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# **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 tend to overlook that the cognitive limitations and biases of decision-makers may bound their ability to make rational, objective strategic choices. Most theories have not truly accounted for firm heterogeneity either, i.e. explaining why in similar contexts, two multinational enterprises (MNEs) 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 biases, heuristics and reference points, have the potential to complement extant MNE theorising. This chapter discusses the importance of using theories that make more realistic assumptions about MNE decisions and decision makers and are thus more suited to claim managerial relevance.

**Keywords:** behavioural theory; bounded rationality; cognitive limitations and biases; heuristics; reference points; frames; dynamic MNE choices

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## **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; Surdu, Mellahi & Glaister, 2018; 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 better understanding the micro-foundations of theories used, 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 to convince 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 discuss what may bound a manager's ability to act as a rational economic actor. 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 and a common language between IB, strategic management, economics and social psychology, starting with how behavioural perspectives can enrich our knowledge of the modern MNE.

### **Dominant assumptions in International Business 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 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 specify what the boundaries of rationality are, thus limiting theoretical advancement; e.g. drawing on new internalisation theory, 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. 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 mainly 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; Lee, Jung and Park, 2020). 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 value perceptions change, rarity alone may not constitute a source of market advantage.

Cognitive biases have been found most obvious when circumstances present humans with an unexpected threat (Kanouse et al., 1972). 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 (see also Elia et al., 2019). 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 trade-offs inherent in choosing amongst complex strategic options. Importantly, 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*

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 are expected to enable decision-makers to make sense of highly complex phenomena (based on managerial experiences and/or expected future outcomes) (Gigerenzer, 2003; Gilovich et al., 2002; Shoham and Fiegenbaum, 2002), 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. Particularly in such instances, we propose, heuristics are likely to be applied by managerial decision makers (see 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 quick solutions. Because 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 may be used to understand decisions made. In their study on managers assessing a potential acquisition in a high-risk African country, Maitland and Sammartino (2015) found that managers were limited in their understanding of the local environment and thus, drew on different types of heuristics to analyse potential strategic choices. These included an attempt to understand, in their case, how other institutional actors and business partners would behave, in this way, to also understand the hazard associated with an uncertain local 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). Interestingly also, during this process, decision-makers

were found to perceive their contextual environments somewhat differently. The authors view these differing views of decision-makers positively and discussed 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 compliance and ethics programmes; their study revealed differences in the manner in which these practices were perceived to be, indeed, ethical – this, in turn, required a high level of customisation of these practices to fit local needs. Beamond et al. (2016) later also 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 perhaps 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. Incorporating cognitive biases in our theorizing does not mean that we reject the benefits of analytical thinking and 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 do not possess sufficient information about their environment to make unbiased choices.

### *Reference points and frames*

Since managers may use different points of reference to develop strategic options, that introduces further biases in decision making. Environmental and industry factors can be amongst the main 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 can, for instance, act as a reference point in strategic choices (Li and Yao, 2010). Industry dynamics require fast decision making; hence, 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; Surdu and Narula, in press). Since certain factors or experiences carry a disproportionately high weight in the decision-making process (Shoham and Fiegenbaum, 2002; Shrader et al., 2000), firms which have exited the market due to market underperformance and inability to compete, may pay particular attention to their competitors and thus, how they position themselves in the market the second time around. Similarly, the decision to

divest international operations and exit a market in the first place: firms (and their managers) may place a disproportionately high value on the reputational outcomes associated with admitting defeat in a market, and often, overstay their welcome (Surdu et al., 2019). Surdu et al. (2018) empirically show how negative decisions associated with market divestment are used as reference points and shape how and when firms reinvest into the previously exited market. 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 the exit experience 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.

Also important is therefore the notion that, biases are dynamic and change over time as managers interact with their environments (Kano and Verbeke, 2015; Shapiro et al., 2007). For instance, 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 the Uppsala model). In fact, over time, managers may even become uncertain about their own preferences (March, 1978), as cognitive biases change, and MNE decisions and contexts become more complex. 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. Elia et al. (2009) proposed that only 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 an impact on the decision to continue using the same mode versus changing the mode of operation (Surdu et al., 2018; 2019).

Concerning the role of time, 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. In a notable empirical study on international location selection, 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. An MNE, equipped with the same resources, at different points in time, will make different choices about international growth.

Lastly, how factors in the internal and external environments of the firm are framed, i.e. as opportunities or threats, may also have an influence on decisions made. 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 closer 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 is framed as a loss). Further, was the MNE to decide to re-enter, it would not be expected to commit significant financial and other resources to that previously failed market. However, when reframed as an 'alternative' to missing out on a growing market, losing face, over-dependence on the home market - the decision to re-enter a previously exited market appears seemingly logical, and indeed, preferable (i.e. re-entry reframed as a potential gain) to decision makers. Though rationally we know these facets and complexities of human behaviour are ever present in 'real life' (Arrow, 1982; Madrean and Shea, 2001; Odean, 1998), they are often not part of IB research designs.

### **Directions for future International Business Management research**

We propose a series of research areas and questions which may be addressed by scholars interested in how behavioural theories can further our understanding of MNE choices. These research avenues, we argue, complement rather than seek to replace, traditional MNE theories.

#### *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. Such a view may improve the manner in which we analyse decisions concerning international expansion. Hence, we ask 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<sup>1</sup>? 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?
- What sources of knowledge and learning 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?

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<sup>1</sup> The importance of using theoretical models and frameworks which enable an understanding of how firms make decisions in dynamic environments is discussed in more detail in Chapter 4 of this book.

## *Area II: Managerial biases and organisational behavior*

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 expected to be transformed into formal or informal organisational “rules” (Easterby-Smith and Lyles, 2011; Feldman, 2000; Lyles, 1994). Here, we propose that the cognitive biases of decision-makers may influence the manner in which strategic choices and experiences become incorporated into organisational routines. Thus, we invite future research to focus on the following questions:

- 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 or diverse management team?
- To what extent are managerial goals and expectations aligned with MNE goals? If there is misalignment, what are the short term and long-term implications on international growth and performance?

## *Area III: Behavioural perspectives and firm governance*

Managerial decisions are also bounded by context. We propose that a key avenue for future research would consist of understanding whether and how decision-makers in different types of firms with different ownership structures and corporate governance mechanisms might pursue different goals, have different attitudes towards risk and time-horizons to make decisions (Narula, 2012; Strange, 2018). We argue that, depending on relevant organizational contexts such as governance mechanisms, what is framed as rational and what may be used as a reference point, may significantly differ. Hence, we ask:

- To what extent do emerging market MNEs rely on experience when internationalising?<sup>2</sup>

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<sup>2</sup> Chapter 5 provides a detailed discussion concerning the effect of the home country on the internationalization of the firm and future avenues for theorising about it.

- 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 social psychological sciences, which, likely take our typical international management reader beyond the comfort of their natural habitat. We feel that the presence of biases in decision making 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 the 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 what bounds decision making, and why firms and their managers, when provided with the same choice attributes make different decisions. Moreover, we invite researchers and early career scholars to examine how the biases and reference points used by managers to make decisions change over time for each decision made. This, we propose, 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 social 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. Indeed, there will be barriers to the widespread adoption of behavioural approaches; shifting perceptions of 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 enhance and complement current international business and management research.

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