if we want to... how do I say... Plus more students, teachers. If the university is open, than... no, university is probably closed for public, so only students and teachers. If the case says the café is at your university. Plus the visitors. For conferences and such. Who could be your potential competitors? Whoever. First students, second someone from the higher ranks of university. I don't know how it works in Holland, but in Russia all lucrative deals within the university belong to the top of the university. All that happens there, starting from toilets, ending with surrounding premises and all that happens on the area is controlled by people of the rector. So if, basically his people can be the main competitors. What information would you seek about potential customers and competitors -- list questions you would want answered. To be honest it is not interesting. Because I study in the university, so I know the answers. And if I don't know the questions, I mean I don't know the questions, nor answers, why do it at all? I studied in my university two, three, five years, right? So I know the university pretty well. I have friends who can answer my questions, right? So what questions? Pricing policy is clear, since I know who studies there. If it is an elite university, than more expensive, budget university... Basically if you studied in the university, you already have all the answers. How will you find out this information? So I studied, so I have many friends there, right? At least that. Plus a contact with the teacher, I had it. The most important question for me – are there competitors at all, meaning who from the management is involved in similar business? Right? **I can't give hints.** Are there people from the management who are interested or not? Do I have connections or not? Because if I have connections, than I go for it. If not, than I am not even going to try. Because if I pitch my idea... I already had similar situation. And then the whole thing will be implemented by others, if I don't have connections. I earn money for others, why do I need this? So in any case I will try it if I have connections. What do you think are the growth possibilities for this company? If I talk about Russia, if you have connection within Ministry of Education, because you are going to expand to other universities, right? I wanted to do similar thing, we wanted to deal not with coffee machines, but with copy machines and accessories. Wanted to try it in one university. Anyways, while we were thinking, somebody else already put the machines in place, within a month or two. So we had good connections, but it was not a fair play after all, difficult story. So if there is a connection to the ministry, than other universities are possible. Because they obey the ministry. Because ministry is what? Grants, money for the university. If we talk about Russia. Growth of the company depends

on the university. If it works out with university, than for sure. If not talking globally, as I said earlier regarding expansion to other universities. If one concentrates on the micro-world of our university, in case the university is developing, than yes. Plus the situation in the country. For example during our time there was demographic explosion, when we were born, there were many students. But in a year or two, when the nineties started, there were less students, market shrank. At least at our university. So you have to go outside, other universities. But in regard to that, refer to what is previously said. It is just that those marketing questions are being asked, what I think. If we do such a business. Regarding Russia. You need minimum marketing here. Of course you need to know the number of students. First question you ask – can you do this at the university? Do you have connections? If yes, second question which rose when I was developing this thing with copy machines – market. How many students, how much does it cost and how much will it bring every month? In our case, because we were thinking for a month, two similar companies were launched. We understood that market is too narrow. You know 20, 30, 40 thousand is not worth the trouble, since the market is too small. That this will be popular, is 100%, you know... If it's on the university area, than you made it. If you will not be rude with pricing. If you talk about our, our university was an elite one, you could make money easily there. If you talk about another university where we hanged around, it's a budget one, there the margins are lower. The market is too small for a market research, everything is under your nose.

### **Problem 2 Defining the market**

(case) Wow, 10 000 visitors! I mark this as an F and fire my marketing employee. At least this will not happen in Russia, we have closed universities. As I understand it's the same case in Holland, right? You can't just go into a university? **You can, not a problem. In Russia it's different, yes.** Plus the main question – where is the university located? I forgot this in the previous problem. If it's far, than it's a disadvantage and an advantage. Because if its far than on one hand you could turn the coffee corner into a cafeteria, because students won't have any other places to eat. So not only drink coffee, but also eat. If it's close to the city centre, than you could concentrate on coffee, since if the entrance if allowed, visitors would be coming by. (case) Second is ludicrous, why do I need sales and consumption in my country? Sales of specialized coffee. From one side it is important. Minimum influence on business. Do people drink coffee in our country or not? It just that if we are starting a venture, than they do drink, right? It's not some country where they don't have coffee at all. Right now coffee is popular. It's not important right now. Specialized coffee is also not important. Who drinks? Students? Quality coffee is needed. Right? Two types... Or you be drinking quality coffee. Depends what kind of university, elite or budget. Staff don't have money in Russia, neither do students. Instant coffee would sell... they need a place to sit... Coffee corner would be looked at as not a place to drink coffee, but a place to do your homework and such. Meaning they won't be able to pay a lot for coffee. If coffee is going to be expensive and they are just going to sit there and take up the place and not buy anything, you are not going to be profitable. So the sales of specialized coffee I don't understand why we need this here. What's the difference if coffee is going to grow... market is too small. Now we are talking about the market of our university, right? Well if you have



connections to the ministry, than you could expand globally. But then again it only happens for 4-5 years. New rector will come and kick you out, but that's another story, not going to talk about it now. Survey #1... alright, here I agree, this is interesting. But then again if you... would be nice... if you study in the university than you know it all. (case) You have to take into account here, that Russia and Netherlands are different countries. In Russia students will not be drinking coffee together with staff members. Our country is not democratic when this issue is concerned. Different management style, different study style - authoritarian. Totally different, in our university we even had two cafeterias – one for students and one for staff members. So teachers were drinking coffee, talking their business, students too... If we talk about our market? One needs two make two. So staff members... most probably. You have to focus on students or on staff members. Since there are more students, focus on students. Because here it is not a common practice to drink together. So we can basically we can exclude staff member from this survey, it is not needed, it is not needed. Ones who have money within the university will not be drinking coffee in the university. The person will go bit further away, to a nice coffee corner, but not university. Because university is... Whoever earns less, he will not be able to afford it. He will be saving money and drinking instant coffee. You understand, right? Basically yeah, so I made a mistake already. Staff members are not my target audience. Neither are visitors, since they make out a small percentage of the total, this only costs money for the survey. If you do the survey yourself, it's your time and time is money, right? Visitors won't get in and even if they get in, it will probably be for some conference, it will be like 1% of total. But if, like it happened in Eastern Federal University, an Asia-Pacific Economic Cooperation would be organized... But if that would be organized they would kick you out for safety reasons anyways. For me they are irrelevant, both staff and visitors. First part I throughout, because I do not need it, staff didn't like it, so be it. Would not mind introducing bonus system, where one could get discount after drinking certain amount of coffee. Bad idea. Because we are above consumers, they are above us, they will be coming to us anyways, without discount cards, they just want something more unique? They will go some other place where they will get it. But here they come to talk, study and so on. So it's not interesting anymore. This could however be introduced for staff members. So it's cool idea in the sense that... so that in your... consumers would be staff members, how to get management of good companies interested. So you could offer them, let say 30% or 50% discount for staff members in this university. That's good. But then again that's only for staff members. Because for students it will only be a waste of money. (case) What what, that's a good idea. (case) Yes, important, but... (case) Newspapers are free/ you will be advertising for a bottle of cognac. Because if you do it within the university, you have connections to the top, right? So if there is a university newspaper, they will do it for free. You will not spend money on it. But it's not a bad idea, since nobody really reads them, some first year students take them for acquaintance. Since its free why not make use of it? If you have to pay than its like word of mount within the university you know what I mean. Cinema is not needed, television is not needed. Internet, yeah, you need it. Why not? The rest of the research is not important. We cannot compete with these companies in any way. We have totally different markets. I am talking about... This Starbucks, Peets, Coffee bean is all luxury, at least in Russian, in Moscow. You have

middle class, like 'Shokoladnitsa' and the rest, and you have luxury, like Starbucks. First the coffee there is really expensive, it is quality and everything. People that go there, can afford it. People that lived in Europe. Because it associates with Europe. Plus you can't eat there. So it does not fit on two parameters already. In our coffee corner food must be sold, since you will not be earning money on coffee, but on food. Why is 'Shokoladnitsa' with us? Coffee is more like a bait there. It is basically a small restaurant, not a good restaurant. But they position themselves as a coffee corner. So I don't understand what this has to do with our research, not research but the idea of new venture creation. Not on the volume, not on the structure. (case). None of the following four possible competitors sell cheap quality cups of coffee? Cheap, yes. Quality, I doubt it. I would not focus on quality. But then again I will repeat myself, depends on type of university, right? So it has no use to sell bad coffee. At least for me that would be self disrespectful. Maybe quality, but not rare kind of coffee, not the rest... Plus nobody in the university will appreciate it. I mean you should not be selling bad coffee, regular quality. Well you could if you are a bad man, it would sell anyways. If you respect yourself, why not regular? Already competition... (case) Which market segments will you sell your product to? What is meant by segments? Mostly students. Is that what they mean? 90% are students? If we are going to introduce corporate discount for teachers, which is by the way a very good idea, good job. Then maybe they will be visiting, but then again you would need to make a separate area for them or something. Its common here. Pricing policy – below average. I will earn through volume. I mean quantity. Because our potential customer flow is high. How will you sell to your selected market segments? What? What do they mean? **Through which marketing... I can't help a lot.** Strange question. How? I will make a deal with university. Ideally, if the premises belong to the university, you could build a small coffee corner on the area. That would be ideal. Because of the bad weather and such. The area is small but it will be enough. Maybe separate area for staff and the rest is main area with tables and such. Because there will be many clients, there is no privacy for students. Only for staff. So basically that's the way to do it, if we do discount cards for staff and of course reserved places. That's good. Plus big percentage of sales will come from food. This will be an alternative to a cafeteria. This will be ideal alternative for cafeteria. If there will be business lunch and such, good price/quality ratio, than that would be amazing. Quick bite. Margins will be low, but because of the volume, it should work out.

### **Problem 3 Meeting payroll**

(case) First of all, I will never be in this kind of position. Such legal retreat. If based on Russian experience, than architecture and what do they actually want? Super cool design is not needed. Of course nobody will be building something bad, but it's for students. So it's a budget version. Its stylish, but budget. So if I make debt, it will be for totally different reason. Plus I will not be selling expensive types of coffee. Emphasis will be not on the coffee, but on the food supplied along. Basically several types of coffee of course. But then again, nobody will be buying expensive coffee, just specialized coffee: cappuccino, latte, Americana and the rest. That's it. If hypothetically I would make debt, than forth option of course. If I have a gift of persuasion, which I don't. But ideally - forth option.

### **Problem 4 Financing**

(case) Should I say how it goes in real life or just answer? **What do you mean, just answer? You have a situation, what do you think about it? Which option do you choose and why?** Considering the fact that it is at our university, any of our universities. The rector there stays for forth year, meaning that it will not be lobbied for more than 4 years. Expensive coffee I already said about it, also commercials, considering it's a closed university, unreal. But alright, this is the situation... Second option of course, we live in Russia. Because with startups... that's not a startup were investor would invest in. Such business in Russia can easily be done by people of university, which will also fool you in the end. Big risk. Because this start up will end up in something you will not have any more, it will be raided. So with people you don't know, it's difficult. And you won't find such person anyways. Outsider will not be investing in Russia. It's just that I did a placement in business angel agency, people who invest money, million, hundreds of thousands of dollars. In Russia its mostly IT companies, and than it does not matter. Or healthcare. There are several... Many fields of investments. But not in this field. Nobody will invest in this in Russia. There were a couple of startups, which I had to document. They didn't even look, profitable, not profitable, for 90% it's a scam in Russia. If somebody wants money for it, you understand... Somebody wants to live from your money. Or just want normal... For example some startups overestimate their salary, they just want to live for free. For couple of years they don't worry about the paycheck and afterwards – it didn't work out, sorry. We bust. That's it. You won't find angel invest here. Considering that they say here - the first prize in the new talent category at the 'Architecture meets Catering' competition. Possible. But then again there is a big chance that this will be raided and taken away from you. So here it's the second option for sure. Third option could go if... in case... In case what I told you, rector is elected for 4 year, right? This yeah, this is right, you wait and don't show yourself. Rector is there so why not. But if not, than not... If you know that you will be growing in the future, than second option. Taking into account the conditions in ideal world, in Holland. The case talks about Holland, right? **This case was made for...** So all I say has no use? **No, you should say what you think, that's it. Does not matter for which country this case is for.** Say if this case is associated with Holland, than 90% of what I said is not valid. **No, talk about Russia, you are in Russia.** Yeah. **All good. Second part, if investor is ready to take 33%?** 33%? If you know that rector will stay in the university, than why not? Than I have at least 8 years... And afterwards you talk to a new rector, for a kickback, why not? You can continue, if you have a good margin. First two year the new rector... first year the new rector will not try to push you out. But later yes, he will put his people in charge. If he sees you are making money. **So 33%, you choose option 1? Look down, last question.** Ohh I see. 33%... I have to know the investor. If I don't know him, than option one, if I don't know him, than option two.

### **Problem 5 Leadership/Vision**

(case) Let the world familiarize your mission for the future. (case) Not the first one, if we talk about Russia, but then wait. Well I can't imagine how you can compete with Starbucks. World company and we have a small café. I mean it's not bad for Russia, showing off is liked around here. But it's not for me, I don't like those cheap showoffs. Basically it's not acceptable for me. But then again it could work. (case) Second, I don't know how they are going to... If they expanded so much that they got out of the

university, right? I don't think it's true thought. Third one is also not good. Actually I would not pick any. **You can think of something else.** I could think, but you know that would take time. So what... **Just some idea.** Well first comparison to Starbucks is not correct. Thousand is not doable. Fast growing coffee corner, maybe. **Understood.** For the market, if we do it in Russia. Invest in coffee inc – enjoy the Russian tradition. Russian tradition. What tradition? What is this? Russian tradition is to drink coffee? I don't get it? What kind of tradition? What Russian tradition? This is not for Russia. Of course we have many people who don't think about what they read, so it could work. But it's a bad choice. I would think of my own quote, but that would require time, I am not ready right now.

#### **Problem 6 Product Re-development, part one**

(case) How would I respond? (case) **What comes to your head?** I would respond... Well actually there is no need for elite coffee. So we would lose let say 10%, for 10%, let it be 5%. First of all this is not true, nobody will be buying expensive coffee. Well let say somebody would buy. This 5% will refuse to come... 95 market... Because they all make a good margin, why would I need it? Probably extra costs for contracts. Margin there is defiantly minimal. What would interest me more, is what else those people, that buy specialized coffee buy. If they bring me money through additional food and such. If 90% just drink coffee, theoretically, right? Those clients also order food, so they bring extra margin along. Than this is the question. If they simply are such gourmets. Costs are more important, let percentages be... Plus, minus 5%... probable important, but... I would say more, that 9% would still come, because café is in the university. 1%, I don't know where they would get... So first I would find out what they eat besides coffee. Bill amount. If they are higher than those, than I would leave them. You got to understand that what's written here in not true - over 90% of the participants in your focus groups find the regular products very interesting. But when it comes to the specialized coffees, there is a clear division of opinion. The participants who primarily enjoy the regular coffees almost never bother to go and buy more expensive coffees and wonder why all that elite stuff is there. Nobody will ever ask these questions, why this elite coffee is sold at all. **Well, this is the situation here.** Well I would discontinue the elite coffee. But first find out the average bill amount.

#### **Problem 6 Product Re-development, part two**

(case) I don't understand, what do they mean by estimated and actual sales? **What you thought and what came out.** So I have to make a choice here? **You have to choose if to expand a concept or not.** (case) **What do you think? Think aloud.** Well I have to think here... About Russia? **Yes.** I would stick with one – cheap concept. Not a problem. Because the consumption market, according to focus group... it's clear that... well if there is a possibility. But then again – what kind of university? If it kind of Moscow State University of State Management University, than two concepts would do. Even if it's an average university. It all depends on the kind of university. Plus you got to take into account, than ideally in the first case, staff would also come along with rich students, and with another only average students. (case) Third one. The cheapest one. Why? Because we had money trouble and now we have to spend 250 000?

### **Problem 7 Growing the company, part one.**

(case) So as I understand from what's written here we have expanded beyond our university, right? So now we serve a global market. A market not on university level but on a city level. Than that changes everything. (case) Ok I will hire sales managers. Will consult. **Any other thoughts?** Well if this all grew so high globally, which I could not have imagined, which is unreal. If everything is going so good, if we grew into a new sales chain of the city, than a lot of questions need to be revised, but then alright. Than probably we need to fire Greg and hire an employee of the competitor. Basically start headhunting.

### **Problem 7 Growing the company, part two**

(case) If we have two types of business... **Think aloud.** One second, I am thinking. **Say what do you think?** Actively thinking... I doubt that this is needed, especially for these kind of companies. But on the other hand, if we will be on a luxury market like Starbucks, there you do need a corporate style. So here in the best interest it would be wise to split. Two separate businesses, operating on separate market segments, luxury and budget. For luxury you need to increase it and for budget scrap it. Corporate style... It's going to be busy there anyways. You will be teaching staff that will later go to your competitor or to your luxury branch, I mean not a branch but a department. And then1 you would have to teach them again. So for one company – yes, for the other – not.

### **Problem 8 Hiring professional management**

(case) First – can I trust him? Most important. Because what do top managers do? They steal. In principal... How many times did it happen, in Russian market. They create loads of debt. This is the most important question, second question refers to the professional qualities. If it's a global company, which is unreal. Ok, maybe it is real, but I don't know... Maybe you could go headhunting and get someone from a competitor. It's clear that he has image, which he will not be damaging. Again check and double check. Which questions? Techniques you would use, and critical issues you would take into account in hiring this person. Besides what I already said, of course his competencies, what can he do, what is he good at? Development of the company of course, how is he planning to develop it? In other words – his vision. If it's different from your, than it has no use, he will be pulling in one way and you in the other. So what's important, third, also not an unimportant factor, that his vision of company development coincides with your vision. So first is professionalism, actually not professionalism but trust. Second, professionalism. Third is vision, company strategy. My concern, if there are no questions regarding the first and second factor, and probably there are no, since you already choose this person, right? Pre-interviews have already been held. So does his vision of company development coincides with yours. And if not, why not and reasons for it. Maybe there are actually... to be honest it's been a while since I have worked with managers... it's probably a stress interview? I can't remember these techniques that they ask. Of course an interview, conversation. If there are certain problems, I would say, if we are busy with selection anyways. Second is vision and development.

### **Problem 9 Goodwill**

(case) **Would you take the initiative? What do you think about it?** Yes, because it is favorable for me. Everyone is interested. If I sell at a cost, that I mean I used it myself, I

develop a basic educational program, right? Why not donate a project? Why should I? I am doing business, not charity. With normal markup, if I am greedy, than why not? To be honest, I would sell it at a cost.

### Problem 10 Exit

(case) Well it all became very good here. If I am tired of my business. But then no. In any case, I would go for the first option, first I would go for the IPO. If business... if it is not interesting anymore, than afterwards I would sell it. If I really wanted to sell it, I would first go for the IPO, than market cap would increase. Here it would increase by so many times... Very nice numbers are written here... Than I would get much more money. Because facebook which collapsed... If considering these numbers, than option number one, than afterwards maybe the second. Look, the whole interview until problem ... Basically the whole beginning of my interview you can delete, if I knew that I would encounter such global growth, I would provide different answers. Because I did not look beyond the university. *Well you were correct, you looked at it the way you looked at it. It does not matter. So it's one here and then two?* Not the second option, of course the first option, considering the numbers, so I can increase the market cap. And then if I want something else, do some different business, maybe I got bored. I want to invest in real estate or something else. Why not sell for a good money?

*Alright, than you very much. Now I am going to ask you a couple of questions regarding the interview.*

### Questions regarding the case

1. (question) The slogan. Because all options are bad. But then again that from a real prospective, the way I saw how business developed. If the business develops to compete with strabucks, coffee house and the rest. Than yeah, you could choose something. Focus on global market. Because you know there is a strange leap in the beginning... One second... internet, news papers, cinema, commercials... wait please, maybe I overlooked something in the beginning? May I once more... You got to understand a coffee corner in the university and coffee corner in general are two completely different things. At least in Russia. You could expand, but then again... Back than main customers were students. That's when we talk about university cafe, a city cafe has completely different customers. There you could introduce membership cards and such. You need branding there. You really have to do your best. If we talk about university, here you are 90% sure that all will come. Starbucks, coffe inc... So these competitors ... All that happens here... You could say that you have a good coffee corner through university connections and you will expand further. Starting from zero. And then yeah, like they say here, than it is possible... And here you focus on students and staff and you go and expand and you have like 55 coffee corners around the city. I don't know. *That's the story.*

3. (question) Some question didn't have the right answers. Lack of information. Of course there were moments. But you need more information, especially if you have several coffee corners, than you need all the information. Here if we talk about estimates... I also have not figured... . Strange logic, the problems did not correlate with each other. Sharp leaps. So first we stranded with the fact that you don't have enough money to pay for your staff and you end up with IPO.



4. (question) As I already said in the beginning, if we want to open a university cafe, than you need to be friends with the university rector. If not, than what I could do is walk in and ask. Without rector, you will not get anywhere. If you have a possibility to meet him, you could offer what written here for example. That you have a discount for university, for staff, get him interested.

5. (question) I would do everything different I tell you. I would split university cafe. For my understanding these are two different things. If you have... Its just you go to understand that state university is generally not private. Generally it's a budget organization. They can't even raise the salaries. Right now there is thin line between budget and private organization. Right now there are plans to organize universities in such way that they would not be able to make money. They will all become budget. In the past to organize some business within the university was very difficult. In Holland of course it's all different, but in Russia... So you can of course think about it, make a nice story, IPO and such. But it's a fairy tale. If you answer the question the way they are asked, so you look at it from scientific prospective, like marketing, like they teach in university. But it's not about real life.

6. (question) Hour, more than hour. It was enough.

7. (question) It was interesting. But difficult? Or annoying? It was difficult when the question addressed the global situation. A bit of IPO and such... But I know this all, that why I say it the way it is.

8. (question) No. Why? Because there is not enough knowledge regarding the case, which is a nice tale to me, but not a real life case. At these two reasons.

## Appendix VII

### Coding scheme

Issue	Causal	Issue	Effectual
Future	<p><b>P =</b> Predictive logic, relationships between past and future Causal logic frames the future as a continuation of the past. Hence accurate prediction is both necessary and useful.</p>	Future	<p><b>C=</b> Creative, shaping the future. The future comes from what people do (not from inevitable trends). Non-predictive control, new market creation, prior activities future as shaped (at least partially) by willful agents. Prediction is therefore neither easy nor useful.</p>
Action	<p><b>G =</b> Goal-oriented / growth intention; ends based. In the causal frame, goals, even when constrained by limited means, determine sub-goals. Goals determine actions, including which individuals to bring on board.</p>	Action	<p><b>M=</b> Means-oriented; Start with Who I know, what I know, Who I am (not with the opportunity) goals emerge by imagining courses of action based on given means. Similarly, who comes on board determines what can be and needs to be done. And not vice versa.</p>
Risk	<p><b>R =</b> Expected returns; Number of target segments; financials (investments, loans, incubation capital) Causal logic frames the new venture creation problem as one of pursuing the (risk-adjusted) maximum opportunity and raising required resources to do so. The focus here is on the upside potential.</p>	Risk	<p><b>L =</b> Affordable loss; Private capital (could be 0 euro). Invest what you can afford to lose Effectual logic frames the problem as one of pursuing adequately satisfactory opportunities without investing more resources than stakeholders can afford to lose. The focus here is on limiting downside potential.</p>
Outsiders	<b>B =</b>	Outsiders	<b>A =</b>



	<p>Competitive; Competition pages; Named competitors; Partnerships competitors; Expected competition level</p> <p>Causal frames promulgate a competitive attitude toward outsiders. Relationships are driven by competitive analyses and the desire to limit dilution of ownership as far as possible.</p>		<p>Partnerships; Build a network of self-selected stakeholders (Not competitive analysis) Partnership pages; Realized partnerships; Potential partnerships</p> <p>Effectual frames advocate stitching together partnerships to create new markets. Relationships, particularly equity partnerships drive the shape and trajectory of the new venture.</p>
Contingencies	<p><b>K =</b></p> <p>Careful planning not to avoid obstacles Accurate predictions, careful planning and unwavering focus on targets form hallmarks of causal frames. Contingencies, therefore, are seen as obstacles to be avoided.</p>	Contingencies	<p><b>E =</b></p> <p>Leveraging, rethinking possibilities, contingencies are challenges Leverage contingencies and even failures (Not avoid them) Eschewing predictions, imaginative rethinking of possibilities and continual transformations of targets characterize effectual frames. Contingencies, therefore, are seen as opportunities for novelty creation—and hence to be leveraged.</p>
Causal	<p><b>X =</b> no subcategory given</p>	Effectual	<p><b>N =</b> No subcategory given</p>

Within the last category (no subcategory given), you will include components which cannot be identified as being part of either the causational categories P, G, R, B and K versus the effectual categories C, M, L, A and E. However; if you see a repetitive pattern of something specific being placed in the subcategories, please describe that as a different category. In Germany (as an example) we found that there was a stress on a causal component “analysis of data” and an effectual component “distrusting or opposing market(ing) research.” ‘Analysis’ and ‘distrusting’ were mention that often that it was decided to treat them as separate categories. If we would not have done that, the data was less rich.

## Appendix VIII

### EPICC Project - Think-Aloud verbal protocol coding

**Interviewer:** Kirill Garnets

**Interviewee:** Dimitriy Vorobiev

**Interview code:** RUS11

**Date:** 17.08.2012

#### Causal

G – Goal-driven

R – Expected returns

B – Competitive analysis

K – Avoid contingencies

P – Predictions of the future

X – Causal (no subcategory given)

#### Effectual

M – Means-based

L – Affordable loss

A – Use of alliances or partnerships

E – Embrace contingency

C – Non-predictive control

N – Effectual (no subcategory given)

Problem #	<u>Casual</u>			<u>Effectual</u>		
	Line	Code	Reference	Line	Code	Reference
1	10-12	R1	Choice of multiple market segments in order to acquire higher returns	19	M3	"Because I study in the university, so I know the answers."
	13-17	B2	Discussing possible competition.	20-26	M4	Discusses what he knows
	26-27	B5	Emphasis on competition within university grounds	29	A6	"if I have connections" – referring to strategic alliance with the university.
	51-52	R11	"...and how much will it bring every month?"	34	E7	Expansion possibilities
	54	P12	Sure about future success.	34-38	M8	Own experience
				43-46	C9	Discussing global situation within the country.
				49	A10	"Do you have connections?" – again referring to importance of alliances.
				57	M13	"The market is too small for a market research, everything is under your nose." – what I know
2	81-83	P15	Predictions of the future expansion	65-68	E14	Discussing expansion possibilities
	108-109	P18	Making prediction regarding consumers behavior.	83	C16	"New rector will come and kick you out"
	121-125	B21	Discussion of the competition	100	M17	Doing survey yourself
	128-129	B23	Discussion of the competition	115-117	A19	Again referring to the importance of strategic alliances
	131-132	B24	Discussion of the competition	118-119	N20	Cheapest channel is used
	135	P25	Suggests no one will appreciate rare coffee	127	M22	"Since its free, why not make use of it?"
	135-136	G26	You should not be selling...	139-141	E27	Emphasis on other type of product
	142	P28	I will earn through volume			
	148	P31	There will be many clients	144-145	E29	

	150	P32	Big percentage will come from food.	146	A30	Bonus system and separate area for staff. Partnership with a university
	151-152	G33	This will be alternative...			
	153	P34	"... because of the volume, it should work out."			
<b>3</b>	158	P35	"If I make debt, it will be ..."	159	E37	Emphasis on other type of product
	158-159	K36	"I will not be selling expensive..."	162-163	M38	Not a good persuader
				163	M39	Fourth option as an answer
<b>4</b>	184-185	P41	But then again there is a big chance...	174-183	M40	Own experience
	188	P42	If you know that...	188	A43	Alliance with an old friend
	195	R45	...If you have a good margin	194-195	A44	Partnership with a rector
				196-197	C46	He will put his people in charge...
<b>5</b>	202-203	B47	... compete with Starbucks...	214-215	M49	Wants to make his own quote
	208-209	B48	Comparison with Starbucks			
	221-225	R50	What else do customers buy besides coffee?			
<b>6a</b>	219	P51	Nobody would be buying expensive coffee	220	L53	"why would I need it"- referring to the small percentage he can afford to loose
	220	R52	Because they make a good margin...	221-222	E54	What else do clients buy?
	226	P56	I would say that...	225	L55	Costs are more important...
	233	P57	Nobody will ask...	234	L58	Find out the average bill amount – what can he afford to lose in case these clients don't come?
<b>6b</b>	244-245	P59	...staff would also come along...	245-246	L60	Choosing the cheapest option
<b>7a</b>				253-254	E61	Make use of an external employee
<b>7b</b>	258	B62	...like Starbucks	259-261	E63	Embracing contingency and splitting the concept
	261	P64	It's going to be busy there anyways			
<b>8</b>				274-276	A65	Is his vision similar to your?
				280-281	A66	Again stressing the importance of a coincided vision.
<b>9</b>	290-291	R68	...Business, not charity...	289-290	E67	Development of training program
<b>10</b>	298-299	P70	"...than market cap would increase..."	295	N69	If I am tired of my business
	299	R71	Then I would get much more money	305-306	N73	And then if I want something else...
	303	K72	"I did not look beyond the university"			
	306	P74	Future plans			
	307	R75	Why not sell for a good money?			

G																								
R	X										X													
B		X			X															X		X	X	
K																								
P												X			X			X						
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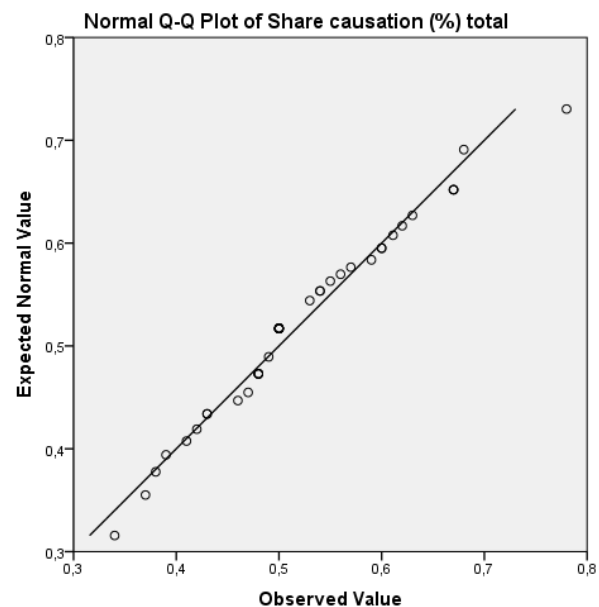
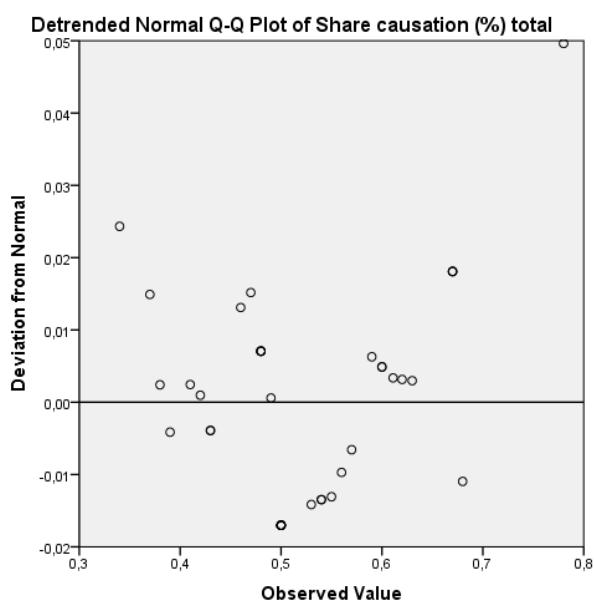
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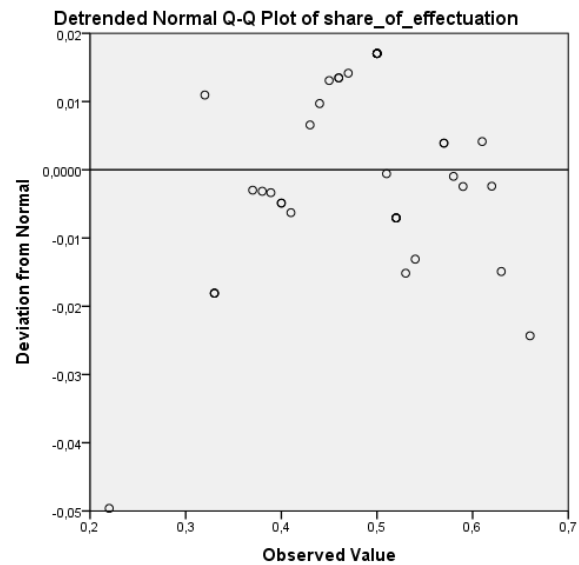
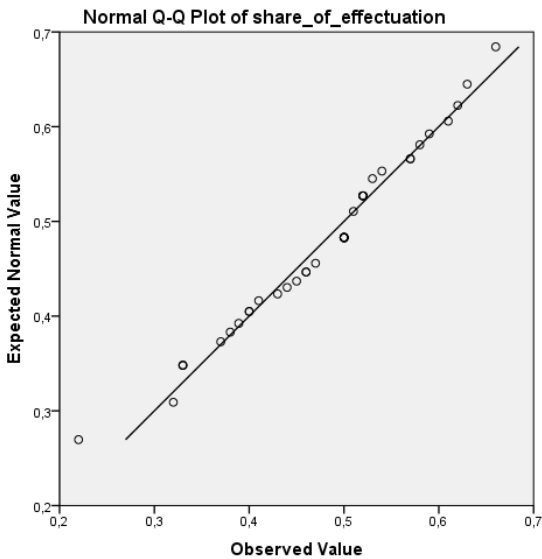
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## Appendix IX

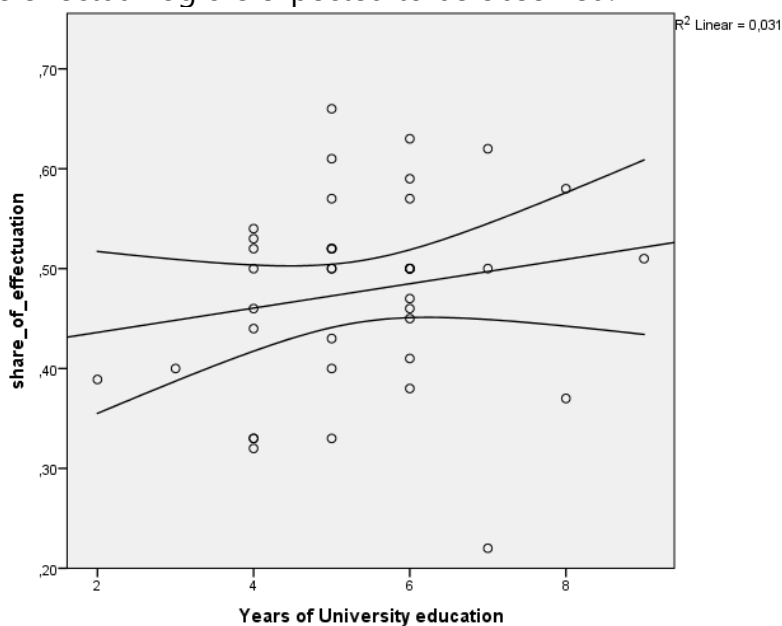
Statistics		Share causation (%) total	share_of_effectuation
N	Valid	40	40
	Missing	0	0
Mean		,5230	,4770
Median		,5000	,5000
Std. Deviation		,09616	,09616
Skewness		,443	-,443
Std. Error of Skewness		,374	,374
Kurtosis		,118	,118
Std. Error of Kurtosis		,733	,733
Minimum		,34	,22
Maximum		,78	,66



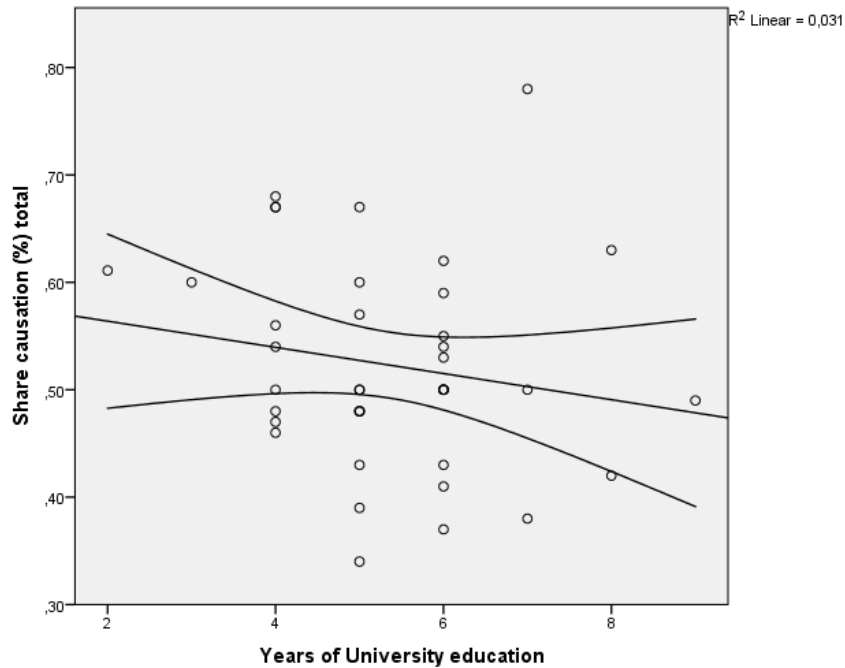


### Linearity Test

Hypothesis 1a: The longer the education period of Russian novice entrepreneur, the more effectual logic is expected to be observed.

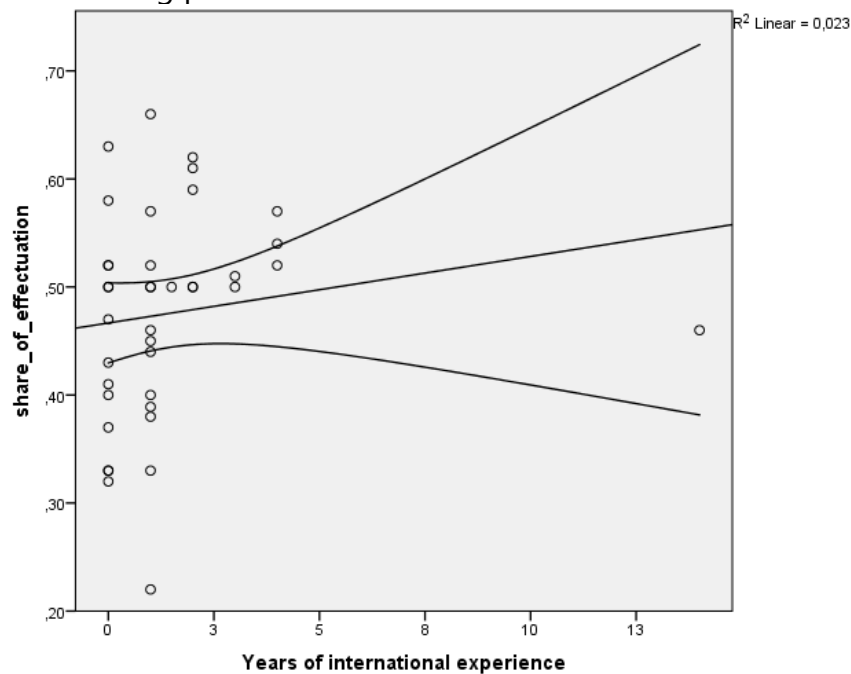


Hypothesis 1b: The longer the education period of Russian novice entrepreneur, the more casual logic is expected to be observed.



Hypothesis 3: The longer the duration of the international study experience Russian novice entrepreneur has, the more effectual logic is expected to be implemented during

Hypothesis 4: The longer the duration of the international work experience, the more effectual logic Russian novice entrepreneur is expected to use during entrepreneurial decision-making process.





## Appendix X

### Correlations

		Casual logic	Effectual logic	Years of University education	Years of working	Years of international experience	Experience _work	Age
<b>Casual logic</b>	Pearson Correlation	1						
<b>Effectual logic</b>	Pearson Correlation	-,000*	1					
<b>Years of University education</b>	Pearson Correlation	-,176	,176	1				
<b>Years of working</b>	Pearson Correlation	-,358*	,358*	,286	1			
<b>Years of international experience</b>	Pearson Correlation	-,151	,151	,114	-,093	1		
<b>Experience_work</b>	Pearson Correlation	-,110	,110	,091	,015	,027	1	
<b>Age</b>	Pearson Correlation	-,237	,237	,131	,623*	-,004	-,192	1
<b>Sex</b>	Pearson Correlation	,328*	-,328*	,105	,100	-,187	-,267	-,095

\*. Correlation is significant at the 0.05 level (2-tailed).