Behavioural theory and MNE decision making: changing the narrative in international business management

Behavioural Theory and MNE Decision Making:
Changing the Narrative in International Business Management

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"If we are uncritical we shall always find what we want: we shall look for, and find, confirmations, and we shall look away from, and not see, whatever might be dangerous to our pet theories."

Karl Popper (1957: 124).

Abstract
Traditional international management theories do not account for the cognitive limitations and biases of decision-makers which bound their ability to make rational choices. Most theories have not truly accounted for firm heterogeneity, i.e. in the similar contexts, two firms may make different choices. This heterogeneity is not always rooted in differences in 'firm-specific' or 'ownership' advantages. We zoom in on how behavioural concepts, such as cognitive limitations, availability biases and heuristics, complement extant theorising. This chapter discusses the importance of using theories that make more realistic assumptions about decision makers and are thus more suited to claim managerial relevance.

Keywords: behavioural theories; bounded rationality; cognitive limitations and biases; heuristics; strategic reference points; dynamic MNE choices

Introduction
Scholars of international business management point out that the research agenda is "running out of steam" (Buckley et al., 2017; Doh, 2015), noting that we need to extend current theories to tackle topics which better reflect developments in the international business environment such as the outcomes of

globalisation, new technologies, the role of stakeholders on firm strategy, the emergence of EMNEs and the impact of our field on related disciplines (Mudambi et al., 2018; Narula and Verbeke, 2015; Narula, 2017; 2018). Some scholars have gone further and argued that international management requires a "shift" whereby "old" theories/perspectives on MNE growth can and should be "replaced" with "new" theories, although this view remains controversial. Perhaps we experience a failure to see beyond dominant assumptions associated with MNE growth (as such, it may be possible that there has, in fact, not been a shift). Although there is now greater theoretical diversity, recent literature reviews (Mudambi et al., 2018; Surdu and Mellahi, 2016; Teagarden, Von Glinow & Mellahi, 2018) confirm that international management-related choices continue to be studied primarily through an organisational economics lens whose underlying assumptions remain deeply rooted in either the Simonian view of bounded rationality, or the neo-classical view of the rational actor. The focus remains on finding "new" (and presumably, better) theories, rather than gain a more nuanced understanding the micro-foundations of the theories used and their relevance, as well as inherent limitations.

In light of the growing empirical evidence on the heterogeneity with which MNEs strategise (e.g., Benito et al., 2009; Buckley et al., 2007; Elia et al., 2019; Kano and Verbeke, 2015; Surdu et al., 2019), theories which use (bounded) rationality as a micro-foundation are gradually making room for complementary, behavioural perspectives. This is because managers do not always behave rationally (Aharoni et al., 2011; Buckley et al., 2007; Dörrenbächer and Geppert, 2017; Elia et al., 2019; Schubert et al., 2018; Strange, 2018; Surdu et al., 2019). Behavioural economics, allied with recent psychological discoveries (Ardalan, 2018; Muradoglu and Harvey, 2012) provides relevant insight into the nature of business decisions, with particular relevance for international business. For instance, behavioural scholars argue that cognitive biases and judgement heuristics often influence economic decision making, and they tend to be stronger in circumstances where decision-makers are faced with a specific threat, e.g. the uncertainty associated with entering unstable and distant international markets.

The objective of this chapter is to propose a revitalisation of core arguments to diversify and hopefully, improve the manner in which we analyse decisions about international expansion. Our focus is on convincing the reader that not all MNE decisions can be adequately explained by using predominantly rational models of decision making. For instance, once a firm has decided to internationalise, it is left with a multitude of choices, including those related to whether to escalate its commitment into that market, adapt its organisational practices, and at the other end of the spectrum, to de-escalate commitment, or exit the market completely. Further, it is not useful to take a static, single-period view. Over time, attitudes towards that market and perceptions associated with its attractiveness, may have changed and some firms may return to previously exited markets; whilst others may opt to change the locations of their international operations. Many international expansion-related choices are therefore decided in dynamic and uncertain host environments, and in situations of imperfect information about the alternatives available. In other cases, the choices we observe may, in fact, be ex-post justifications for decisions made with little forethought or significant prior deliberative rationalization (Weick, 1995; Weick, Sutcliffe and Obstfeld, 2005).

Mainstream international business management research does not capture how managers face constraints and make choices about entering and competing internationally, nor does it discuss what may bound their ability to act as rational economic actors. For us, taking a simplistic view of bounded rationality (which underpins many of our 'pet' theories) makes it difficult to explain differences in managerial choices and understand why, in the same contexts, two managers would behave differently. A narrow focus on (bounded) rationality holds us back from understanding the behaviour of managers.

This chapter starts with an overview of dominant ideas in international business management and their limited potential to explain, on their own, the dynamic behaviour of the MNE. We explain the concept of bounded rationality as a complex and multi-faceted micro-foundation, which goes beyond the idea that managers make decisions bounded only by their information processing capabilities. We provide examples of notable studies published in IB and management journals and which incorporate complementary ideas about managerial cognitive limitations, biases and other related behavioural concepts, and propose directions for future research. Overall, this chapter aims at building intellectual bridges between international business, strategic management, economics and social psychology in order to identify how behavioural perspectives can enrich our knowledge of the modern MNE.

Current assumptions in International Management

Most IB and management theoretical perspectives recognise that decisions are made under unavoidable constraints. In conditions of considerable uncertainty often associated with internationalisation choices, managers may be unable to specify strategic outcomes and their associated probabilities. Transaction cost economics (TCE) based theories such as earlier versions of internalisation theory (Buckley and Casson, 1976; Hennart, 1982; Rugman, 1980) focused on opportunism as a primary constraint. Broadly speaking, this early work posited that, in order to avoid the risk of opportunistic behaviour when internationalising, managers might opt for high control governance choices that help them reduce transaction costs associated with incomplete market contracts (Buckley and Casson, 1976; Verbeke and Greidanus, 2009). In this manner, firm resources with a high level of specificity are protected from opportunistic behaviour, and knowledge transfer between the international subsidiary and its parent MNE is more likely to take place (Delios and Beamish, 1999). Thus, the expectation was to reduce opportunism-based transaction costs through higher investment. Brouthers and Hennart's (2007) review concluded that many internalisation predictions have been validated in empirical work at the time.

Building on TCE thinking, internalisation studies assumed the existence of bounded rationality by recognising that economic actors are, indeed rational but only boundedly so (Simon, 1955). When decision makers are boundedly rational and as market/contracts tend to be incomplete, opportunistic behaviour was expected to arise primarily because decision-makers are limited in their ability to process information. Later versions of internalization theory integrate TCE, entrepreneurial and resource-based view (RBV) logics, recognising that firms make decisions based on their own resources whose utilisation depends on the experience and capabilities of the manager (Narula and Verbeke, 2015, Narula et al., 2019). MNEs are therefore likely to incur bounded rationality-based transaction costs associated with international expansion. While new internalisation theory emphasises that managers are boundedly rational, the few empirical studies which draw on new internalisation theory do not usually specify what the boundaries of rationality are and how they change over time. For instance, Nguyen and Almodóvar (2019) explain the export intensity of foreign subsidiaries as a function of funding access and overall financial resources, significantly underplaying the role of management.

Other notable international management perspectives (Johanson and Vahlne, 1977) have placed emphasis on the characteristics and patterns of internationalisation, linking them to firm-level knowledge acquired in time through experience and learning. From a learning perspective, knowledge acquired through experience leads to more hierarchical modes of operation such as wholly owned subsidiaries (Vahlne and Johanson, 2017). Further, knowledge acquired in one market can be transferred to other markets, leading to MNEs increasing their location scope by entering more institutionally and culturally distant host countries. Recent studies examine how experience accumulated by the MNE over time will lead to favourable attitudes towards risk, faster market entries and increased market commitment (e.g., Casillas and Moreno-Menendez, 2014; Casillas et al., 2015). Such an approach makes a series of (often unsupported) assumptions. First that managerial preferences, and thus their behaviours, do not change over time; second that the external environment of the firm remains stable; third that irrespective of corporate governance all firms have the same risk attitudes and decision-making horizons; and fourth, there is the implied assumption that after an extensive period of experiential knowledge acquisition, MNE behaviour will increasingly resemble rational behaviour.

However, experiences also create biases, which in turn, may significantly influence MNE choices. The considerable heterogeneity observed in firm behaviour (Buckley et al., 2007; Strange, 2018; Surdu et al., 2019) suggests that managers do not value choice attributes equally such as the attractiveness of a market location, the need to access to new resources, or the importance of experiential learning to reduce risk. For instance, to some, knowledge acquired from experience may be a valuable source of learning, resulting in a firm-specific advantage, whilst to others, it may represent a source of path dependency. In a similar vein, a new partner may be a source of increased opportunism and transaction costs or an opportunity to learn about the market and diversify the firm's network resources and capabilities. There is therefore a differential effect on strategic choices due to managers having different biases and points of reference when assessing strategic trade-offs associated with growth or expansion. These biases and reference points may also change over time, as the environment of the MNE changes. As such, our position in this chapter is that we require a more nuanced understanding of what managerial rationality is bounded by. The different facets of bounded rationality become the focus of our next section and, we propose, a foundation for future international business management theorising.

Bounded rationality: A multi-faceted concept

An important first step forward in understanding how ideas from behavioural economics and social psychology can complement extant international management theorising, is to better understand the idea of individuals being *boundedly* rational. Bounded rationality is, itself, multifaceted. In fact, bounded rationality has various dimensions that build on one another (Foss and Weber, 2016; Simon, 1982; 1990). Extant literature has focused on one dimension, namely the Simonian (1947; 1990) view of processing capacity that a decision maker's ability to process and interpret existing information is limited by their short-term memory and attention. Such restricting views of the short-term horizons of managers are no longer credible. Academic thinking has moved on to acknowledge that managers are not so myopic and are able to estimate probable outcomes of strategic choices.

Behavioural and experimental economics, and more recently, social psychology, place more emphasis on the complementary dimensions of bounded rationality such as cognitive economising (Fiske and Taylor, 1991) and cognitive biases (Tversky and Kahneman, 1974; see also Weick, 1995; Weick et al., 2005). These help our understanding of what information managers prioritise to make strategic choices and why. Namely, cognitive economising refers to the use of heuristics to select a subset of the most relevant available information to make quick decisions in complex situations (Gigerenzer, 2003). Hence, instead of seeking to process all information available, managers may seek to organise the *most relevant* information; this may be the information most retrievable at a point in time (Tversky and Kahneman, 1974) or the information *most salient* to them (Frost et al., 2002).

In turn, the concept of cognitive biases recognises the errors in judgement that may arise from unintentionally distorting the information available. For instance, a decision maker may search for, interpret, and recall information that affirms their already existing beliefs (i.e. confirmation bias, see Wason, 1960; see also Weick et al., 2005 on 'self-fulfilling prophecies'). To illustrate how embedded and inconspicuous cognitive biases are, we invite the reader to consider for a moment, a central tenet of management theories, that, for any resource capable of serving as a source of competitive advantage, it must be 'rare'. Attributing disproportionate value to 'rarity' is one of our longest held biases (Ditto and Jemmott, 1989). This cognitive bias to value rare qualities, traits and resources is central to many areas of modern ethical contention such as the procurement of rhino horns, shark fins, diamonds, lithium, oil and truthful politicians. If there is a scarce resource, is this a main source of advantage or could we be misattributing performance outcomes to those rare resources? Psychologically, individuals find it difficult to decouple 'value' from 'rarity' (Ditto and Jemmott, 1989). For instance, a firm that has been around for 100 years is rare. The distinction between rarity and value is important because rare resources need to be perceived as valuable; when perceptions of value change, rarity alone may not constitute a source of advantage in the market. This may also mean that, a constantly changing market environment, flexibility to adapt is more valuable than age and even experience.

Cognitive biases are therefore complex. Cognitive biases may prove harmful to both managers and the firm in certain circumstances, but also advantageous in others. Biases have been found most obvious when circumstances present humans with an unexpected threat (Kanouse et al., 1972); in the case of the MNE – the uncertainty associated with entering (distant) and constantly changing international markets. Duhaime and Schwenk (1985) explained how biases play a role in the decision to divest a business unit, noting that once divestment of a failing unit is considered, it becomes the key strategic alternative for decision-makers. This is because, when dealing with complex, uncertain decisions, rather than specifying, and rationally analyzing, all the known alternatives and their associated probabilities – as traditional theory posits – managers reduce uncertainty by limiting themselves to one option and avoid the stress-inducing trade-offs inherent in choosing amongst complex strategic options. Importantly, these cognitive biases are extensive and present throughout human behaviour, including behaviours associated with the pursuit of goals (Labroo and Kim, 2009). In order to support the attainment of goals and the reduction of threats to those goals, judgement heuristics, in addition to deliberate, rational cognition, may be deployed as a more 'efficient' modality.

Judgement heuristics

Cognitive economising is discussed primarily by prospect theory proponents and builds on the idea that individuals rely on shortcuts or heuristics in order to make sense of the information available to them, rather than process it in a systematic and gradual manner (Kahneman & Tversky, 1979; Tversky & Kahneman, 1992). Despite the evident benefits of logic and reason, the process of deliberate rationalization is slow and resource intensive; with the outcome of applying logic being assumed to be an 'improvement' to human judgement (Gilovich., 2002). Heuristics, which include points of reference (based on experiences and/or expected future outcomes) (Shoham and Fiegenbaum, 2002) and stereotypes (Gigerenzer, 2003; Gilovich et al., 2002), allow decision-makers to make sense of complex phenomena. This is important because complexity and ambiguity typically characterize much of our experiences. Therefore, a barrier to the effectiveness of deliberative rationalization is the level of perceived uncertainty with which the judgement must be made. In such instances, an alternative form of human judgement may be applied (Hamilton et al., 2009; Maitland and Sammartino, 2015).

Heuristics, thought to have evolved to support human judgement (Tversky and Kahneman, 1974), are fundamentally cognitive 'short-cuts' to problem solving. In order to arrive at a 'faster' and more 'efficient' evaluation, heuristics draw upon our past experiences, memories and schemata (representations and theories about the world) of those experiences to arrive at a set of decision choices. Yet, our experiences, memories and schemata are determined by the subjective experiences of both ourselves and others - this introduces further biases into heuristic judgements (Evans, 2008).

We found a few notable examples in the international business management literature where heuristics are used to understand decisions made under high uncertainty conditions. In their study on managers assessing a potential acquisition in a high-risk African country, Maitland and Sammartino (2015) found that individuals draw on different types of heuristics to analyse potential choices. These include an attempt to understand, in their case, how other institutional actors and business partners would behave, in this way, to understand the hazard associated with a political environment. Past experiences played a role in enriching the ability of decision-makers to create a set of different scenarios about their external context (Hamilton et al., 2009; Maitland and Sammartino, 2015). During this process, decision-makers were found to perceive their contextual environments somewhat differently. The authors discuss the importance of having different perspectives when operating in uncertain and dynamic environments, in order to build a more complete picture of that environment and incorporate flexibility in decision-making by considering that, indeed, multiple choice scenarios are possible. Hamilton et al. (2009) proposed a similar idea with regards to companies entering distant socio-cultural environments such as China to develop effective compliance and ethics programmes; their study revealed differences in the manner in which these practices were perceived to be, indeed, ethical. Beamond et al. (2016) later reveal the importance of applying heuristics to understand the translation of corporate talent management strategies to subsidiaries in emerging economies.

Overall, the essence of these studies is that complex decisions increasingly require quick judgements to be made around the causes of a strategic problem and its potential solutions. These decisions are, indeed, biased because decision-makers have varying experiences, reference points and expectations that they draw on in the absence of rich information about the potential outcome. At the same time, incorporating cognitive biases in our theorizing does not mean that we completely reject the benefits of making logical and reasonable assumptions. Rather, we recognise that, in practice, managers are exposed to combinations of routinised decisions - which may have more certain outcomes associated with them - and higher risk decisions, where outcome uncertainty is high, and decision-makers may not possess sufficient information about their environment to make unbiased, quick choices. The latter would require further enquiry into what those biases are, and where they stem from.

Reference points and frames

Environmental and industry factors can be amongst the points of reference that trigger preference reversals, such as when environments change and make knowledge acquisition and subsequent learning difficult for decision-makers. A firm's belonging to a strategic industry group also acts as a reference point in strategic choices (Li and Yao, 2010; Monaghan and Tippmann, 2018). Industry dynamics require fast decision making, in which case, overreliance on heuristics and past frames of reference may, in the end, lead to greater cognitive biases (Monaghan and Tippmann, 2018). Take, for instance, firms which divest their international operations, just to re-enter the host market some years later. Frames of reference may change for firms returning to previously exited markets due to improvements in their host institutional environments and changes in competitive dynamics, which require a re-assessment of previously held assumptions and biases and a potential unlearning of past behaviours learned from the initial investment (Surdu et al., 2019). Importantly, this means that firms may revisit their knowledge and alter their choices rather than operate in stages (as per the Uppsala model).

Also important here is the idea in behavioural science of the 'anchoring bias' – the behavioral bias according to which certain factors or experiences carry a disproportionately high weight in the decision-making process (Shoham and Fiegenbaum, 2002; Shrader et al., 2000) - may have significant implications for how managers use reference points. Together with prior expectations, anchoring is the frame of reference which determines the appropriateness of reference points. Yet, framing – the cognitive bias leading individuals to choose between strategic options/outcomes associated with losses or gains (Tversky and Kahneman, 1981) - is almost entirely missing from our current theorizing. This is particularly important because framing is a critical component of human decisions.

For instance, let's look again at the decision to re-enter a previously exited international market. The transaction costs associated with returning to a market where the firm has previously failed to perform, and where it clearly does not have a "firm-specific advantage" would make that decision improbable (i.e. re-entry framed as a loss). Further, was the MNE to decide to re-enter, it would not be expected to commit significantly to that previously failed market. However, when framed as an 'alternative' to missing out on a growing market, losing face, being known to have been unable to succeed, over-depending on the home market - the decision to re-enter a previously exited market appears seemingly logical, and indeed, preferable (i.e. re-entry framed as a potential gain). Similarly, the decision to divest operations in the first place: firms may place a disproportionately high value on the reputational outcomes associated with admitting defeat in a market, and often, overstay their welcome. Though rationally we know these facets of human behaviour are ever present in 'real life' (Arrow, 1982; Madrean and Shea, 2001; Odean, 1998), they are often not part of our research designs.

Some nascent research on the role of biases does, however, exist in MNE research. In a recent JIBS paper, Elia et al. (2019) discussed how cognitive limitations permeate decision making processes related to subsequent investment mode. More specifically, the authors proposed that variations in individual behaviour have the potential to influence decisions about foreign market investment post-initial use of an entry mode, thus leading firms to deviate from entry modes that enable them to internalize their firm-specific assets. Using availability biases to understand the effect of past experiences on entry mode selection, the authors conclude that experience is a multi-faceted phenomenon, and those experiences which are perceived as more salient or easier to retrieve (often because they are more recent in the minds of decision makers) have a stronger impact on the decision to continue using the same mode versus changing the mode of operation (Surdu et al., 2018; 2019). Surdu et al. (2018) empirically show how negative experiences associated with market divestment shape managers' ability to make rational decisions about how and when to reinvest into the market. Apart from being more salient, negative experiences sped up the process of re-entering the market as the alternative meant losing momentum into that market which would have made addressing the causes for failure more difficult. Surdu et al. (2019) also found that experiences which are most salient and more recent cause strong emotional impacts and can be associated with how much investment a firm makes into a foreign market, irrespective of the firm's own specific resources and its prior experience with a mode of operation.

Our position is that managers may use different reference points, in different circumstances; e.g. previous experience may be useful upon initial entry where the firm is focused on potential future gains, whereas increased uncertainty associated with underperforming in the market may shape subsequent choices, leading to higher perceptions of risk. Buckley et al. (2007) found that the sets of international locations that managers initially "consider" entering may follow rational rules, whereas the choice of locations "actually entered" from that initial choice set, do not follow those same rules. MNEs, in similar contexts, with similar resources, make different choices about international expansion. Hence, deliberative choices may be applied under certain conditions and reflexive judgement in others.

Bounded by context: The concept of bounded reliability

Cognitive biases work to help managers make complex strategic choices, but they are also dynamic and change over time as managers interact with their environments. The role of context is fundamental in understanding international business and management choices (Shapiro et al., 2007). The dynamic character of bounded rationality and the role of changing (organisational; environmental) contexts over time, has been explicitly captured in the concept of *bounded reliability* (Kano and Verbeke, 2015).

An international manager may commit to a course of action *ex ante* due to expectations of a payoff based on experiences and reference points (Lumineau and Verbeke, 2016); meaning that the past may provide a useful frame for evaluating the perceived value of future strategic choices (in fact, this provides the basis for most investment rationales). As these choices unfold, new information and opportunities may arise that could accrue a larger payoff, and thus be valued higher, leading to a reversal or reconsideration of the initial choice (Tversky et al., 1990). It does not necessarily mean that, over time, managers acquire more experience and reduce uncertainties associated with international growth (as suggested by for instance, learning-based theories). In fact, over time, managers may even become uncertain about their own preferences (March, 1978), as cognitive biases develop and change, and MNE decisions and their contexts tend to become even more complex.

From a practical perspective, this can mean that international market commitments made ex-ante, may not be fulfilled in the following time period. Notably, in their study, Verbeke and Greidanus (2009) provide examples of companies which, through self-evaluation biases, overcommit to international partners, although not being able to develop the necessary resources and capabilities to effectively serve those partners when the time comes. Overall, the concept of bounded reliability highlights the necessary distinction between good faith overcommitment and ex-post malevolent reneging on commitments made (i.e. opportunism) and implicitly, it zooms in on the importance of time in research designs.

Directions for future research

In this section we propose a series of research areas and questions which may be addressed by scholars interested in how behavioural theories can contribute to understanding complex and dynamic MNE choices. We recognise that some of these questions use the individual as the level of analysis, and others the firm. When managers then respond differently to changes in their environments, this signals that managerial choices, expectations and desired outcomes may not always align with organisational expectations about the future. This, in itself, we argue here, is an important area for further research.

Area I: Behavioural perspectives, biases and MNE strategic choices:

We explained that decisions made under conditions of increased uncertainty, may require firms to draw on different types of heuristics to analyse potential choices associated with those decisions and make sense of their environments. The industry in which the firm operates may create a key reference point to make strategic choices associated with international business. Hence, we propose the following:

- What is the role of cognitive biases in governance mode choices? Do similar biases occur while switching between governance modes?
- Are internationalisation decisions discrete choices or dynamic processes? Are subsequent market investments influenced primarily by the initial entry?
- How do reference points and biases influence the risk-taking attitudes associated with international expansion? Do biases lead to more or less market commitment, and for which types of firms?
- If information processing dominates within the MNE, what information does management prioritise? Do negative/recent events tend to be more impactful for strategic decisions?
- What is the moderating role of industry factors (and their change over time) such as industry strategic groups in triggering certain reference points and frames?

Area II: Behavioural perspectives, biases and MNE contexts

We argue that the link between individual behaviour and organizational behaviour must be better understood to be able to scale up our micro-foundational ideas. The Carnegie school (Simon, March and Cyert) provides some starting point to linking individual choice with MNE choice and behaviour. Scholars have observed that tacit knowledge selected and absorbed by individual decision-makers may turn into organizational "routines" (Cyert and March, 1963; Nelson and Winter, 1982). Routines are the firm equivalent of individual capabilities and cognitions (March and Simon, 1958/1993; Cyert and March, 1963), whereby the cognitive patterns that represent models of ideal behaviour are transformed into organisational behaviour and practices. These routines and practices may turn into formal or informal organisational "rules", which, in changing international environments, may make MNE strategic behaviour predictable and inert (Easterby-Smith and Lyles, 2011; Feldman, 2000; Lyles, 1994). Here, learning is part of the fabric of the MNE rather than being necessarily internalised by the individual decision maker.

- How do forms of behaviour arise and change in MNEs? Does individual knowledge and experience weigh more than organizational knowledge and experience?
- What is the relationship between CEO tenure and myopic MNE behaviour? Does tenure increase or decrease the likelihood of firms changing their international strategies in light of changes in their environments?
- Do certain types of organisational cultures foster recognising new forms of behaviour? How and when are old, ineffective routines replaced by new, more relevant and flexible routines? Is this always the outcome of a new management team?
- To what extent are managerial expectations aligned with MNE goals? If there is misalignment, what are the short term and long-term implications on international growth and performance? Here, in particular, research can build on examples such as those of many retailers whereby the managerial ambitions of CEOs have led to significant international growth efforts (e.g., Tesco, Walmart, Carrefour), but MNE goals and business models did not correspond to these ambitions, leading to failure in many markets entered and subsequent retrenchment.

Area III: Behavioural perspectives, biases in different types of MNEs

Extant research therefore falls short of truly explaining firm heterogeneity, industry dynamics and the competitive advantages of some MNEs over others. To illustrate how heuristics are applied to human judgement, we now ask our readers to form an answer to the following question with reasonable speed; 'How prevalent is fast food consumption globally?" Behavioural perspectives suggest that instead of systematically calculating an answer based – logically - on a review of all the available evidence, heuristics could glean an answer to this question by using a surrogate method. Specifically, rather than spending hours specifying increasingly sophisticated and accurate subcomponents of the question that we (deliberately) left vague and then, subsequently, reviewing the evidence on each subcomponent, an assessment could be approximated by using the speed and ease with which fast food consumption can be recalled from memory. The potential here is that those who have significant memory of fast food consumption from within their direct or indirect experience, will glean an overestimated calculation of how prevalent fast food consumption is. Those without such historical exposure, may be unable to calculate an answer by using heuristics and thus significantly underestimate fast food consumption. This specific form of heuristic calculation is known as 'the availability heuristic' (Tversky and Kahneman, 1974). However, because the environment presents us with a myriad of complex problems, many different types of judgement heuristics have been uncovered (for an overview, see Gilovich et al., 2002). In all such instances where heuristics are typically applied, the context (i.e. type of firm) in which a decision is made has a significant effect on our ability to exercise rational or heuristic judgement.

We propose that a key avenue for future research would consist of understanding whether and how decision-makers in firms with different ownership structures and corporate governance mechanisms might pursue different goals, have different attitudes towards risk and time-horizons to make decisions (Strange, 2018). Hence, depending on governance mechanisms, what is considered rational, may differ.

- To what extent do emerging market MNEs rely on reference points associated with experience when engaging in international growth?
- To what extent do state-owned MNEs make decisions based on individual managerial biases? Do they prioritise other stakeholders (e.g., political activists) as reference points?
- To what extent do international entrepreneurs use industry reference points and benchmarks to reduce some of the risks associated with growth?
- What is the influence of family ownership in forming biases in family firm internationalisation? Do family owned MNEs use strategic reference points oriented towards the past or the future?
- Are MNEs with more flexible capital structures (i.e. private firms) less biased towards the past and more willing to experiment quickly with strategic choices compared to public MNEs?

Area IV: New methodologies

Methodologically, we fall short in making these micro-foundational concepts actionable in international business management research. In viewing the manager as human, we invite many of the complexities of human judgement and behaviour. From a rational perspective, the messy business of human unpredictability may have – historically - been somewhat inconvenient to its study. Studies on the measurements of cognitive biases and MNE strategic choices are rare. This is partly due to the limitations of current methods to measure biases in decision-making, as these cannot be operationalised by using only firm or industry level data. Examples of potential methods include choice experiments (Buckley et al., 2007); field studies (Maitland and Sammartino, 2015); comparative case research (Welch et al., 2011); mixed methods (Crilly, 2011); and grounded theory (Birkinshaw et al., 2011).

Whilst there are clear merits to using quantitative methodological approaches, we are increasingly confusing these methods with “hard science” (Birkinshaw et al., 2011). This has led to the growth in popularity of traditional theories that continue to be tested using quantitative methods, and a decrease in theoretical or multi-disciplinary work that stems from rich, descriptive data. We therefore propose that the dynamic and multi-institutional nature of international business management, lends itself to a wider range of methodologies. More exploratory methods of research may be more suited to understand complex phenomena scattered over time and distance. Take for instance, the study by Buckley et al. (2007) who conducted an experiment with decision-makers from top management teams in order to understand how managers make international location choices, by presenting them with a complex combination of choice attributes. They found that the attributes considered go beyond expected return on investment associated with a host location and more experienced managers were found to make different choices. Further, the attributes considered to select the initial set of location options differed from those considered in the final decision – thus also illustrating the importance of time in dynamic decision making. Through interviews and observations, Maitland and Sammartino (2015) also attribute a large part of the heterogeneity found in the factors considered to make international business decisions to different types of experiences that managers have had in the past, and the biases stemming from those experiences. Such notable works exist and should serve as a starting point for scholars to understand how different combinations of primary and secondary data sources can be used to gain real insight into managerial decision-making. This type of advancement in our methodological approaches would help us understand not only the outcomes of managerial decision-making, but also how and why certain strategic choices are considered, and others disregarded.

Concluding remarks

Where mainstream international management theories fail, behavioural ideas may prevail!

The basis for the behavioural perspective is grounded in the psychological sciences, which, likely take our typical international management reader beyond the comfort of their natural habitat. We feel that the presence of cognitive biases is evident, none more so than in the increasingly dynamic and uncertain field of international management research. Notwithstanding the significant contributions and insights of extant management research, we been slow to adopt and integrate behavioural concepts. In order to lay some initial groundwork for a 'behavioural perspective of international management', we hope to have provided several ways in which a behavioural perspective could complement current research. Most importantly, a behavioural theory of international management would allow researchers to explore why firms and their managers, when provided with the same choice attributes make different decisions, and how these change over time for each decision made. This subsequently paves the way for a better understanding of multinational firm competitive advantage and survival.

In a modern business environment with ever-looming 'grand challenges', a reluctance to explore psychological solutions is a missed opportunity, when interventions in altering perception or nudging individuals to make more appropriate choices typically are more resource-efficient, and often times significantly more effective than traditional, materialist, efficiency-oriented solutions. We know that, historically, international management has largely focused on the impact of its insight on policy. However, regulatory interventions are typically slow, compulsory and often unwelcomed by their recipients, whilst behavioural recommendations can be applied relatively swiftly, are 'voluntary' and may actually be welcomed (if rigorously and ethically researched, applied and managed). Indeed, there will be barriers to the widespread adoption of behavioural approaches; shifting perceptions of international management researchers away from viewing the MNE as a mechanistic system of inputs, processes and outputs to include a human system of biases, emotion and consequences, will require a collective effort and shift in thinking. We hope that this chapter has gone some way towards convincing our readers that there is significant opportunity to be uncovered in a behavioural approach. Such a behavioural approach, we propose, will significantly enhance and complement current mainstream international business and management research.

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