Managerial decision-making in international business: A forty-five-year retrospective

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1. Introduction

Foreign direct investments require decisions that routinely involve risk and uncertainty, lack of information, and rely on multifaceted organizational processes. MNEs that are better managed may have better chances for survival in the international environment than MNEs with poor management. Yet, forty-five years after the publication of The Foreign Investment Decision Process (Aharoni, 1966a), a relatively large segment of international business research continues to leave limited or no room for decision-making on the part of managers. Many models in international business do not take into account the consequences of different decision-making styles on investment decisions, the difficulties in trickling down such styles, or the role of increasing knowledge and experience on foreign environments. Specifically, in most models of entry modes, international expansion or internalization of subsidiaries, decisions are made by organizational units, and most often by MNE headquarters. Headquarters' decisions about different actions in the international environment in these models are assumed to be precise indicators of the MNE's optimal interest. Actions in these models are also assumed to closely follow distinct organizational strategies, such as multidomestic, global, or transnational. Once strategies are selected, MNEs often implement them without change or variation in their effectiveness.

In most of these models, managers do not have any role (Kogut, Walker, & Anand, 2002). To the extent individual managers are incorporated into conceptual frameworks, they portray rational managers from a pre-Simonian era. Specifically, managers in these studies tend to act based on their own self-interest or, with appropriate governance mechanisms in place, in accordance with interests that are aligned with that of the MNE’s owners (see Carpenter, Geletkanycz, & Sanders, 2004; Werner, 2002 for reviews). Interests in these models are translated to international strategies and actions without distortions. The assumption of full rationality by the management of the MNE simplifies the problem of decision-making and shifts the focus from the process to the effectiveness of the MNE governance mechanism. Further, such an omission of the decision maker and the assumption of full rationality may lead to particularly erroneous results: conclusions about MNE actions are generally derived from uncertainty that arises from variation in institutional, cultural, and market conditions across countries and from organizational complexity.

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resulting from international expansion. Whereas changes in communication and transportation may offset some of these trends, managerial decision-making continues to be extremely important to MNEs and their stakeholders.

In this article, we review prior international business research regarding the role of managerial decision-making, identify problems associated with the assumption of rationality in decision-making, discuss research that considers behavioral factors for MNE actions, and summarize the seven articles included in this issue. We use our review to outline recommendations for the development of different theoretical perspectives within the field of international business. Furthermore, we attempt to redirect future research toward studying the role of managerial perceptions and the decision-making process in MNE actions.

2. Theoretical foundations of managerial decision-making

Three related areas form the theoretical basis for research on the managerial decision-making process in the MNE. Initial contributions were made by Simon and his colleagues and students, often referred to as the Carnegie School. The central thesis of this line of research is bounded rationality, in contrast to the rational choice model advocated by neoclassical economics. Owing to their cognitive limitations, boundedly rational actors seek satisfactory solutions. Satisficing, as opposed to maximizing, is based on the manager’s perception of a complex environment (Certo, Connelly, & Tihanji, 2008). Findings of the Carnegie School were derived from empiricism or “administrative experiments” (Dasgupta, 2003). Shifting the focus from earlier theoretical models of microeconomics to the empirical study of organizational settings has led to a more realistic picture of the managerial decision-making process.

A second line of research has demonstrated that human cognitive processes are intended to reduce cognitive effort through the use of heuristics that create systematic biases (Kahneman & Tversky, 1979). Much of the recent work integrating behavioral decision theory into the organizational literature has been based upon the principles of prospect theory (Slovic, Fischhoff, & Lichtenstein, 1977; Tversky & Kahneman, 1974). This line of work has devoted significant attention to explaining cognitive biases, which are a form of heuristics that typically result in inaccurate judgments. The search for new and increasingly complex biases and heuristics has continued in studies (e.g., Gilovich, Griffin, & Kahneman, 2002; Kahneman, 2003), with significant attention to the problems of managerial decision-making (Miller & Chen, 2004; Schwenk, 1995).

According to prospect theorists, the framing of an outcome or a decision by economic agents affects the utility that these agents expect. In particular, given the same variation in absolute value, there is a bigger impact on the decision maker for losses than there is for gains. Thus, decision makers may be more risk averse when they frame a strategic decision as potential for loss and less risk averse than when a decision is framed as potential for gain (March & Shapira, 1987; Miller & Chen, 2004). Evaluations around losses and gains in prospect theory are developed starting from some particular reference point. The utility function takes different shapes on either side of this reference point, which is in contrast with the additive utility underlying neoclassical economics. From this perspective, a manager’s choice of reference points plays an important role in subsequent decision-making. Risk preferences above the reference point will be greater than risk preferences below. These reference points are selected based upon internal capabilities and external conditions considered over time (Shoham & Fiegenbaum, 2002).

A third area of research contributing to the theoretical foundations of managerial decision-making lies at the intersection of psychology and economics (e.g., Arieli, 2008; Rabin, 1998; Thaler, 1991). This stream of behavioral economics advances the earlier findings of the Carnegie School and behavioral theory. This line of research has challenged conventional economic analysis that rests on mathematical formalization and methodological individualism and has started to add significant behavioral findings to today’s mainstream economics (Rabin, 2002). Rabin (1998), for example, examines the role of learning and expertise in reducing decision-making biases. Other areas of research by behavioral economists include reference levels, anchoring, and altruistic behavior. Considering the traditional influence of economic theories on the evolution of international business models, findings of behavioral economics are expected to generate new research on managerial decisions in the MNE.

The three related areas described provide effective answers to a number of important anomalies in neoclassical economics and in related organizational fields. Although many researchers continue to use rationality assumptions in their models, bounded rationality, cognitive limitations, biases, and other behavioral findings suggest that models relying on choices made by rational decision makers are no longer coherent (e.g., Kuhn, 1962). New findings on the decision-making process have led to a paradigm shift in economics and organization science, with important consequences for the field of international business (Dasgupta, 2003; Rabin, 2002). In the next section, we provide a brief overview of international business research regarding the role of managerial decision-making. Our overview concentrates on three main approaches to decision-making research, including behavioral models of foreign investment decisions, decision frameworks with the implicit assumption of bounded rationality, and models that are based on the notion of full rationality.

3. Managerial decision-making and international business

3.1. Behavioral perspectives of the MNE

Behavioral explanations of foreign direct investment appeared relatively early in international business research. The Foreign Investment Decision Process, published in 1966, outlined a model of internationalization that focused on the role of managerial decision-making. It outlined a perspective that sought to answer the questions “what motivates managers to make a foreign investment decision” and “how do MNE managers make foreign investment decisions under environmental uncertainty?” The stated aim of the behavioral theory of foreign investment was to identify the variables that influence the managerial decision process in order to explain the process itself. From this perspective, foreign investment decisions were examined at the group level, but with greater emphasis on individual members within the group who are responsible for making the decision to invest abroad. Five elements of the decision process were delineated:

- The social system in which the process takes place.
- Time over which the process occurs.
- Perception of uncertainty surrounding the decision, and risk propensity of decision makers.
- Interaction of the goals of managers, business units, and the organization as a whole.
- Constraints on the actions of the decision maker.

The Foreign Investment Decision Process discussed two of these elements in depth: uncertainty and the social environment.
Uncertainty placed a spotlight on the decision maker, bringing issues of experience, affect, risk propensity, and cognitive constraints to the fore. Decision makers vary in regard to how comfortable they are with uncertainty. Foreign investment alternatives also have varying levels of uncertainty for different individuals, based in part on the individuals' previous experience abroad and knowledge base. The social element focused on the decision maker's relations with others. These include relations among individuals within the MNE and relations that individuals have with others outside the MNE, such as customers, suppliers, and competitors. Together, these two elements highlighted the role of the individual and their social network, serving as the basis for a behavioral theory of foreign investment (Aharoni, 1996a).

Decision makers start the decision process because of an outside force that causes a decision to look abroad. The strength of this force determines the investigation process—throughout which decision makers accumulate psychological commitments toward other organizations and individuals. The more committed they become, the higher the probability of a decision to invest. In this sense, the decision to invest is not necessarily the last part of the decision process. Thus, if the force that caused the look abroad is strong enough, the decision to invest abroad is already made and the investigation process may concentrate on minimizing the size of the investment and the risks involved.

Another model of MNE actions within the behavioral tradition was put forward by Johanson and Vahlne (1977). They conceptualized internationalization as an incremental process that results from the interplay between cumulative market knowledge and decisions to increase commitment to international markets. The authors use this dynamic model to explain two frequently observed patterns of internationalization. First, the model explains increasing firm engagement according to a typical chain: from export, to joint venture representation, to sales subsidiary, to resource development subsidiary. Second, it explains entrance into new markets with successively greater psychic distance.

Knowledge, decision-making, and psychic distance stand at the core of this model, sometimes referred to as the Uppsala model. These constructs are considered at the firm—not the individual—level. “In our model, we consider knowledge to be vested in the decision-making system. We do not deal explicitly with the individual decision maker” (Johanson & Vahlne, 1977: 26). By implication, organizations learn and with learning the perception of uncertainty in foreign operations changes. Investments previously perceived as risky become acceptable. Johanson and Vahlne’s paper on the Uppsala model was based on Scandinavian experience. It may well be that managers from other countries also make decisions to accept or discard choices based on previous (and limited) information. Thus, for example, Chinese managers may be more familiar with other Asian countries. Further, “Born Global” may be a result of managers’ experience and knowledge of more countries of the world—not only a consequence of technological changes.

In subsequent work, Johanson and Vahlne (1990) expanded the notion of knowledge development to include knowledge gained through relationships with other bodies on the foreign market. Industrial networks that develop as a result of interactions with other firms were described in terms of how they affect foreign investment activities, which in turn shapes a firm’s market knowledge. Many authors have invoked this model to describe the evolutionary and often sequential nature of internationalization (Benito & Gripsrud, 1992; Hitt, Tihanyi, Miller, & Connelly, 2006). Others have sought to develop the model in more detail by testing its generalizability in various contexts, delineating different forms of knowledge, and clarifying the construct of psychic distance (Bjorkman & Eklund, 1996; Dow & Karunaratna, 2006; Eriksson, Johanson, Majkgard, & Sharma, 1997).

Research by Doz and Prahalad attempted to expand on this work by structuring MNE headquarters and subsidiary relationships from managerial perceptions (e.g., Doz, 1986; Prahalad & Doz, 1987). In their model, MNE decisions are made based on the collection and analysis of multi-level organizational data. The decision process is influenced by the interpretation of headquarters and subsidiary managers. Managers in different business units develop their own cognitive maps of the MNE based on their understanding of its environment, their personal international experience and education, and so on. Through discussion of a number of case studies, Doz and Prahalad suggest that this “cognitive variety is useful to improve the quality of decisions by bringing together different sources of data and rubbing different interpretation schemes one against another” (Doz & Prahalad, 1984: 59).

Another stream of research that is related to behavioral theory considers learning at the organizational level (Kogut & Zander, 1993). This line of research is premised on the idea that organizations learn from experience (Levitt & March, 1988). Lessons learned are captured by routines such that the lessons, but not the history, are accessible to organizational members. Organizational learning theory has been particularly useful in research on international joint ventures, helping to explain their formation, performance, and likelihood of survival (Barnekow, Shenkar, Vermeulen, & Bell, 1997; Parkhe, 1991). It has also served as an important theoretical basis to describe firms’ choice of entry mode, management of international human resources, and knowledge transfer processes within and between firms (Gong, 2003; Simonin, 2004). Organizational learning theory is primarily concerned with the behavioral aspect of experience accumulation, but it also incorporates a cognitive dimension insofar as it addresses knowledge articulation and knowledge codification (Zollo & Winter, 2002).

3.2. Top management teams as decision makers

Another stream of literature studying top management teams (TMTs) in MNEs acknowledges bounded rationality. Models in this line of research, however, do not focus on the decision-making process and provide limited measurement of cognitive capacity. Research on TMTs and MNE governance has considered the influence of executives in determining the depth and scope of internationalization and other international strategies. One line of research builds off upper-echelon theory (Hambrick & Mason, 1984) to explore the role of the TMT in making international business decisions. The upper echelons perspective is focused on executive cognition and values and their influence on strategic choice. The preponderance of upper-echelon research invokes principles of demography to suggest that managerial characteristics are reasonable proxies for underlying cognitive capacities. This perspective contends that organizations will be a reflection of their TMTs, and that firm-level choices, including internationalization decisions, are a function of the teams’ cognitive processes.

The prominent role of psychological constructs in the upper echelons perspective, such as perceptions, biases, and values, derives from executives’ bounded rationality. In upper-echelon research, managers experience information overload, ambiguous cues, and competing objectives, and as such stimuli are often filtered and interpreted through their own cognitive biases and heuristics. Complex decisions require increased emphasis upon simplification heuristics on the part of boundedly rational decision makers, making the role of cognitive processes increasingly important (Einhorn & Hogarth, 1981). In upper-echelon studies, biases and heuristics are proxied and assumed to be relatively consistent across similar characteristics such as age, functional background, and educational experience. Empirical research has
Agency theory offers an alternative perspective to upper-echelon research on managerial decisions. From an agency theory perspective, ownership gives CEOs and other members of the top management team an incentive to assume risk and align their goals with those of other firm owners. Empirical studies support the notion that top managers with ownership interest tend to be more risk averse and have a lower proclivity to increase firm internationalization than do external owners (George, Wiklund, & Zahra, 2005; Sanders & Carpenter, 1998). Managers with ownership favor a more conservative approach to internationalization that aims to minimize uncertainty and the potential for loss of personal wealth. Using similar logic, scholars have also considered the influence of outside directors on the corporate decision-making process, finding that they too influence an important set of cognitive tasks: scanning, interpretation, and choice (Forbes & Milliken, 1999).

In a related stream of research, managerial knowledge, skills, problem-solving ability, discipline, and motivation are viewed as MNE resources embodied within human capital (Hitt et al., 2006). When managers have either more or higher quality human capital, this resource may be leveraged for competitive advantage in the international marketplace. One such way that firms may leverage the human capital of their TMT is to facilitate internationalization. The measurement of the human capital construct in this stream of research, however, often replicates the demographic and experience variables of upper-echelon theory. This is problematic because a body of research has identified significant problems with using individual-level demographic variables as indicators of decision-making in TMTs (e.g., Lawrence, 1997; Markóczy, 1997), for example, suggests that individual demographic characteristics are poor measures of managerial cognition. Kilduff, Angelmar, and Mehra (2000) examine TMT diversity, measuring cognitive diversity via a survey with measures validated in the psychology literature. They find no evidence of any effect of demographic diversity on cognitive diversity. Similarly, Priem, Lyon, and Dess (1999) encourage TMT researchers to eschew demographic variables in favor of measures that are more difficult to capture. Others have added that, even if demographic characteristics are representative of cognitive constructs, they cannot be treated independently because executives embody a bundle of attributes that continuously interact with each other (Harrison, Price, & Bell, 1998).

3.3. The rational model of entry mode decisions

Despite the rich findings of behavioral economics, researchers often overlooked these findings by assuming perfect rationality in their models. One example of research that relies on a rational model of decision-making is the literature on entry mode decisions. Entry mode has been described as the institutional and organizational arrangements that enable an MNE to enter a market with its products, technology, human skills, management, and other resources (Sarkar & Cavusgil, 1996). While this line of research finds its roots in economic and internationalization theories (e.g., Anderson & Gatignon, 1986), more recently scholars have sought to incorporate non-economic factors that are both external and internal to the firm.

Researchers have considered the influence of national cultures and home/host country institutions, finding that these external factors add significant explanatory power above the transaction cost economics model (Brouthers, 2002). There is even some evidence that external factors may influence patterns of managerial cognitions with respect to the entry mode decision (Laurila & Ropponen, 2003), but cognitions are not specifically explored in this line of research. Internally, organizations appear to build on prior foreign market experience in making entry mode decisions (Malhotra, 2003). However, researchers have primarily been concerned with organizational-level learning, rarely delving into the cognitive attributes of individual managers. We found no research that specifically addresses the role of managers in the entry mode decision process, leaving some scholars to conclude that micro level research seems to have been overlooked (Werner, 2002).

The validity of studies on entry modes could be significantly improved by studying the decision-making heuristics of these decisions. Past experience of TMT members and their organizational knowledge are expected to shape their cognitive maps of entry decisions. For example, previous working experience or studies in foreign countries may help managers to develop their understanding of local customer preferences and the requirements of subsidiary control. For an entry mode decision to be effective, managers also need to be aware of the opportunity to exploit their organizational capabilities in a foreign country or region. Differences in the perception of organizational capabilities can lead to wide variation across MNEs regarding their success in entering foreign markets. As well, it is feasible that the perception of competitors’ entry strategies influences managers’ assessment of different entry mode options. Another interesting factor could be the effects of news and media on managerial perceptions of economic and political risks of countries or regions.

Entry may be decided as a result of relations of a top manager to the CEO of another firm. Aharoni (1966a) shows that Henry Ford agreed to Harvey Firestone’s plea for an investment in a rubber plantation in Latin America. In this case, a long investigation process was designed to mitigate the risks of an entry decision that was already made. Careful analysis of more recent entry decisions could uncover many similar cases. What Aharoni termed “the decision to look abroad” is motivated by many different forces, and the strength of these forces influences the process of investigation. Thus, for example, entry into a new geographic market could occur as a result of a plea of an important sales agent.

Managers from different countries may also perceive entry mode conditions differently and follow diverse decision-making scenarios. Cultural variation in risk preferences across managers from different countries may be a powerful explanatory factor of entry mode choices (Schneider & DeMeyer, 1991). For example, Japanese managers tend to prefer entry modes that allow higher control to technology (Bartlett & Ghoshal, 1989). The study of decision-making biases and heuristics at the team level would allow researchers to develop dynamic models of entry mode decision. Because many MNEs already operate in a broad range of countries, studying the decision-making process could help us to understand how managers weigh the trade-offs between different entry modes and make adjustments in their choices over time.

4. Discussion

Research on managerial decision-making offers a variety of insights that are relevant to the field of international business. Even though top managers may make few decisions, their decisions likely impact every aspect of the MNE, including its business portfolio, capabilities, market position, and performance. Nevertheless, decision-making is based on several characteristics of the manager, including personal experience, knowledge, and tolerance for uncertainty and risk. Furthermore, decision makers in MNEs come from different cultures and therefore make choices differently. When these factors are considered, it is unrealistic to expect different managers to make similar choices from ‘objective’ facts (Kahneman & Tversky, 1984).
Omission of the decision maker and the assumption of perfect rationality can lead to underspecified models of MNE actions. Although these problems may inflate results in a broad range of organizational science disciplines, the problem likely runs deeper in international business, given the field’s foundational arguments about the importance of cultural differences and high levels of environmental uncertainty and risk. Further incorporating the role of managerial decision-making, therefore, holds the potential of extending the field of international business in several different directions. We sketch out a number of prospective contributions below. Specifically, we identify key theoretical applications and methodological issues that deserve attention; we address some potential areas of international business research that are particularly germane, including managerial distance, investment in uncertain markets, and behavioral economics; lastly, we suggest changes to international business education that may correct for the underemphasized role of managers in MNEs.

Existing theories of international business can be further developed by incorporating choices made by decision makers with bounded rationality. Similar to other fields focusing on organizational actions, most international business models work from either selection or adaptation explanations of MNE survival. Models working from a selection perspective, such as theories of monopolistic advantage, product life cycle, and the resource-based view of the firm, could add the decision maker as an asset of the MNE. Because of environmental uncertainty and limited knowledge about complex organizational capabilities, managers tend to develop heuristics for international decision-making. There is important variation between managers with respect to their perception of the environment. Variations in information-processing speed, accuracy, and scope of processed information may lead to organizational capabilities and advantages that influence the likelihood of MNE survival in the long term.

Models of adaptation, on the other hand, include theories of oligopolistic competition and institutional theory. These models could conceptualize variation in the level of decision-making skills across managers as an explanation for the degree of fit with the environment. Adaptation perspectives may particularly benefit from increased attention to decision makers. For example, institutional theory frameworks from the cognitive tradition could offer interesting evidence on the impact of managerial decision-making and serve as a bridge connecting institutional theory with findings on managerial decision-making.

International business research has become more rigorous over the past forty-five years, owing to developments in computing technology and statistical software and to broader availability of international databases. While methodological improvements and the availability of longitudinal data have helped establish tests of causality in many studies, increased methodological rigor has often come at the cost of practical relevance. We found no longitudinal studies in our review of the international business literature that considered the process of international decision or bounded rationality. Limited attention to the international decision-making process is partly related to validity concerns, including problems associated with the use of “soft” statistical methods and cross-sectional and qualitative data. Without reversing the positive trend of methodological rigor, international business researchers should consider validating findings on the decision-making process by using qualitative and survey data via means of data triangulation. The development of new longitudinal databases could concentrate on repeated surveys of MNE managers from different countries. Such surveys could be internet-based, accessing regional and subsidiary levels within the MNE.

We also think the field would benefit from collaborations with psychologists via the use of laboratory studies and experiments. Along this line, experiments by Devinney, Buckley, and Louviere (2005) have illustrated the different roles of information, biases, and managerial experience in two phases of a foreign investment decision process. In the consideration phase of investment options, managers employed more rational measures, including return ratios, cost measures, and market conditions. In the investment-choice phase, however, managers focused more on foreign investment experience and host country specific factors, such as the political environment and language. These and other findings from the international business context could provide new evidence on managerial decision-making to the broader field of human behavior.

Decision-making heuristics and biases likely vary between MNE managers from different countries. Prior research on cultural distance has attempted to capture the role of cultural differences in MNE strategies (e.g., Benito, 1997; Brouthers & Brouthers, 2001) and performance (e.g., Gomez-Mejia & Palich, 1997; Li & Guisinger, 1992; Park & Ungson, 1997). Furthermore, the role of environmental uncertainty for managers has been explicit in many studies on cultural distance (Barkema & Vermeulen, 1998). Shifting the focus from underlying country-level cultural indicators to indicators of managerial decision-making may address some of the recent criticism of cultural distance research (e.g., Shenkar, 2001; Tihanyi, Griffith, & Russell, 2005). The construct managerial distance could capture variations in decision-making heuristics and biases across managers from different cultural traditions. Measuring how managers from different cultures perceive similar decisions could enhance upper echelon and governance research. Managerial distance may also have a role in the transfer of decision-making patterns between organizational units within MNEs. Studying managerial distance could deepen our understanding of the way decisions are made at different levels within the MNE. Because managerial decisions need to be implemented at different organizational levels, cultural variations in interpreting environmental conditions and organizational capabilities are expected to further influence the outcome of MNE actions. For example, biases about country conditions and cultures may lead managers to decline expatriate assignments or advocate alternative locations for FDI. Furthermore, in addition to individual-level contributions, developing a better understanding of the cultural foundations of heuristics could improve the validity of research on decision-making by diverse TMTs.

Studies of actual cases of foreign investments may also substantiate the salience of commitment to different stakeholders, including policymakers, accumulated during the investigation process. A better understanding of the decision-making process has significant policy implications. Aharoni (1966b) illustrated these policy implications by showing that, because of the sequence of investigation, a government is actually better off spending funds on marketing a country than on granting tax holidays.

Whereas early international business research focused on investments by developed-country MNEs into other (mostly developed) countries, international opportunities are increasingly found in emerging economies. In contrast to the trend of increasing international experience by most developed-country MNEs, there is a growing share of investments into emerging economies that increases the level of uncertainty for MNE managers. Because the population of MNEs today also increasingly includes firms originating from emerging economies, MNE managers likely exhibit greater variance in perceived uncertainty than their counterparts did forty-five years ago. This trend is further amplified by growing sophistication in customer demand and the rise of nationalist movements (e.g., the emphasis on local customer preferences) in several influential emerging markets. International expansion into emerging economies thus provides rich ground for the study of managerial decision-making.
Research on the international decision-making process also holds the potential to contribute to behavioral economics. Most prior research on the intersection of psychology and economics focuses on general buyer behavior. The study of decision-making in MNEs may provide insights about the interaction of managerial, organizational, and country-level interests. Furthermore, investments into new countries and uncertain foreign markets provide a research setting that compels researchers to consider the effects of factors that are hard to control in familiar customer settings (e.g., prior experience in buying consumer products). In addition to providing insights into decision-making under conditions of environmental uncertainty and organizational complexity, MNEs are appropriate settings to study the effects of biases and heuristics that are embedded in culture (e.g., Schneider & DeMeyer, 1991). Future studies in behavioral economics would benefit from cross-country comparisons of preferences in decision-making. The study of managerial decisions in MNEs from different countries may contribute to such efforts. Research on behavioral aspects of decision-making may also shed more light on cases in which a dominant TMT makes internationalization decisions – even without full investigation. Such research could also explain the importance of commitment to others and that of forces leading to the initiation of investigation.

Another potential extension of managerial decision-making in MNEs involves international business education. International business is taught at different levels in business schools. Its importance in the curriculum fluctuates over time depending on the practical view of the field and the institution’s heritage (see Vernon’s (1994) review). Insights into the decision-making process, awareness of biases, and techniques to reduce uncertainty in the international environment could all be useful tools for students interested in careers in MNEs. Because decisions in MNEs tend to be made by teams that involve managers with different nationalities at multiple organizational levels, team exercises and simulations conducted by international business instructors and psychologists could offer a valuable learning experience. Participation in area and regional studies and international exchanges may also help future managers to reduce the uncertainty associated with select markets.

5. Articles in the special issue

According to the call for papers, our goals were to evaluate the state of research on international decision-making since the publication of The Foreign Investment Decision Process (Aharoni, 1996a), to bring together a group of high quality papers on the subject, and to identify new directions for future research. We were interested in both empirical and conceptual papers using different theoretical perspectives and methodological approaches. Most importantly, we hoped that the selected papers for the special issue would make meaningful contributions to the international business literature, consistent with the mission of this journal.

The seven articles included in this issue seek to answer some of the questions on managerial decision-making that we consider relevant for future international business research. The first paper, “Risk management in the internationalization process of the firm,” by Francisco Figueira-de-Lemos, Jan Johanson, and Jan-Erik Vahline explores the risk formula in the Uppsala model. The authors demonstrate how the risk level for the MNE changes during the internationalization process, owing to changes in environmental uncertainty and organizational commitment. The authors’ detailed examination of risk integrates findings from the behavioral theory of the firm and provides an interesting extension of the Uppsala model.

In the second article, “The structure of location choice for new U.S. manufacturing investments in Asia-Pacific,” Raymond Mata-

loni examines the extent to which managers of U.S. MNEs consider factors at different levels when selecting new manufacturing locations in Australia, China, Japan, and South Korea. The findings reveal a sequential decision-making process in which managers identify a host country and then choose a region within that country. Managers consider different attributes at the different levels, including the presence of an investor’s prior experience in the host country at the national level and productivity-enhancing attributes at the regional level. Productivity-enhancing attributes in the Asia-Pacific context consist of industrial agglomeration, transportation infrastructure, and worker skills.

Mike Kotabe, Crystal Jiang, and Janet Murray, in their article, “Managerial ties, knowledge acquisition, realized absorptive capacity and new product market performance of emerging multinational companies: A case of China,” presents another aspect of managerial decision-making. The subject of this article (third article in this issue) is the role of managerial ties in international decisions involving knowledge acquisition. Using survey evidence, the authors show how ties with local government officers and foreign MNE partners influence product and process technology acquisitions in Chinese MNEs. The results of this study also point to the need for absorptive capacity to effectively integrate external knowledge. Specifically, new product performance in Chinese MNEs may increase with realized absorptive capacity.

The fourth article, “A multi-level model of global decision-making: Developing a composite global frame-of-reference,” presents a theoretical perspective on how managers may rely on different points of reference when making various international decisions. In their model, Michael Harvey, David Griffith, Tim Kiessling, and Miriam Moeller integrate group, organizational, and societal factors to illustrate the complexity of managerial decisions in the global context. Using reference point theory, the authors provide an overview of the cognition of complex information at each level and describe how such information might be combined by MNE managers to improve the effectiveness of their decisions.

The next article, “The role of top management team nationality diversity in international strategic decision-making: The choice of foreign entry mode,” by Bo Bernhard Nielsen and Sabina Nielsen extends upper-echelon theory by introducing the concept of nationality diversity. Nationality diversity, an attribute of top management team heterogeneity, is a proxy of team members’ cultural values based on their national origin. Nationality diversity, according to the authors, complements other international diversity characteristics of MNE top management teams. Using longitudinal data of Swiss firms, Nielsen and Nielsen find that international experience in the top management team results in decisions involving full-control foreign entry modes. In contrast with these findings, nationality diversity in the team is associated with shared-control entry modes.

The fifth article, “Strategic decision-making processes in internationalization: Does national culture of the focal firm matter?” by Pavlos Dimitratos, Andreas Petrou, Emmanuela Plakoyiannaki, and Jeffrey Johnson, studies strategic decision-making processes in over 500 internationalized small and medium sized enterprises (SMEs) in Cyprus, Greece, United Kingdom, and United States. The contribution of this article is the examination of the effects of national culture on structural characteristics of organizations, such as hierarchical decentralization, lateral communication, and formalization. When studying these characteristics, the authors draw attention to their implication for strategic decision-making processes within SMEs. Findings of this study support the relationships between power distance and hierarchical decentralization and uncertainty avoidance and formalization.

The last article, “Real options in multinational decision-making: Managerial awareness and risk implications,” explores another
aspect of managerial decision-making in the international context. In this article, Tarik Driouchi and David Bennett study the performance and risk implications of decision-making in MNEs using real options. The authors consider real options as a decision-making tool for managers interested in expanding the international scope of their MNEs. Consistent with their focus on the managerial application of real options, they develop the concept of "real options awareness." Results of this study suggest that managers with higher real options awareness may be able to reduce the MNE's downside risk from international operations. The authors also find support for the positive performance implications of real options awareness in MNEs.

These seven articles represent a broad range of research on managerial decision-making in international business. Nevertheless, as our retrospective indicates, there are areas that the papers submitted to the special issue did not cover. Thus, we would like to encourage researchers to continue to explore different aspects of managerial decision-making. Among these are:

- More direct tests of bounded rationality.
- Ethnographic studies of managerial decision-making in MNEs.
- Studies on headquarter-subsidiary relationships through the lenses of managers.
- Studies on the impact of the force leading to look abroad, cataloguing such forces, and the process of commitment accumulation.
- New theoretical perspectives of the MNE that consider bounded rationality.
- Decision-making processes in international teams, and
- Studies on the international variation of decision-making heuristics.

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