



Heuristic decision-making in firm internationalization: The influence of context-specific experience

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ABSTRACT

It is widely understood that the internationalization decisions made by companies are complex and constrained by uncertainty. While prior research has shown that heuristics can facilitate decision-making in complex and uncertain environments, the role of heuristic decision-making in internationalization decisions has not been studied in depth. In order to remedy this lacuna, the article uses a qualitative and inductive approach to track the development of heuristic decision-making processes in two Finnish SMEs as they conduct their first moves towards internationalization, explicating the influence of context-specific experience on developments. The emergent theoretical model indicates that while heuristic decision-making has a positive impact on internationalization strategy development, managers are unable to harness this at the beginning of their first internationalization. Indeed, the positive impact appears only after a certain level of context-specific experience is accumulated and when the stimulus of an unexpected event triggers its transformation into usable heuristics.

1. Introduction

The cognitive microfoundations of decision-making lie at the heart of how firms make internationalization choices (e.g., Foss & Pedersen, 2019; Niittymies & Pajunen, 2020; Vahlne & Johanson, 2020), playing a critical role that is complex and closely related to prior experience in internationalization (e.g., Clark, Li, & Shepherd, 2018). The latter is shown to impact firm internationalizing through, at the least, involvements with cognitive processes that encode the experience through learning, knowledge generation, and capability development (e.g., Autio, George, & Alexy, 2011; Prashantham & Floyd, 2012; Clark et al., 2018; Prashantham & Floyd, 2019), as well as a range of cognitive reasoning processes that enable capitalization on the prior experience (e.g., Bingham, 2009; Jones & Casulli, 2014). Existing research has argued that the benefits of prior experience to firms' internationalization activities can be harnessed through the development of heuristics (e.g., Bingham & Eisenhardt, 2011; Jones & Casulli, 2014; Maitland & Sammartino, 2015a). According to Bingham and Eisenhardt (2011), heuristics – defined as simple rules of thumb or cognitive shortcuts – and their learning through experimentation, play central roles in how managers solve demanding questions in context-specific settings. Research has also suggested that information-intensive and analytically complex decision-making approaches can be less accurate than heuristics in the information environment of international strategy work, one

characterized by increased complexity and fuzziness (e.g., Bingham & Eisenhardt, 2011; Maitland & Sammartino, 2015a). In other words, heuristics are argued to be essential in environments that are challenging or impossible to comprehend rationally due to high levels of complexity and uncertainty (e.g., Looock & Hinnen, 2015). Bingham and Eisenhardt (2011), for example, emphasize that heuristics may provide accuracy with less effort, especially in the context of unpredictable foreign markets. Similarly, Maitland and Sammartino (2015a) stress that heuristics enable managers to make sense of highly complex and uncertain international environments.

Despite these contributions, understandings of the role of heuristics in assessing foreign markets and reaching decisions relating to internationalization remain limited (e.g., Jones & Casulli, 2014; Maitland & Sammartino, 2015a), especially in terms of the influence of context-specific experience. Prior research has argued that heuristics can give direction and coherence to decision-making in unfamiliar environments (e.g., Bingham & Eisenhardt, 2011; Bingham & Haleblian, 2012), although it has been suggested that this is dependent on the prior context-specific experience of decision-makers (Maitland & Sammartino, 2015a); indeed, research on the relationship between internationalization and experience has frequently acknowledged the importance of the latter (e.g., Prashantham & Floyd, 2012; Jones & Casulli, 2014). In practice, however, this research has not isolated and differentiated prior internationalization experience based on its context-specificity; rather, it has

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treated all such experience as unitary, even experience from prior ventures and contexts that differ from those of the focal decision-making environment (see, e.g., Bingham, 2009; Autio et al., 2011; Bingham & Eisenhardt, 2011). This is a problematic approach because internationalization experience might not lead to enhanced decision-making abilities in a given situation if it is drawn from a different context (c.f., Jones & Casulli, 2014; Maitland & Sammartino, 2015a) – a lack of precision that could explain conflicting results where prior experience has led to improved internationalization performance in some cases but not in others (e.g., Autio, Sapienza, & Almeida, 2000). Ultimately, the critical link between heuristic decision-making in firm internationalization and context-specific experience remains underexplored.

The purpose of this study has been to investigate how heuristic-based decision-making is influenced by context-specific experience in firm internationalization. I address this question by examining the development of context-specific experience and heuristic decision-making by the managerial teams of two Finnish SMEs implementing their first moves in this direction, both without prior managerial experience of foreign markets. This provides an opportunity to observe heuristic decision-making in firm internationalization without – and then with – context-specific experience, enabling a specific focus on its impact.

The study adopts a qualitative and inductive approach to model the process theoretically (e.g., Gioia, Corley, & Hamilton, 2013), thus contributing to the growing literature on cognition and internationalization by advancing understandings of the relationship between context-specific experience and the development of heuristic decision-making in firm internationalization (e.g., Bingham & Eisenhardt, 2011; Bingham & Haleblan, 2012; Jones & Casulli, 2014; Maitland & Sammartino, 2015a). The core insight is that the positive impact of heuristics can be realized only after a certain level of context-specific experience is reached; managers transcend this threshold by acquiring a sufficient level of practical knowledge of relevant foreign markets, entry modes, and internal capabilities to develop heuristics that can be used to address the core questions related to internationalization. The findings also suggest, however, that this transformation requires a successful trigger which, in both studied cases, was the failure of their initial business plans.

The next section outlines the empirical and theoretical importance of heuristic-based decision-making in firm internationalization, followed by explication of methodological choices. Thereafter, the case studies and the derived findings are presented and the emergent model explained. Finally, the paper concludes by discussing the contributions to theory, assessing managerial implications, limitations, and directions for future research.

2. Theoretical background

2.1. Heuristic decision-making

The understanding of organizational decision-making is largely built on the concept of boundedly rational decision-makers, an idea originating from the work of the Carnegie School, notably March and Simon (1958) and Cyert and March (1963). The central assumption of bounded rationality is that decision-makers are constrained by their cognitive limitations and pursue solutions that are satisfactory rather than objectively optimal (Cyert & March, 1963; March & Simon, 1958). Indeed, the organizational sphere is too complex and uncertain to be fully understood in every detail at the managerial level, who must, therefore, base their decisions on simplified mental representations of their business environment (e.g., Simon, 1991; Gavetti & Levinthal, 2000).

Building on the notion of bounded rationality, recent research suggests that managers do not base their decisions on a careful assessment of all available information in a given instance. Instead, they rely on heuristics that can reduce the cognitive effort in decision-making by ignoring some of the possible information (Gigerenzer & Gaissmaier, 2011). Specifically, heuristics are learned rules, both conscious and

unconscious, that individuals apply to their sense-making and decision-making processes in place of deliberately thinking about and processing large amounts of information (e.g., Gigerenzer & Gaissmaier, 2011). Heuristics are especially useful in situations where decisions are made in conditions of limited information, processing capability, and time (Newell & Simon, 1972). Furthermore, it is argued that heuristics enable effective decision-making in unfamiliar environments by providing direction and coherence (Bingham & Haleblan, 2012). It is important to note, however, that this ability is dependent on prior managerial experience of a particular situation (Maitland & Sammartino, 2015a). Recent research has also ascertained this link by showing that firms develop heuristics that are idiosyncratic to their own operations through process experience (Bingham & Eisenhardt, 2011), and that negative outcomes may enhance the learning of heuristics (Bingham & Haleblan, 2012). Ultimately, past and underlying experience is regarded as central to understanding how heuristic-based decision-making functions and develops.

Earlier research mainly studied heuristics from two perspectives, both built on the notion that individuals are unable to make fully rational decisions (e.g., Looock & Hinnen, 2015). Traditional “heuristics and biases” research has shown that human decision-making systematically deviates from rationality due to cognitive biases that can lead to errors (e.g., Tversky & Kahneman, 1974; Slovic, Fischhoff, & Lichtenstein, 1977; Kahneman & Tversky, 1979). The more recent “fast and frugal” stream, on the other hand, suggests that heuristics can lead to accurate judgments in complex and uncertain worlds that cannot be fully understood due to the limited information-processing capabilities of the human mind (e.g., Gigerenzer & Gaissmaier, 2011; Artinger, Petersen, Gigerenzer, & Weibler, 2014). The latter view highlights the positive impact: while heuristics are not considered to lead to optimal decisions, they are viewed as an ecologically rational form of decision-making because they can be the best possible alternative in situations where full rationality and perfectly informed decisions are impossible (e.g., Gigerenzer & Gaissmaier, 2011; Luan, Reb, & Gigerenzer, 2019). In fact, while heuristics are traditionally viewed as inferior or second-best to “rational” ways of reaching a decision – in which all available information is collated and processed – recent research has shown that heuristics can be more accurate than such “rational” strategies under many real-world conditions (Luan et al., 2019). Bingham and Eisenhardt (2011) advanced this thinking by placing heuristics as central to strategy – specifically, they were found to be rational and capable of improving key dynamic capabilities. However, the applicability of fast and frugal heuristics to the organizational setting has been disputed on the basis that they rely extensively on research conducted in the context of psychology, which differs from that of strategic management (Vuori & Vuori, 2014).

2.2. Decision-making in firm internationalization

Research on the decision-making process that underpins internationalization decisions remains limited (Hennart & Slangen, 2015), especially in terms of their psychological microfoundations (e.g., Aharoni, Tihanyi, & Connelly, 2010; Niittymies & Pajunen, 2020; Vahlne & Johanson, 2020). International business research has not been able to reach a consensus on why firms choose a certain entry mode or location for their internationalization (Brouthers & Hennart, 2007; Maitland & Sammartino, 2015b). One reason for the inconsistent results is that the fundamental role of individual decision-makers has only been superficially explored (e.g., Aharoni et al., 2010; Maitland & Sammartino, 2015a); this is problematic because there can be multiple micro-level explanations for macro-level phenomena (e.g., Felin, Foss, & Ployhart, 2015). While the majority of internationalization models and theories are built on the boundedly rational decision-maker constrained by human cognitive limits, the individual manager is rarely adopted as the unit of analysis (e.g., Kogut, Walker, & Anand, 2002; Vahlne & Johanson, 2017) and the multinational enterprise (MNE) is assumed to be

responsible for articulating decisions and strategies (e.g., Aharoni et al., 2010).

A more recent body of internationalization research has focused on managers' attempts to understand the foreign environment (e.g., Autio et al., 2011; Prashantham & Floyd, 2012; Maitland & Sammartino, 2015b), understandings that have been found to vary significantly due to the high levels of complexity and uncertainty in the international sphere (Autio et al., 2011; Maitland & Sammartino, 2015a) that stem from the geographic and cognitive distances between markets (e.g., Prashantham & Floyd, 2012; Williams & Gregoire, 2015; Magnani, Zucchella, & Floriani, 2018). Heuristic decision-making is efficient in situations where complexity and uncertainty exceed the cognitive limits of the decision-maker (e.g., Gigerenzer & Gaissmaier, 2011); thus, it can be considered a valid option for internationalization decisions. Indeed, earlier research has emphasized the strategic importance of heuristic decision-making for complex internationalization decisions because it facilitates sense-making processes (e.g., Jones & Casulli, 2014; Maitland & Sammartino, 2015a), and enables opportunities in unfamiliar foreign environments to be captured (e.g., Bingham & Eisenhardt, 2011).

This positive, facilitating role is linked to prior internationalization experience because heuristics are learned from prior encounters (e.g., Bingham & Eisenhardt, 2011), particularly those taking place in a relevant or similar environment to that of the focal decision-making context (e.g., Jones & Casulli, 2014; Maitland & Sammartino, 2015a). Yet, while existing research has inspected the link between internationalization experience and heuristic decision-making, this body of work rarely assesses the context-specificity of the experience. Rather, the studied experience includes that from multiple different contexts and prior ventures executed by managers (see, e.g., Autio et al., 2011; Bingham & Eisenhardt, 2011). Consequently, despite the central role of context-specific experience in heuristic decision-making, it is a relationship that has not been fully explored. For this reason, I set out to investigate how context-specific experience impacts the heuristic decision-making process in firm internationalization.

3. Methodology

3.1. Research setting

Inspecting the decision-making trajectories of individual managers is not a straightforward task as it requires capturing, interpreting, and representing cognitive processes that are hard to observe (Maitland & Sammartino, 2015b). To address this challenge, a case study approach was adopted because it is commonly used to study cognitive processes (e.g., Bingham & Eisenhardt, 2011; Bingham & Halebian, 2012; Maitland & Sammartino, 2015a), and is considered well suited for the task of answering "how" something emerges (Eisenhardt & Graebner, 2007; Pratt, 2008, 2009). Specifically, I adopted the systematic approach to inductive research recommended by Gioia, Corley, and Hamilton (2013), which is suitable for deriving insights from a specific phenomenon that is inadequately addressed by the existing literature (e.g., Corley & Gioia, 2004; Jay, 2013). Since empirical research regarding heuristic decision-making during a firm's first stage of internationalization remains scarce, the Gioia-based inductive approach can provide the needed initial insights that can help guide further research on the topic (c.f., Corley & Gioia, 2004). To increase the analytical power and the robustness of the study, I investigated two cases rather than one (c.f., Eisenhardt & Graebner, 2007).

The two Finnish SMEs examined here were selected because they did not have prior internationalization experience at the time of their initial entry decisions. Therefore, they provide a good window into how heuristic-based decision-making is influenced by context-specific experience in firm internationalization and, as the two companies were initially novices in the field, they enable observation of the subsequent impact of experience.

The first case, which operates in the health and fitness industry, is

referred to as **Fitness Firm**. It is a small company with around 30 employees and a turnover of 2 million euros, previously operating only in the Finnish environment where it was the market leader in educating health and fitness professionals. Its internationalization journey commenced in 2014, a few years after several health and fitness firms had merged into one larger company. The second case, referred to in this study as **Grooming Firm**, is a franchise company that had previously operated only in Finnish markets where it was the largest provider of grooming services for men. While its main idea is to sell the franchise concept, it also owns its own stores. It has around 12 employees and a turnover of 5 million euros.

3.2. Data collection

As shown in Table 1, the primary data for the study were collected via 21 in-depth interviews from the top management teams of two Finnish SMEs in the middle of their first moves into internationalization. While the interviews were mainly carried out during 2018, 3 interviews were conducted in 2020 with managers of **Grooming Firm** and 6 interviews were conducted in 2015 and 2016 among **Fitness Firm** managers. The interviews lasted from 30 minutes to 90 minutes and were recorded and transcribed, which resulted in more than 350 A4 pages of transcribed interview data.

Interviews were open and in-depth, with the discussions being guided by the interviewer when needed; accordingly, the data are reliant on the researcher's interpretation of each interview event (e.g., Suddaby, 2006; Gioia et al., 2013). As the aim was to achieve as rich a story as possible of how the directors saw the internationalization process, related decisions, and the reasoning behind the decisions, the directors were asked to describe the whole internationalization process as accurately as they could, with further probing questions being asked when something interesting occurred. The interviews also involved questions about the managers' prior experience and background, company history, important events, prior decisions, and future plans, with a particular focus on why something happened or was decided. The interviews were continued until the story was saturated: that is, until no new information emerged.

3.3. Data analysis

The data were analyzed by reducing and coding in the three stages presented in the inductive analysis tenets of Gioia et al. (2013). The method requires a high level of data interpretation in all three stages since the aim is to increase the level of abstraction at every step so that the real-life experiences of interviewees can be transformed into theoretical dimensions (Gioia et al., 2013). Consequently, I have shown and carefully described all phases of data analysis rather than referring to raw data or final interpretations, so that the analysis procedure itself can be followed and exposed to revision (Pratt, 2008, 2009).

Analysis of the cases started by creating first-order themes from the interview data, categorizing frequently occurring topics, and labeling them with informant-based terms. Next, groups were formed from the first order themes and given more abstract labels derived from an interpretation of what the data could mean, thus taking the analysis further towards the theoretical realm. In this phase, I also began to compare the cases and see whether there was a common theoretical story to be found. This led to second-order themes that described a higher-level reality (e.g., that of the firms' top management teams) that was shared by both case companies. Of these themes, some were abandoned because they did not seem to have relevance for the

Table 1
The interviews.

Case: Fitness Firm								
Director:	FA	FB	FC	FD	FE	FF	FG	
Number of interviews	3	3	2	1	1	1	1	1
Case: Grooming Firm								
Director:	GA	GB	GC	GD	GE	GF		
Number of interviews	2	1	1	2	2	1		

emerging theory. At this point, I combined the cases by lifting the remaining second-order themes into a theoretical realm of aggregate phases¹ that described the purely theoretical aspect of the heuristic decision-making in the case companies.

After the identification of the second-order and the first-order themes, followed by aggregation of the cases, the path from the raw data to the third level theoretical phases was visually demonstrated with a data structure (see Table 2). Finally, the theory that emerged from the data was given life by turning the static themes into a theoretical model that illustrates the process.

4. Heuristic decision-making in firm internationalization

The findings identify and explicate the development process of heuristic decision-making during the companies' first foray into internationalization and demonstrate the influence of context-specific experience. I explain the path from an inability to harness the positive impact of heuristic decision-making to the point where heuristics can be used to develop a strategic direction in a new and unfamiliar international environment. As shown in Table 2, this development happened in four theoretical phases: (1) inability to harness the positive impact of heuristics; (2) systematic gathering of experience; (3) experience threshold; and (4) heuristics-based strategy work. Next, I describe this process by zooming in on the phases and themes and explain how each of these emerged in the two cases. Additional quotes that support the themes and phases are presented in Appendix A.

4.1. Phase 1: Inability to harness the positive impact of heuristics

The first phase encompasses the situation wherein both case companies wanted to internationalize but had trouble doing so because they could not decide what to do. This was because their management teams were unable to harness the positive impact of heuristics, which, it has been proposed, give direction and coherence to decision-making in new situations (e.g., Bingham & Halebian, 2012; Maitland & Sammartino, 2015a). Ultimately, both case companies took their first steps in the internationalization process without a clear strategy of what to do and how. I identified three themes that reference underlying and interlinked mechanisms responsible for the inability to harness the positive impact of heuristic decision-making: (1) lack of experience of the target environment; (2) inability to make sense of the target markets; and (3) inability to plan a strategy.

4.1.1. Lack of experience of the target environment

The first theme reflects the lack of management-level prior experience of their target environments and the consequent limitations on harnessing the positive influence of heuristics in internationalization-related decision-making. I acknowledge the possibility that they may simply have been unable to make strategic business decisions in any environment, not merely the international sphere; however, the

¹ I use the term "phase" to refer to the third level aggregate concepts instead of the original term "dimension" (e.g., Gioia et al., 2013) because in the study the aggregated third-level concepts are sequential rather than chronologically parallel.

evidence does not support this alternative explanation since both firms were successful in Finnish markets before expanding abroad.

Given that **Fitness Firm** was the market leader in Finland, the management of the company arguably had the ability to utilize heuristics at the domestic level. When the firm started to internationalize, however, the managers were unable to make decisions in the unfamiliar environment because of their total absence of experience of international markets. Director FC was open about this when asked about prior international experience, stating: "*I can frame that frankly: there was no previous experience.*"

The managers of **Grooming Firm** who started the process of internationalization likewise did not have experience of international expansion; rather, their expertise had been gathered in the Finnish market where they had already built a solid track record by setting up around 20 shops before deciding to expand abroad. Therefore, the management presumably possessed suitable heuristics for Finnish markets but, due to their lack of international experience, their decision-making abilities with respect to internationalization were severely limited, as Director GF indicated: "*Our greatest challenge was that we did not have the kind of international knowhow and experience to enable us to expand straight away, and we were not ready to sell our license rights to someone directly.*"

4.1.2. Inability to make sense of the target markets

The next theme deals with the lack of experience, which manifested as an inability to make sense of foreign markets. The management teams of both companies had decided to expand into European markets without having any experience of them or, indeed, international business in general. Consequently, they struggled to understand what they should do, how the target markets worked, what they could offer that would be of interest internationally, and how to enter the markets in the first place.

The management of **Fitness Firm** found the needs of international markets especially troublesome to grasp and, consequently, could not settle on an optimal product to drive their shift in this direction. As Director FB recalled: "*We had to search long and hard to ascertain where the industry and the individual operators were actually located, and to discover their true needs.*" Their early inability to identify market needs became apparent when the management finally understood that the market was not interested in their educational content but rather their systems and procedures for marketing that education. As Director FB observed, "*Clearly we learned and understood what can and what should be internationalized.*"

Grooming Firm's managerial struggles to make sense of the markets were most pronounced in terms of understanding which target markets had the greatest potential for their first international venture and how to enter them. At first, they considered selling franchise licenses, but they felt cautious about revealing their business innovations to an external partner. In the end, they established their own shop in Germany because a family member of one of the founders lived in Berlin and was willing to run it. Yet, their inability to understand the markets also caused problems in Berlin, as recalled by Director GB: "*We thought that Germans liked 'Finnish honesty' and so forth, but that turned out to be completely wrong*"; and by Director GF: "*In Germany, our biggest challenges were the cultural differences. The management culture, working culture, and so on were so different from Finland.*"

Table 2
Data structure.

Fitness Firm →		Aggregate phases	← Grooming Firm	
First-order themes	Second-order themes		Second-order themes	First-order themes
-Lack of international experience -The decision to internationalize without prior internationalization experience	Lack of experience of the target environment		Lack of experience of the target environment	-Lack of international experience -The decision to internationalize without prior internationalization experience
-Lack of understanding of the needs in international markets -Planning is useless due to the lack of reliable information	Inability to make sense of the target markets	Inability to harness the positive impact of heuristics	Inability to make sense of the target markets	-Lack of understanding of the target market environment
-Lack of strategic direction at the start -Lack of specific product to drive internationalization	Inability to plan a strategy		Inability to plan a strategy	-Lack of internationalization expansion strategy regarding location choices -Lack of entry mode strategy
-Networking with key players to gain information -The systematic use of Europe Active as a source of contacts and information	Learning from networks and institutions	Systematic gathering of experience	Learning from networks and institutions	-Participating in government internationalization support program -Utilizing franchising networks as a source of information -Acquiring external know-how for the board
-Cooperation and JV preparations with a Dutch organization -Search for a strategic partner due to a lack of resources	Learning from experience		Learning from experience	-Establishing shops, own and franchised, in Germany, Estonia, the USA, Spain, and Sweden based on personal relationships
-International experience gained from the cooperation with the Dutch actor -Cooperation and JV with the Dutch organization failed and terminated -Failure with the Dutch actor reveals own core capabilities	Accumulated context-specific experience	Experience threshold	Accumulated context-specific experience	-International experience gained from networks and establishing shops
-Understanding the needs in the markets -Understanding own position in the markets -Sales and marketing underdeveloped in the industry	Triggering event		Triggering event	-Problems with franchise-holders and profitability -Shops in Spain and USA are closed
-Realization of own superiority -Realization of the potential of the IT system	Market knowledge heuristics	Heuristics-based strategy work	Market knowledge heuristics	-Ability to understand the host market environment -Ability to understand requirements for location choices within the host market -Ability to understand influential economic factors in the host markets -Understanding of own business model
-Strategic direction formed during internationalization -Product for internationalization created in response to market understanding -IT System became the primary product for the internationalization	Capability heuristics		Capability heuristics	-Understanding the target markets in terms of its own business model
	International expansion heuristics		International expansion heuristics	-Understanding of required/suitable entry mode -New expansion strategy formed -Adopting master-model -Franchise agents hired -Establishing master franchise shops in Sweden and Denmark

4.1.3. Inability to plan a strategy

The last theme of the phase is an outcome of the two previous themes and a major indicator of an inability to harness the positive impact of heuristics in decision-making. It highlights how the management teams of the two companies were unable to plan a strategy for internationalization because their lack of international experience restricted their abilities to understand the foreign environment.

The struggles of **Fitness Firm**'s top management with strategy work were especially prominent in terms of product strategy, as stated by Director FA: *"We have spent a lot of time trying to devise which of our products would work best for internationalization, something so good that it captures the attention of international markets. It has been a really long process and there has been a lot of thought about what it could be and what it will be."* Ultimately, they had no idea what else to do besides physically going abroad, meeting people, and trying to figure out what to do.

Grooming Firm's inability to plan a strategy can be seen from its directionless behavior while undergoing internationalization. As indicated by Director GE, the management team did not systematically plan to enter the markets in which they eventually found themselves: *"It [internationalization] was done very aggressively, but maybe not very systematically. Not based on what we knew but rather, 'We are doing it now!' That was the mentality."* Furthermore, as recalled by Director GA, the partners were not selected systematically; rather, the management received a signal of interest from a party, which led to the opening of a shop with vague demands in terms of entrepreneurial abilities or

location: *"These [shops] that have been opened are the result of someone indicating she/he wanted to enter that market. That was not necessarily the smartest option. We should have conducted market research and thought more..."*

4.2. Phase 2: Systematic gathering of experience

The second phase consists of a stage in the development of heuristic decision-making when both firms became aware of their shortage of experience and the restrictive influence of this on their decision-making. Subsequently, both developed systematic ways and strategies to acquire the knowhow to overcome the shortage. The phase comprises two themes dealing with the informants' modes of acquiring the experience to further the internationalization process: (1) learning from networks and institutions; and (2) learning from experience.

4.2.1. Learning from networks and institutions

This theme revolves around the first of the two ways utilized to acquire experience from the European markets after the management teams realized that they lacked sufficient understanding to operate in them effectively; both companies concluded that, by systematically building and utilizing networks with larger actors and institutions, they could acquire the information and knowledge they needed in this field.

Fitness Firm's management, on realizing that their shortage of experience could hinder their plans to internationalize, decided to

augment their experience by participating in the events and operations of Europe Active – a large European-wide association for health and fitness firms and professionals. As Director FC stated, Europe Active provided access to the association's own experience, as well as the means of networking with larger players from European markets:

The first consideration was how the market could be charted, whether it required formal market research or if it were possible to form perceptions by just going and doing. Could we find something that would provide a gut feeling that could guide us to people who had the same feeling. Very soon it turned out that there was, and in this was Europe Active.

The management of **Grooming Firm** acquired experience in three different ways. First, they decided to seek help from the Finnish government's acceleration programs, which provided funding and help for new firms in the process of internationalizing. Second, as Director GF recalled, they networked with other franchise providers and experts: *"We acquired a perspective from franchise experts on how we should do it [internationalize]. Properly speaking, it was with their help that the smartest way for us to proceed became clear."* Finally, external knowhow was brought into the company's board which was described by Director GF in the following way: *"In addition, our whole board of directors was renewed, which allowed us to introduce considerable external knowhow."*

4.2.2. Learning from experience

This theme touches upon the second way that the management teams of the two companies acquired the necessary understanding: learning by experiencing the internationalization process itself. Indeed, while this process is distinctly different in each business, both reported that experiential learning played a major role in their internationalization.

As described by Director FB, the management of **Fitness Firm** wanted to internationalize with the assistance of a more experienced partner because they felt that they could not do it alone due to lack of experience: *"To be able to grow strong enough [to survive] we need a partner that has, for example, already been networking for a decade with the industry's actors."* This resulted in their negotiating and planning a joint venture with a larger international company, preparation for which provided **Fitness Firm** management with first-hand experience of the internationalization process.

Meanwhile, the management of **Grooming Firm** gained first-hand experience by establishing shops in five countries, utilizing various entry modes. While they had neither a clear strategic direction nor systematic approach to entry modes or location choices, the experience they gained from the process was a steep learning curve, as stated by Director GB: *"The temerity and boldness to attempt and to achieve new things have taught us enormously, giving us an insane amount of information and understanding of the world."*

4.3. Phase 3: Experience threshold

The third phase illuminates how the company management teams gained enough experience to harness the advantages of heuristics in internationalization-related decision-making. In the course of this, they transcended the "experience threshold" that marks the minimum amount of experience that is needed to utilize heuristic decision-making in completely unfamiliar environments. However, I also observed that experience does not transform into usable heuristics as soon as it is acquired; rather, it must be triggered by a stimulus after the experience threshold has been crossed. The phase is constituted by two themes: 1) accumulated context-specific experience, and 2) a triggering event.

4.3.1. Accumulated context-specific experience

This theme relates to the first of the two factors that comprise the experience threshold: accumulated context-specific experience. Both firms systematically acquired experience in various ways, leading them to accumulate a certain amount of context-specific experience, which,

however, did not in itself enable the positive impact of heuristics in decision-making to be achieved.

As Director FA stated, over the entire internationalization process **Fitness Firm** managers absorbed a range of new perspectives: *"It has been a really important time period for us in the sense that we have learned about those markets, become familiar with the actors, and seen their way of doing things."* Yet the acquired experience did not improve the management's capabilities in terms of strategic decision-making; no major changes to product or entry strategies were instigated, even though they arguably had a sufficient amount of context-specific experience to reformulate strategy at this point.

The management of **Grooming Firm** accumulated experience from opening stores in multiple markets, networking with players in the franchise field, and by acquiring external knowhow. This allowed them to gather enough context-specific experience to cross the experience threshold. It did not, however, lead to enhanced capabilities in strategy work or changes in expansion strategy; rather, the management team kept opening stores without a systematic strategy for some time before the change occurred. Director GB described the accumulation of experience and the actual learning that occurred later in the following way:

Now that we have been 11 years in this business, we have noticed that most of the countries we expanded into early on, such as Spain, Germany, and the USA, are damn hard. Spain has low price levels, wage levels, and economy in general. The German skepticism [is a problem]; the USA is too far away to control, govern, and train. We have noted those mistakes have been made; they caused losses, but we have achieved a terrific learning curve. Now it is much more structured.

4.3.2. Triggering event

The second theme of the phase refers to how a triggering event – a failure in both cases – started a process whereby the accumulated context-specific experience was transformed into heuristics that could facilitate strategic decision-making. While the failures of the case companies were different in nature, they had the same triggering effect.

In the case of **Fitness Firm**, the point where acquired experience transcended the experience threshold and transformed into usable heuristics can be located in the aftermath of a failed partnership with a larger international firm. The failure meant that the management had to reconsider the situation in light of their acquired international experience, which started a cognitive process that transformed it into heuristics. While the management team had learned steadily throughout the whole internationalization process, the partnership failure concretized it all, something which is evident in the management team's increased understanding. In fact, as indicated by Director FB, the management felt that the failure itself was a source of learning and experience: *"Partnership-wise the Dutch partner candidate brought us much more than just negotiation costs. It also brought a substantial amount of vision and contacts."*

The point where **Grooming Firm**'s experience transformed into heuristics can be traced to the emergence of problems with franchise entrepreneurs and profitability which were connected with the shops that had been opened without a clear strategy. In the most problematic markets – Spain and the USA – the problems escalated to a level where the management team had to shut the outlets. According to members of the management team, this was a hard and unpleasant decision that led them to rethink their situation and strategy in order to prevent similar events in the future. Director GF described the situation in the following way:

Pretty soon we realized that Spain, Malaga especially, Fuengirola, are not smart locations at this point and made the decision to close them. In a way, we took a step back in our internationalization. At the same time, a few shops had been opened in Florida and we decided to merge operations in the USA [although] we understood that the USA markets are much harder and more challenging than we had anticipated. There are legal

challenges and many other things... Over the past couple of years, we have reorganized and renewed our strategy to clarify how we are going to proceed. Now we are in good shape in the sense that we have a pretty strong understanding of the model that we are using to expand to new markets. We have this master-franchise model that we will use.

4.4. Phase 4: Heuristics-based strategy work

The fourth phase refers to the period when heuristics could finally be used in strategic decision-making, and the central role they thus played in firm internationalization. The phase is constructed from three themes that emerged from an analysis of how the management teams developed heuristics to understand and internationalize in their environment: (1) market knowledge heuristics; (2) capability heuristics; and (3) international expansion heuristics (these are further illustrated in Table 3).² I view the explicated understandings at management level as heuristics since they are rough simplifications of reality, used to cope with a complex environment. For example, **Grooming Firm's** heuristic understanding that the foreign shop must be run by a local person is not completely accurate as there are likely to be managers and entrepreneurs who could run a barbershop without being local, but it is accurate enough for its purpose: facilitating internationalization-related decision-making.

4.4.1. Market knowledge heuristics

The first theme reflects how the management teams of both firms developed simple heuristic rules that helped them to understand the markets. Specifically, there was a clear difference in managerial understanding before and after they acquired the experience that, triggered by an event, was transformed into heuristics. I argue that this sudden ability to make sense of the target market is mainly related to the heuristics that emerged.

The understanding of **Fitness Firm's** management particularly increased with respect to the needs and competitive landscape of the health and fitness industry in European markets, where, as indicated by Director FC, they developed a heuristic understanding that sales and marketing knowhow is underdeveloped: "We recognized that there are not the strong actors in Europe that our firm is in Finland in its own domain." – Director FC

Grooming Firm's management, on the other hand, gained a better grasp of doing business in Europe in terms of the problems they had in identifying the characteristics of suitable markets and shop locations. While managers reported that they made costly mistakes with the stores' country and location choices at the beginning of the internationalization process, after the failure they were able to identify multiple characteristics of a suitable market, as pointed out by Director GE: "There must be a certain price point for everything and the GDP must be appropriate because our service costs a certain amount and running a shop costs a certain amount, but, for example, we have potential markets in most of the developed countries in Europe. There must be enough solvent customers. That is pretty much the criteria that we use." They also developed a heuristic understanding that local knowledge plays a prominent role in managing a shop, as indicated by Director GC: "Local knowledge is a major thing in getting the shops into the right places."

4.4.2. Capability heuristics

The second theme describes how the two companies' management teams developed heuristic understandings of the capabilities that impact their internationalization by using their developed understanding of the target markets as a reference point. This developed understanding may be about the capabilities that the firm can utilize in their

Table 3
The identified heuristics.

Firm	Type of heuristics	Heuristic understanding	Illustrative quotes
Fitness firm	Market knowledge heuristics	-Sales and marketing knowhow is underdeveloped in Europe	"The industry's actors' way of doing things is very unsystematic when compared to the actions of more established industries. In this health and fitness sector, the way of doing things is still very far from a professional organization's actions." – Director FB
	Capability heuristics	-We are superior in terms of sales and marketing and IT systems	"We understood that nobody here has anything to teach, that we must come here to teach. This is the biggest thing we figured out." – Director FC
	International expansion heuristic	-Sell sales and marketing system	"At this point, we are proceeding with the system software as a primary product." – Director FB
Grooming firm	Market knowledge heuristics	-Running a shop requires local knowledge -The market must have certain price-level and service culture	"Local knowledge is a major thing in getting the shops into the right places." – Director GC "Primarily, we consider markets where we see that our business can prosper. The price of the service must be high enough and then there must be service culture so that the customers are willing to pay for the service." – Director GA
	Capability heuristics	-The shop must always be run by a local person -Our business can only work in countries with higher price-levels	"It [the entrepreneur] must definitely be local." – Director GA "If you go into a new market and you have a person who is not local and does not know anything... He would be as clueless as we are." – Director GA
	International expansion heuristic	-Select wealthy countries -Find a master-entrepreneur to run operations in the whole country	"Now we focus on markets where we see that the price of this service is realistic compared to our service concept." – Director GA "We have done an analysis of price levels, wage levels, what kind of structure there is. With these understandings, we can decide whether a market appears suitable for our business to work." – Director GF "Now we have totally new plans. Now we have a local entrepreneur, to whom we have sold all rights in the country. Now the entrepreneur operates there locally, with our

(continued on next page)

² I acknowledge Gerd Gigerenzer for his helpful comments regarding the explication of heuristic understandings.

Table 3 (continued)

Firm	Type of heuristics	Heuristic understanding	Illustrative quotes
			<i>guidance and advice naturally. It is a big change to the old [system]...</i> – Director GC

internationalization or a lack of certain capabilities and the consequent impact.

Fitness Firm's management team, for example, reached the realization that their sales and marketing system was more developed than those of international competitors and consequently started to view it as their core capability in European markets, as Director FB observed: "We have something to give to their business."

As Director GB indicated, **Grooming Firm's** management developed a heuristic understanding that their foreign shops must be run by a local person after they reflected on their own capabilities and came to the conclusion that they could not run such enterprises without local knowledge: "We have learned that the person who runs the business must always be local." This was further supported by Director GA's observation: "If you go into a new market and you have a person who is not local and does not know anything... He would be as clueless as we are." He added, however, that the management was able to develop heuristics for understanding the preferred characteristics of suitable markets with respect to the requirements of their own business, saying, "Now we focus on markets where we see that the price of this service is realistic compared to our service concept."

4.4.3. International expansion heuristics

The final theme, "international expansion heuristics", builds on the two previous themes of this phase. It shows that the management teams of the two companies learned heuristics that facilitated their strategic decision-making; it further explicates how they were able to create internationalization strategies by utilizing the heuristic understandings they developed of the markets and intra-firm capabilities.

As Director FC indicated, **Fitness Firm's** management was able to build a new internationalization strategy based on the heuristic understanding that their strong competence in sales and marketing systems provided opportunities in European markets where systems were less developed: "Our whole product strategy has emerged from this process." Consequently, the management built a new IT product to address the perceived need in the market, which became their primary offering in internationalization, as Director FB observed: "At this point, we are proceeding with the system software as a primary product."

Meanwhile, **Grooming Firm's** management developed heuristics that were suitable for their own target markets, which enabled the management team to harness the advantages of heuristic decision-making and create a new expansion strategy. Director GF described the development process in the following way: "It did take time for the operating model to crystallize but, at the same time, we have acquired a good understanding of how it works. The answer is yes, now we have a very clear strategy and our operations and internationalization strategy are on a track that we are utilizing to proceed." In the new strategy, country selection was based on the developed heuristic understanding of the characteristics of suitable markets, as pointed out by Director GF: "We have done an analysis of price levels, wage levels, what kind of structure there is. With these understandings, we can decide whether this market appears suitable for our business to work." Furthermore, as the management team developed a heuristic understanding of their limited operational capabilities in the foreign markets, they adopted the master-franchise concept, whereby a master-entrepreneur is chosen from each market to take care of expansion within it. As Director GC put it: "Now we have totally new plans. Now we have a local entrepreneur, to whom we have sold all rights in the country.

Now the entrepreneur operates there locally, with our guidance and advice, naturally. It is a big change to the old [system]..."

5. Emergent theoretical model

Fig. 1 depicts the model that emerged from examining the experiences of the two case organizations. It captures the four theoretical phases that explain how an inability to harness the positive impact of heuristics in strategic decision-making, in an unfamiliar international environment, enables these vital shortcuts to be rejigged. In particular, the findings uncover the fundamental but previously untheorized role of context-specific experience and the mechanisms through which it influences the development of heuristics. In what follows, I elaborate on how the case companies progressed through the phases of the model, providing additional support for the model's plausibility by reflecting on recent research on the topic (see, e.g., Eisenhardt & Graebner, 2007).

In the first phase, the top management teams of the case companies were unable to harness the positive impact of heuristics in decision-making when embarking on international expansion because heuristics are context-specific (e.g., Looock & Hinnen, 2015) and learned from experience (e.g., Bingham & Eisenhardt, 2011; Gigerenzer & Gaissmaier, 2011). The managers did not have any prior experience of either internationalization or the target markets, thus they could not draw on appropriate heuristics to facilitate internationalization-related decision-making, leaving them unable to make sense of the foreign environment. Since heuristics play a major role in such sense-making (e.g., Maitland & Sammartino, 2015a), the inability to do so arguably resulted from a lack of suitable heuristics. Ultimately, managers were unable to decide what to do and how, or plan a strategy for international expansion, because they could not utilize known heuristics in order to understand the situation.

In the second phase, the management teams realized that they were unable to understand the foreign markets and make plans due to a shortage of context-specific experience, leading to feelings of uncertainty (see, e.g., Alvarez & Barney, 2005) that initiated the systematic gathering of experience from target markets, entry modes, and internal capabilities (see, e.g., Autio et al., 2011). Both management teams did this by simultaneously utilizing multiple sources of experience and learning, such as networks, institutions, and experiential learning.

In the third phase, by accumulating context-specific experience, the management teams surmounted a threshold, marking the minimum amount of experience required to develop a set of heuristics that could be used to facilitate decision-making in an unknown environment. At first, however, the management teams did not exhibit any signs of learning or change in behavior, instead continuing on the same track. This demonstrates that experience does not automatically transform into usable heuristics as soon as it takes those gathering it over the threshold point. Rather, in the two examples discussed, it required a triggering

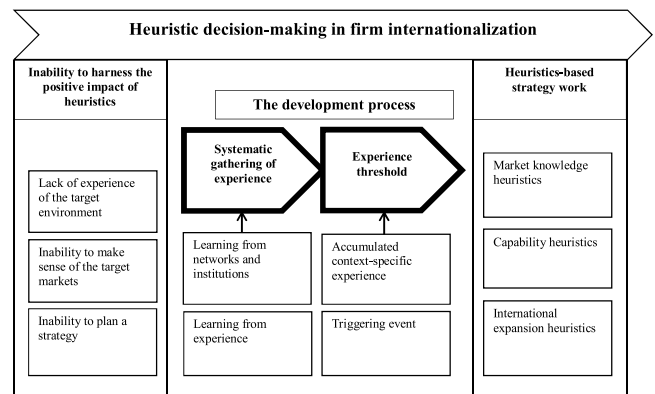


Fig. 1. Heuristic decision-making in the process of firm internationalization.

event – a failure in both cases – before management teams reconsidered their situation and reconstructed their heuristic portfolios from their newly acquired context-specific experience. This could then be used to address key questions related to their internationalization strategy. While the literature on learning acknowledges the positive influence of failures in the process (Autio et al., 2011; Bingham & Haleblan, 2012), in these cases, failure played a very special role as a triggering event. However, this triggering can only happen after the experience threshold is surmounted, because heuristics are proxies or cognitive shortcuts containing a large amount of information (e.g., Bingham & Eisenhardt, 2011; Gigerenzer & Gaissmaier, 2011); thus, they cannot be built without a sufficient amount of experience.

In the final phase of the model, the management teams could draw from heuristics in their decision-making and thus were able to develop strategies for international expansion. As a result, they started to exhibit systematic behavior in executing this strategy. Since the link between experience, heuristics, and the ability to understand the foreign environment (see, e.g., Maitland & Sammartino, 2015a), and the context-specificity of heuristics (see, e.g., Bingham & Eisenhardt, 2011; Looock & Hinnen, 2015), is recognized in the existing literature, I propose that the management teams created a set of heuristics from the acquired context-specific experience that enabled them to understand the new foreign environment as well as their own capabilities and match these two elements in order to develop strategies that would guide their internationalization.

6. Discussion and conclusions

6.1. Contributions to the literature

Prior research emphasizes the strategic importance of heuristics in internationalization choices (e.g., Bingham & Eisenhardt, 2011; Bingham & Haleblan, 2012) and suggests that the positive influence of heuristics in decision-making is contingent on prior experience from related contexts (e.g., Jones & Casulli, 2014; Maitland & Sammartino, 2015a). Yet knowledge of the impact of context-specific experience on heuristic-based decision-making in internationalization remains scarce, especially in cases where prior context-specific experience is not possessed by decision-makers. The present study advances understandings of this issue. Its primary contribution is the construction of a theoretical framework that identifies the relationship between context-specific experience and heuristic decision-making in firm internationalization. The framework explicates the influence of the former on the development of the latter in a firm's first steps in internationalization and a firm's consequent ability to harness the advantages of heuristics in decision-making in an unfamiliar environment without prior international experience. Thus, the study advances existing research on the cognitive foundations of firm internationalization in several ways.

First, it demonstrates that a sufficient level of context-specific experience is required before the positive impact of heuristic decision-making can be harnessed in firm internationalization. The findings are consistent with earlier research in showing that heuristics provide a way to internationalize efficiently without developing a nuanced understanding of the foreign markets (e.g., Bingham & Eisenhardt, 2011; Maitland & Sammartino, 2015a), and that heuristics can provide direction and coherence to decision-making in new environments (e.g., Bingham & Haleblan, 2012). The present findings advance this literature and go beyond current understanding, by showing that heuristic decision-making does not lead to positive outcomes without prior context-specific experience. This is consistent with the findings of Maitland and Sammartino (2015a), who suggest that the use of heuristics in making sense of an environment is linked to prior context-specific experience. Similarly, it supports the suggestion of Jones and Casulli (2014) that heuristic reasoning is appropriate for decisions concerning internationalization goals when the target market is similar to the environment where the prior experience is

acquired. Indeed, previous research has acknowledged the importance of the context-specificity of the experience for understanding any environment and the decision-making therein (e.g., Prashantham & Floyd, 2012; Jones & Casulli, 2014; Maitland & Sammartino, 2015a), yet, in existing empirical research, the prior experience is often treated in a rather general way without linking it to the focal decision-making environment (see, e.g., Bingham, 2009; Bingham & Eisenhardt, 2011; Autio et al., 2011). The lack of contextual precision in inspecting the influence of past experience can be problematic because decisions that are made based on prior practice in different contexts might not lead to desired outcomes (c.f., Maitland & Sammartino, 2015a). Ultimately, the impact of context-specific experience on heuristics is an underexplored topic in the research literature. Thus, the findings here provide a novel contribution to the cognitive internationalization literature in terms of the influence of context-specific experience on heuristics and decision-making.

Second, the study provides insights into the mechanisms of how managers learn during their first internationalization attempts. The findings show that the development of heuristic decision-making is initiated when managers start to acquire context-specific experience systematically, as they become aware that their lack of experience is restricting their decision-making. While previous research has already demonstrated that prior experience can reduce uncertainty (Alvarez & Barney, 2005) and that uncertainty can initiate learning (Autio et al., 2011), I suggest that the systematic gathering of experience discussed here resulted from the perception of uncertainty caused by the lack of experience felt by the management teams. These insights advance our understanding of the mechanisms that lead to learning and show that the findings of Autio et al. (2011) and Alvarez and Barney (2005) also apply to the management teams of companies that are embarking on their first attempt at internationalizing without any prior international experience. Furthermore, the findings show that SMEs can acquire context-specific experience during internationalization by utilizing multiple different learning processes simultaneously, such as networks, vicarious learning, and experiential learning. This is consistent with the findings of Park and Harris (2014) in the analogous case of international joint ventures. Accordingly, these insights advance prior understandings by demonstrating that multiple simultaneous learning processes also shape the international expansion process in cases of early internationalization efforts by SMEs.

Third, while previous research has argued that experience leads to learning and better decision-making abilities (e.g., Bingham, 2009; Autio et al., 2011; Bingham & Eisenhardt, 2011), the findings of this study go beyond this understanding by showing that the acquired context-specific experience did not immediately lead to enhanced decision-making. Indeed, the study's most striking finding is that experience does not transform into heuristics until a certain level of context-specific experience is reached, thus indicating that there is an experience threshold that must be transcended before management teams can harness the benefits of heuristic decision-making in a new environment. The existence of this threshold shows that the relationship between experience and heuristics is not as direct as has been assumed in the literature (e.g., Bingham & Eisenhardt, 2011; Bingham & Haleblan, 2012; Maitland & Sammartino, 2015a). This makes measuring the relationship between experience and heuristics-based outcomes more challenging as, while the experience might exist, it might not yet have transformed into heuristics and therefore may appear irrelevant in terms of decision-making. Consistent with this finding, Maitland and Sammartino (2015a) also reported in their study that the link between experience and rich sense-making was not unambiguous. The notion of an experience threshold thus extends the findings of Bingham and Eisenhardt (2011) that firms learn heuristics from experience, further explicating the role of experience in the development of heuristic decision-making and affirming the embeddedness of experience in a particular context. Furthermore, these insights advance cognitive internationalization research beyond the heuristics perspective. Indeed, while prior research has explicated factors that mediate the influence of

experience on cognitive capabilities, such as the prior resilient experiences of managers and skills in reshaping capabilities (e.g., [Autio et al., 2011](#)), the fact that experience does not instantly transform into a usable form (e.g., heuristics, routines, or capabilities) has been overlooked (e.g., [Autio et al., 2011](#); [Prashantham & Floyd, 2012](#); [Jones & Casulli, 2014](#); [Clark et al., 2018](#); [Prashantham & Floyd, 2019](#)).

Fourth, the findings also show that merely crossing the experience threshold does not produce heuristics but, rather, this needs the trigger of a relevant event, which forces managers to reconsider their situation in light of their newly acquired experience and thus reconstruct their mental model. While prior research has shown the positive influence of failures and successes on the development of cognitive capabilities (e.g., [Autio et al., 2011](#)), including heuristics (e.g., [Bingham & Haleblan, 2012](#)), I argue that failure or success in itself does not do all the work, but rather acts as a trigger that starts a transformation in which mental models are reconstructed in light of acquired experience from a potentially lengthy period preceding the triggering event. For this, managers must possess a certain minimum amount of context-specific experience because sufficient building material is required to develop heuristics that can accurately capture the necessary details of the new environment; thus, an inadequate level of experience does not lead to usable heuristics even in the presence of a triggering event.

What constitutes a minimum amount of experience is arguably dependent on the complexity of the environment; therefore, the exact level of required managerial experience cannot be defined and can only be retrospectively observed. That is, if a triggering event occurs and usable heuristics do not develop, the conclusion can be drawn that a sufficient amount of context-specific experience was not available. These findings, by explicating the novel mechanisms of the process, advance existing research on the development of cognitive capabilities during internationalization that has examined how managers revise their mental models as a result of acquiring experience (e.g., [Autio et al., 2011](#); [Bingham & Eisenhardt, 2011](#)). Specifically, the findings shed more light on the assumption that managers automatically revise their mental models based on stimuli from new foreign markets (e.g., [Autio et al., 2011](#)) and constantly develop their portfolios of heuristics ([Bingham & Eisenhardt, 2011](#)). Instead, the findings reveal that such developments are not a constant process but occur in development sprints that are triggered by a stimulus. In both studied cases, the stimulus was in the form of a failure.

6.2. Managerial implications

The findings support the growing view that heuristics can lead to accurate, even superior, decisions in firm internationalization because fully informed and fully rational decisions are rarely an option during such processes (e.g., [Bingham & Eisenhardt, 2011](#)). However, despite the promising findings, heuristics can also be a source of danger for their users: if they are developed from a sufficient amount of experience acquired from a suitable context they can enhance decision-making capabilities; but, if based on experience from an inappropriate environment, they can lead to errors in decision-making. The problem is that managers have very few tools for assessing whether their heuristics are based on suitable experience. Indeed, in both the companies analyzed here, the managers experienced costly failures at the beginning of their moves into internationalization, even though they were aware of their experience shortage, indicating that it is challenging for management teams to assess their understanding of a given situation and the quality of the heuristics they possess. Ultimately, managers within a company should not fully trust the heuristics at their disposal in internationalization decisions without experience in the same or at least very similar environments. In particular, as can be seen from both cases, basing judgment on heuristics is especially dangerous in a firm's first moves into internationalization, when prior context-specific experience is not available.

Furthermore, the developed framework suggests that managers must

transcend an experience threshold before knowhow gained over time can be transformed into usable heuristics. For practitioners, this means that they should be aware, firstly, that they need a sufficient level of experience in the target market or similar environments, and, secondly, that experience alone is not enough if the current mental model or heuristic rules are not updated with the acquired experience. However, the problem here is that it is hard for managers to assess whether they possess enough experience to develop heuristics that can facilitate decision-making and whether their mental models have incorporated the latest experience. To counter these problems, managers should promote deliberate self-reflection and alertness to underlying heuristic judgments when entering unfamiliar markets.

6.3. Limitations and directions for future research

In this study, I set out to investigate the relationship between context-specific experience and heuristics-based decision-making in the context of internationalization, which is a domain that has received scant empirical inspection. Therefore, I chose an inductive theory-building approach, which is good for deriving novel insights from an inadequately studied topic but is subject to some inherent limitations, notably the generalizability of the findings due to the small number of cases. Thus, I clarify that the purpose of this study, and the selected method, is to develop a theory, not to test it. To these ends, theoretical sampling of a small number of cases is appropriate ([Eisenhardt & Graebner, 2007](#)). Furthermore, while there is no absolute figure for the number of interviews that would guarantee the reliability of a sample (e.g., [Suddaby, 2006](#)), many studies in the field have been conducted with more than 40 interviews, while the theoretical insights of this study are derived from 21. However, while modest in number, they are rich in quality and thus provide a strong empirical basis, even providing longitudinal data through lengthy in-depth interactions with relevant decision-makers.

The findings and the developed theoretical framework are an early step towards understanding complex heuristic decision-making processes in an international setting and can provide direction for further research. Indeed, studies on the cognitive microfoundations of managerial decision-making is a fertile field (e.g., [Walsh, 1995](#); [Kaplan, 2011](#)) that has much to offer to international business research due to the high levels of uncertainty and complexity that characterize the international business environment (e.g., [Zachary, Gianiodis, Payne, & Markman, 2015](#)). A potential endeavor for future work could be that of improving the framework depicted in this paper, which would especially benefit from a further inspection of (1) possible sources and types of experience that can be transformed into heuristics, (2) possible stimuli that can trigger the transformation from experience to heuristics, and (3) possible additional or alternative mechanisms related to this process. An important question that also calls for analysis is how the required minimum experience relates to the complexity of the task environment. Finally, as the world is digitalizing at an increasing pace, the use of digital technologies in acquiring knowledge to facilitate the development of heuristics provides an interesting domain for further research (see, [Pergelova, Manolova, Simeonova-Ganeva, & Yordanova, 2019](#)).

Declaration of Competing Interest

The authors report no declarations of interest.

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Appendix A. Additional supporting quotes

Additional supporting quotes

Inability to harness the positive impact of heuristics

Theme	Fitness firm
Lack of experience of the target environment	"Not really strong international background, my own international background is mostly from this project." -Director FB
Inability to make sense of the target markets	"At the beginning, we went, did, and watched what the future holds since we really didn't know what was outside of Finland." - Director FA "Let's think about the year 2012–2013 and compare it with the year 2016. We set out to internationalize personal trainer knowhow but now we are selling the sales- marketing, digital learning environment, software that is behind the personal trainer course." -Director FA
Inability to plan a strategy	"We have had a long consideration about what will be our selection for international markets and the consideration has been around expertise, this personal training coaching philosophy, materials, and from those to the systems and sales processes and so on..." - Director FB "This field is so new and it cannot be known where it is heading and what product will work, so it has been very valuable information what we got from there and where are we heading now." - Director FA "Strategy has been that there is no strategy." - Director FC

Systematic gathering of experience

Theme	Fitness firm
Learning from networks and institutions	"And that way we also got that network for us and received information about what is going on there." Director FA "Then we got the right channels to certain places so that we can keep up what is happening in the scene, European wide." - Director FC "There the chemistry matched in a magnificent way with the Europe Active's management and we found that at this point there is no reason to start formally research markets, instead we do just fine by informally charting the situation through networks." - Director C
Learning from experience	"At the beginning it was really central to get negotiations open as wide as possible, with as many partners as possible, to understand the market as well as possible." - Director FC "There was no possibility to invest much so we understood that it must be done through some sort of partnership solution, the internationalization out of Finland." - Director FC

Experience threshold

Theme	Fitness firm
Accumulated context-specific experience	"Large networks to Europe and through Person X we became acquainted with many kinds of people and recognized many different types of actors from the markets. So, it has been a really important time period for us." - Director FA "For two and a half year learning costs, I would say that, in a matter of fact, amazing performance!" - Director FC
Triggering event	"Negotiations ended a few months back when we had not in a few years' time to get any kind of agreement what should we do." - Director FA "After we noticed that it is not necessary... At that time, year and a half ago it seemed that or even a couple of years back, that we need insiders as partners so that the doors will open but we have found out later that even for that you don't need a strategic partner..." - Director FB

Heuristics-based strategy work

Theme	Fitness firm
Market knowledge heuristics	"We understood that nobody here has anything to teach, that we must come here to teach. This is the biggest thing we figured out." - Director FC "The industry's actors' way of doing things is very unsystematic when compared to many other industries, the actions of more established

Grooming firm

"CEO does not have international experience." -Director GE
"They [the founders] have acquired international experience by doing but it has come through trial and error." -Director GE
"We live here in such a small place, so we see these things from different perspectives whereas internationally it is a completely different perspective." -Director GF
"We set out to international markets before we were ready. Our processes, support activity, materials... They were not where they should have been. We did not even know exactly what we are." -Director GA
"There was not too much strategic planning but instead they just went [international]. It would be nice to say that we did market research and came to these solutions, but it was not like that at least in our case." -Director GD
"We rather did so that we go and see what happens. We go there, try it out, see what happens and if it does not result in anything we can stop." -Director GB

Grooming firm

"You need to find mentors or persons who have done similar things before and they must be contacted and cooperated with. That was a big lesson... That everything should not necessarily be learned through trial and error. That is not necessarily the smartest or cheapest way." -Director GF
"When there were around twenty shops in Finland, we were in a situation where we did a few projects for ELY-center. We did this global project where we analyzed internationalization possibilities and charted markets and our business idea, and how could it work. We knew that when the global project is done, it opens different paths to different funding opportunities from the government. We did it first and applied for development funding from ELY-center and with it, we charted how can we proceed. We then used that to do NIU-project application." -Director GF
"We decided that we choose a country and do it [internationalization] ourselves first and learn these cultural differences and what things we must take into account when we are expanding to a new market." -Director GF
"We tried all kinds of models and we learned from them." -Director GD

Grooming firm

"On the other hand, if we had not done these things, we would not be at this point now. We would be much smaller, and we would have much fewer shops and much less know-how. We have learned things through trial and error." -Director GA
"We closed Spain and came back tail between our legs. It does not mean that we are not going to Spain one day. I'm sure we will, but back then we went with the wrong model and with the wrong people, the wrong city, and even within the wrong city, we had the wrong location. Just basic mistakes. But altogether, without those mistakes, we would not have been able to create these models and strategies. Mistakes are good because you learn from them." -Director GD
"We realized at that point that we must pull the brakes. We cannot open shops here and there anymore. We must figure out how it works in different places, how can we do it better, and what is a smart thing to do." -Director GF

Grooming firm

"The critical mass must bypass it so that they can see the brand and be aware that there is a barbershop. It must be a location where people are and can go to the barber. It is very important in my opinion when the location is chosen." -Director GE

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Additional supporting quotes		
	industries. In this health and fitness sector, the way of doing things is still very far from a professional organization's actions." – Director FB	"Primarily the markets where we see that this kind of business has a clear reservation. The price of the service must be high enough and then there must be service culture so that the customers are willing to pay for the service. We have problems to go to a market where the price of the service is really low. If we consider that the haircut cost, for example, 10 euros, then it is hard to make the 10 euros to be enough for all parties unless the workforce is completely free..." -Director GA
Capability heuristics	"We considered what the need is there and then we adjusted our own supply to equivalent." – Director FC	"They have a strong tipping culture in the USA, so we had to modify our systems so that they match with the tipping culture. If we think of our membership model, we should not take it to every country because it will not work like that. People will come more often than we expect and then our model will not work. We had to change the membership model and reporting practices." -Director GE
International expansion heuristics	"Development of the ecosystem became a cutting edge for our present internationalization." – Director FB	"We must have a local manager who runs the shop" – Director GA "We saw that we do not have any possibility to run a business in Spain from Finland" – Director GA "Strategic foundations are done for how we are going to internationalize in the future. Before it proceeded through friends and acquaintances, persons were found who have established shops around the world, but now we have a professional angle to it. Now it proceeds so that there are franchise consultants who search potential entrepreneurs for us and we do real target market chartings and market research." -Director GE

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