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## SPECIAL ISSUE ARTICLE

# How does de-globalization affect location decisions? A study of managerial perceptions of risk and return

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## Abstract

**Research Summary:** Our understanding of how managers take international location decisions is still scarce. Building on the microfoundations view, we explore managers' perceptions of risk and return in a discrete choice experiment with 2,618 decisions in 2013 (a globalizing world) and 2017 (a de-globalizing world). While managerial perceptions vary over time due to economic and political changes, such as the current de-globalization trend, decision heuristics remain remarkably stable: locations perceived as least risky offer the highest expected returns. We also find that distance is a good proxy for managerial perceptions. Investigating the microfoundations of decision-making we show that international experience, risk-taking propensity, and shareholder status affect heuristics. In sum, our study provides novel insights into the microfoundations of location decisions and extends the behavioral perspective on internationalization.

**Managerial Summary:** While many researchers in the field of international business and global strategy have studied internationalization, surprisingly few of them put the actual decision maker in the spotlight. This study investigates the decision heuristics of managers who are confronted with international location decisions. We show that their perceptions of risk and return in the context of a globalizing world (in 2013) and in the context of a de-globalizing world (in 2017) vary. However, the underlying heuristic—locations that are perceived as least risky offer the highest expected returns—remains stable. Our study also indicates that distance is a good proxy for managerial decisions and that managers' international experience, risk-taking propensity, and shareholder status affect their decision-making patterns.

**KEYWORDS**

internationalization, locations decision, managerial perception, microfoundations, risk–return

## 1 | INTRODUCTION

The opportunity to achieve arbitrage by reaping location advantages has been the key driver of global business (Ghemawat, 2003; Kogut, 1993). While most companies still seem to strategize in a *global economy*, policy has recently experienced a backlash as we see more and more countries electing nationalistic governments who seek to protect the local economy and erect trade barriers (Cuervo-Cazurra, Mudambi, & Pedersen, 2017; Ghemawat, 2017). This *de-globalization* trend pushed many firms to revise their international expansion decisions or to revert to wait-and-see strategies (Clarke & Liesch, 2017; Kobrin, 2017). For example, “almost one in ten German companies in the UK plan to respond to Brexit by shifting investments to other EU states even as the terms of the UK's departure are not yet known” (Financial Times, 2017). Scholars as well as managers are currently struggling how to interpret this new world and so far the academic literature does not provide answers to how the de-globalization trend impacts managers' perception of risk and return and managerial decision making in the context of location choice.

International location decisions are generally driven by the desire to minimize the exposure to environmental uncertainty or institutional voids (Chan, Isobe, & Makino, 2008; Kostova & Zaheer, 1999) and to increase the chance of survival and success in the foreign market (Delios & Beamish, 2001; Li, 1995). But such decisions are highly complex and rooted in individual perceptions: managers need to consider a multitude of variables and take decisions in the face of trade-offs, for example, between risk and return (Brouthers & Brouthers, 2001; Nielsen & Nielsen, 2011; O'Grady & Lane, 1996). While research on managerial cognition contends that managers apply simple heuristics to reduce the complexity of decisions (e.g., Davis, Eisenhardt, & Bingham, 2007; Eisenhardt & Sull, 2001; Gigerenzer & Gaissmaier, 2011; March & Simon, 1958; Schwenk, 1988), the literature on internationalization has mostly relied on macro and organizational factors that do not sufficiently consider managerial perceptions as the microfoundations of internationalization (e.g., Foss & Pedersen, 2004). Recently, more and more contributions highlight the role of bounded rationality and heuristics in internationalization decisions (Aharoni, Laszlo, & Connelly, 2011; Bingham & Eisenhardt, 2011; Buckley, Chen, Clegg, & Voss, 2018; Buckley, Devinney, & Louviere, 2007; Clark, Li, & Shepherd, 2018; Clarke & Liesch, 2017; Liesch, Welch, & Buckley, 2011; Maitland & Sammartino, 2015a; Park & Harris, 2014). However, our understanding of *how managers take international location decisions in a globalizing versus a de-globalizing world* is still scarce.

We add to research on international locations decisions by providing a microfoundations perspective (e.g., Felin, Foss, Heimeriks, & Madsen, 2012; Foss, 2016; Gavetti, 2012) and exploring managers' perceptions of risk and return, that is, their decision heuristics. To advance our understanding of the decision heuristics managers apply in their location choice, we conducted *discrete choice experiments* (Louviere, Hensher, & Swait, 2000; Buckley et al., 2018 for a similar approach). The experiments mimic the decisions managers take for their companies in terms of location choice and capture choices with different risk and return patterns. An advantage of our experimental approach is

that we explore the decisions from different angles (i.e., risk *and* return) and that we observe the chosen international location decisions as well as the rejected alternatives. Further, we analyze conditions under which managers do not choose to internationalize at all.

Our research approach provides important insights into managers' risk and return perceptions of locations and their decision heuristics (Bingham & Eisenhardt, 2011; Buckley et al., 2007; Clarke & Liesch, 2017; Maitland & Sammartino, 2015b). We conducted the discrete choice experiments in 2013 (in a globalizing world) and 2017 (in a de-globalizing world) allowing us to address the question how managerial perceptions and their decisions change over time. Moreover, we shed some light on how distance between home and host country corresponds to managers' perceptions of risk and return and explore the microfoundations of decision-making. The specific questions we address are: (a) How do managers perceive risk and return in international location decisions over time? (b) Does distance between home and host countries serve as a useful proxy for managerial decision heuristics? (c) Which managerial characteristics influence international location decisions?

We draw our analyses on 2,618 international location decisions of 238 respondents. The data show that managers are rather risk-averse in their internationalization choices. They opt for low-risk locations, which are perceived as offering the highest return for them. Our results confirm that managers shift their perceptions according to political or economic developments, such as de-globalization. Events like Brexit, the policies anticipated by the Trump government, and the political situation in Russia have a visible effect on managers' view of risk and return. Nevertheless, the negative risk–return relationship remains remarkably stable over time. We also find that the decision *not to internationalize* that used to be seen as risky (in terms of foregoing opportunities) in 2013 is seen as more favorable in 2017. As such, our study underlines previous research on priority and temporal heuristics in internationalization (Bingham & Eisenhardt, 2011) and the need to contextualize our research in changing environments (Cuervo-Cazurra et al., 2017; Nebus & Chai, 2014).

To shed light on the question of what drives managerial perceptions and hence decisions, we test the validity of distance measures and find that the perception of distance indeed serves as a useful proxy for decision heuristics. As such, we apply the concept of distance to concrete managerial decisions instead of discussing it in an isolated manner (see also Ambos & Håkanson, 2014). This extends the debate on the role of distance in internationalization and location choice (Baack, Dow, Parente, & Bacon, 2015; Beugelsdijk & Mudambi, 2013; Dow, 2017).

Further, we explore how managerial characteristics affect the location decision and conclude that international experience, risk-taking propensity, and shareholder status affect decision-making heuristics. Thus, our study advances our understanding of the microfoundations and mechanisms underlying managers' decision heuristics in these three areas: uncovering heuristics for decision-making, exploring the role of distance as a proxy for perceptions, and revealing how managerial characteristics impact perceptions of risk and return. On a broader level, we propose some avenues to complement the organization-level theorizing of the Uppsala school by a microfoundations perspective (Buckley et al., 2018; Clark et al., 2018; Clarke & Liesch, 2017).

## 2 | THEORETICAL BACKGROUND

### 2.1 | The microfoundations perspective in internationalization

Prior research in international business has mostly explained the choice of international locations as a decision based on differences in factor endowments and environmental characteristics between foreign countries and the home country (e.g., Brouthers, Brouthers, & Werner, 2008; Buckley &

Casson, 1976; Hennart, 1982; see Kim & Aguilera, 2016 for a review) without taking into account individual decision makers' predispositions and perceptions (Aharoni et al., 2011; Clarke & Liesch, 2017; Nielsen & Nielsen, 2011). Maitland and Sammartino (2015a, p. 736) regret that, despite acknowledging the assumption of bounded rational decisions, all internationalization schools "... are largely silent on the individual manager's role in shaping firm-level market scanning, information collection and analysis processes". Accordingly, internationalization literature has received increasing criticism for its omission of and the lack of microfoundations and behavioral theorizing (Aharoni et al., 2011; Buckley et al., 2007, 2018; Clarke & Liesch, 2017). A number of scholars have called for more research on individual perceptions to advance theorizing on the microfoundations of internationalization and the role of distance (e.g., Ambos & Håkanson, 2014; Dow, 2017; Zaheer, Schoemaker, & Nachum, 2012). But so far, only a few studies (Bingham & Eisenhardt, 2011; Buckley et al., 2007, 2018; Chittoor, Aulakh, & Sougata, 2018; Clark et al., 2018; Collinson & Houlden, 2005; Fabian, Molina, & Labianca, 2009; Maitland & Sammartino, 2015b; Mataloni, 2011; Park & Harris, 2014) have adopted a microfoundations lens to empirically investigate managerial perceptions and decision-making in internationalization.

## 2.2 | Heuristics for location decisions

The broader emergent literature on microfoundations in management has contributed to our understanding of the role of the individual decision maker (e.g., Felin et al., 2012; Foss, 2016) and the underlying cognitive processes, such as heuristics, that influence strategic decision-making (Maitland & Sammartino, 2015b; Molina-Azorin, 2014). Bingham, Eisenhardt, and Furr (2007), p. 31) conceptualize heuristics as "cognitive structures that categorize stimuli." These have been researched under two dominant perspectives: the heuristics-and-biases paradigm and the fast-and-frugal paradigm (Loock & Hinnen, 2015). The first stream focuses on bounded rationality and the associated biases and simplification processes, that is, the limitations of heuristics in decision-making whereas the latter emphasizes the positive sides of heuristics (Loock & Hinnen, 2015).

Our research builds on the fast and frugal paradigm defined as the "ability to exploit the structure of the information in natural environments" (Goldstein & Gigerenzer, 2002, p. 76). Heuristics then are viewed as cognitive mechanisms that systematically utilize environmental information (Goldstein & Gigerenzer, 2002; Hogarth & Karelaia, 2007), which may serve as "efficient cognitive processes that ignore information" (Gigerenzer & Brighton, 2009, p. 107). The fast and frugal paradigm highlights several benefits of heuristics that apply to the context of international location decisions: heuristics facilitate accurate decision making, especially in contexts involving uncertainty and dynamic environments (Gigerenzer, 2014; Oliver & Roos, 2005); they are quick to use without costly acquisition of information (Brandstätter, Gigerenzer, & Hertwig, 2006; Eisenhardt, Furr, & Bingham, 2010), and they facilitate decision-making when access to information and experience are limited (Bingham & Eisenhardt, 2014; Loock & Hinnen, 2015) as they provide a common structure for a range of similar problems (Bingham & Eisenhardt, 2011). Eisenhardt and Sull (2001) further emphasize the usefulness of heuristics particularly for complex decisions as in the case of location decisions because heuristics enable the discovery and evaluation of opportunities.

Recently, a number of researchers have highlighted the role of heuristics for international location decisions. Bingham and Eisenhardt (2011) found a developmental order of heuristics in the internationalization process: managers learned selection and procedural heuristics before temporal and priority heuristics. Maitland and Sammartino (2015b) suggest that individuals build evaluation heuristics based on small world representations about international markets. Similarly, Clark et al. (2018) investigate how managers take the initial internationalization decision and find that from an opportunity

set of countries, managers narrow down a choice set whereas the final choice then is highly dependent on country familiarity. Mataloni (2011) also found a hierarchical decision-making process in which firms first select a foreign country based on one set of attributes and then further select a region within that country based on another set of attributes. Collinson and Houlden (2005) investigated decision makers' risk perception and mental maps showing that international experience refines decision makers' mental maps, which in return influences their international location decisions. Hashai (2011) shows that Born Global firms mitigate their perceived risk by expanding geographic scope and extent of foreign operations not simultaneously but sequentially. However, only Buckley et al. (2007) conducted a large scale experiment and demonstrate that managers' preference for risk and return will determine the location choice; that is, if a location is chosen for a given entry mode. We therefore conclude that heuristics are valuable tools managers apply in international location decisions, which are not only complex but also subject to changing environments and dynamics. However, it is not clear which aspects decision-makers consider in such heuristics and what drives decisions.

### 2.3 | Risk and return in international location decisions

The most prominent criterion for decisions in the internationalization literature is risk (e.g., Aharoni et al., 2011; Clarke & Liesch, 2017; Liesch et al., 2011) usually conceptualized as a trade-off between time and money (e.g., Reuer, Shenkar, & Ragozzino, 2004) and between anticipated performance and economic or political risks (Figueira-de-Lemos, Johanson, & Vahlne, 2011; Shrader, Oviatt, & McDougall, 2000). While resource based approaches of internationalization view risk “more as the income lost from improperly applying the firm's capabilities than the amount of dollars invested to pursue the international opportunity” (Forlani, Parthasarathy, & Keaveney, 2008, p. 293), the Uppsala internationalization process model (Johanson & Vahlne, 1977, p. 30) stresses that “The firm will incrementally extend its scale of existing operations on the market—in expectation of large returns—until its tolerable risk frontier ( $R_i^*$ ) is met”. Although the Uppsala model takes into account possible tradeoffs (i.e., returns *and* risk from seeking international opportunities) for which the reference point is the tolerable risk level, the model focuses solely on *risk* with regard to commitment decisions (e.g., Figueira-de-Lemos et al., 2011). Buckley et al. (2018, p. 156) suggest: “To examine truly how sensitive managers are to certain risks and what affects managerial risk propensity, it may be necessary to consider risk and return simultaneously.”

Classical economic theory provides a clear distinction between risk and return, where riskier locations need to offer higher returns (e.g., in terms of market growth) in order to provide a similar expected outcome as a less risky location with lower returns. However, ever since Bowman (1980) challenged the assumption of a positive relationship between risk and return (i.e., higher returns require higher risks) that was prevalent in finance and economics, there has been an extensive debate in the strategy literature about which strategic postures allow firms to achieve a constellation of low risk and high return. Explanations for the so-called *Bowman paradox* include various contingencies, strategy conduct, and statistical artifacts (Andersen, Denrell, & Bettis, 2007; Henkel, 2009). A stream of literature examined the impact of corporate diversification strategies on risk and return (Bettis & Hall, 1982; Bettis & Mahajan, 1985; Chang & Thomas, 1989), but to our best knowledge, the international context has been rather neglected in this literature stream (see Kim, Hwang, & Burgers, 1993 for an exception).

Overall, scholars from different research disciplines converge on a negative relationship between risk and return. In addition to Bowman's (1980) paradox, prospect theory (Kahneman & Tversky, 1979), and safety first theory (Roy, 1952) all point toward such a relationship. Recent research on



affect heuristic has also shown an inverse relationship between perceived risk and perceived benefit, and found the relationship to be stronger under time pressure (Finucane, Alhakami, Slovic, & Johnson, 2000; Slovic, Finucane, Peters, & MacGregor, 2004). Similarly, behavioral theory assumes that decision-makers are rather risk-averse when they frame strategic decisions (March & Shapira, 1987; Miller & Chen, 2004). That is, they will attribute lower returns to riskier internationalization options.

Based on the negative risk–return relationship suggested by various disciplines, we maintain that managers make decisions considering perceived risk and expected returns while maintaining their individual tolerable risk level with the goal to maximize utilities. While random utility theory suggests that decision-makers examine a set of options and choose the alternative, which has the highest relative utility (i.e., ideally, the lowest risk and the highest return) for them (Manski & Lerman, 1977; McFadden, 2001; Thurstone, 1927), identifying such a maximum utility alternative is not always trivial. For international location decisions, managers are confronted with multiple and often contradictory indicators. For example, positive economic growth (e.g., GDP), demographic indicators (growing affluent population), and a large talent pool indicate that a market represents high-growth potential and attractive returns for an organization. At the same time, this country might be characterized by political instability and institutional voids indicating risk (Chan et al., 2008; Dhanaraj & Khanna, 2011). Managers will have to resolve this trade off between risk and return when making an international location decision in favor of one or the other option, but also against the status quo (i.e., a domestic strategy).

Consistent with the microfoundations' view of strategy, international location choice is a complex decision that can be based on heuristics (Bingham & Eisenhardt, 2011), but to date there is a lack of research on highly complex decisions and trade-offs between divergent criteria (Aharoni et al., 2011; Maitland & Sammartino, 2015b; Nielsen & Nielsen, 2011). Hence, to date, we have very little insight on whether and how such *risk–return heuristics* are applied and how they are adapted over time. Building on the idea that managers apply fast-and-frugal heuristics in their decision-making, and that risk and return are intimately linked in location decisions, we seek to understand the patterns of managerial perceptions and decisions.

In the following, we will develop hypotheses to explain manager's internationalization decisions based on their perceptions of risk and return of internationalization options, taking into account the nature of the market and changes in the political and economic environment over time. Then, we will theorize on the role of distance as a proxy for managers' perceptions and the underlying decision heuristics and explore the effect of managerial characteristics on decision-making patterns.

### 3 | DEVELOPMENT OF HYPOTHESES

#### 3.1 | International location decisions and the risk–return relationship over time

In general, literature suggests that the perceptions of risk as well as expected returns are context-specific (e.g., Goldstein & Gigerenzer, 2002; Hogarth & Karelaia, 2007; Kahneman & Tversky, 1979; Lopes, 1987; March, 1988; Tversky & Kahneman, 1981) and heuristics are specific for particular problem-solving contexts (Bingham & Eisenhardt, 2011). When conditions change, new contextual information prompts subjects to revise an existing scenario, so that mental models and heuristics are continuously adjusted. According to March and Shapira (1987), risk preference varies with context because accepting a risky alternative depends on the relation between the prospects for return and loss. Changes in circumstances and context may also prompt individuals to shift their focus towards the opportunities involving greater returns (Lopes, 1987). Studies furthermore demonstrate

that mental models about countries are formed under the influence of a variety of variables, such as historical ties between nations, countries' economic status, and media coverage of nations (e.g., Bosowski, 1981; Dow & Karunaratna, 2006). Therefore, the perception of risk and return with regard to a specific location is likely to be dynamic.

Despite potential changes in perception of specific locations, the underlying relationship between risk and returns should be a stable function (see Artinger, Petersen, Gigerenzer, & Weibler, 2015; Bowman, 1980). This can be explained by the fact that decision makers orient their focus on a given target level for performance (e.g., survival or maximizing organizational returns) (March & Shapira, 1987) and their individual tolerable risk level (Johanson & Vahlne, 1977). Overall, we expect a robust risk–return-relationship, but assume that changes in the institutional environment influence decision makers' perceptions about risk and return with regard to a specific location and consequently their internationalization decisions. We propose:

**Hypothesis 1 (H1)** *Decision maker's perceptions of risk and return of target countries change over time.*

**Hypothesis 2 (H2)** *The underlying relationship of risk and return (a) is negative, and (b) remains stable over time.*

### 3.2 | Distance as a proxy for decision heuristics

In a next step, we aim to uncover what drives managers' perceptions and the underlying decision heuristics. Traditionally, perceived risk with regard to international locations is conceptualized as psychic distance (Johanson & Vahlne, 1977), and locations with lower psychic distance are assumed to offer higher returns. But, despite a long history of research on the influence of distance on location choice, there is still a lively debate about whether and how distance is a useful explanation for internationalization decisions (Dow & Karunaratna, 2006; Håkanson & Ambos, 2010; Stahl et al., 2013).

Research in the tradition of the Uppsala school posits that distance between the home and the host country is an obstacle to information flow and learning (Håkanson & Ambos, 2010; Johanson & Vahlne, 1977), which influences the application of heuristics in international decision-making. Although Baack et al. (2015, p. 940) argue: that "...distance does not affect IB activities except through the decision-making processes of individual managers" and decision-makers judge and evaluate other environments and human behavior from their position (Summer, 1906; Verlegh, 2007), the majority of studies has relied on country indicators rather than individual-level perceptions of distance (Baack et al., 2015; Dow, 2017; Kogut & Singh, 1988).

Recent literature has advocated a multidimensional concept of distance to account for different facets between the home and host countries (Ghemawat, 2001; Gooris & Peeters, 2014; Håkanson & Ambos, 2010; Yildiz, 2014; Zaheer et al., 2012). In this context, the question has been raised whether different dimensions of distance (e.g., geographic, cultural, political, economic) serve as useful proxies for managers' perceptions of the chosen locations (e.g., Beugelsdijk & Mudambi, 2013) because one aspect of risk might be perceived as less severe while another one is perceived as more pronounced, leading to a trade-off between them.

Furthermore, there is a lack of research investigating whether managers' perceptions of distances differ according to their decision-making context (Buckley et al., 2007; Håkanson, Ambos, Schuster, & Leicht-Deobald, 2016; Nebus & Chai, 2014). While research has advanced our understanding



and the measurement of psychic distance (Baack et al., 2015; Dow, 2017), these studies do not usually tie managerial perceptions to specific choices and they do not take into account how different contexts, such as globalization or de-globalization, influence these perceptions.

In line with these considerations, we integrate dimensions of distance that may force managers into a trade-off (e.g., between lower geographic distance and higher political risk) to understand how they correlate with managers' international location choice. Specifically, we focus on geographic, cultural, political, and economic distances. Higher distances induce higher risks and promise lower returns so that managers tend to maximize the perceived reward and minimize risk by internationalizing into culturally and geographically more proximate, and politically and economically higher developed countries. While these propositions are not novel per se, the test of multi-faceted dimensions as a proxy for decision heuristics provides a new perspective on the role of distances in decision-making in different contexts.

**Hypothesis 3 (H3)** *The higher the (a) cultural, (b) geographic, (c) economic, (d) political distance between home country and host country, the higher the decision maker's risk for a target country.*

**Hypothesis 4 (H4)** *The lower the (a) cultural, (b) geographic, (c) economic, (d) political distance between home country and host country, the higher the decision maker's expected return from a target country.*

### 3.3 | The role of managerial characteristics

Managers' perceptions are a result of their individual experiences and their strategic orientation (Certo, Connelly, & Tihanyi, 2008; Cyert & March, 1963; Maitland & Sammartino, 2015a). Consequently, managers will form different perceptions of risks and returns. Consistent with our focus on microfoundations, we also investigate managerial characteristics that may influence individual perceptions of risk and return regarding international location decisions. Key determinants of managerial perceptions in this context are managers' international experience and their overall strategic orientation (Aharoni et al., 2011; Clarke, Tamaschke, & Liesch, 2013; Etemad, 2015).

International experience is a key concept in explaining firm internationalization (Clarke et al., 2013). Managers develop heuristics with prior exposure to international environments resulting in decisions based on their experiences (Golledge, Smith, Pellegrino, Doherty, & Marshall, 1985). Higher levels of international experience then reduce perceived uncertainty (Sambharya, 1996) and managers with international experience can better cope with uncertainty associated with international expansion (Carpenter, Sanders, & Gregersen, 2001). Heuristics developed by prior exposure to international markets also shape managers' perception of returns and risks therein (Tihanyi, Ellstrand, Daily, & Dalton, 2000).

Chittoor and Aulakh (2015) demonstrate empirically that top management's experience through prior exposure to international markets facilitates overcoming the liability of foreignness and increases risk-taking propensity in the context of overseas acquisitions. In small and medium enterprises, internationally experienced managers have more detailed mental maps of international markets (Collinson & Houlden, 2005) and these mental maps influence their choice of foreign markets. Clark et al. (2018) investigate how managers take the initial internationalization decision and find that managers narrow down a choice set from an opportunity set of countries, whereas the final choice then is

highly dependent on country familiarity measured by international experience. Thus, previous empirical research confirms that international experience influences location decisions because internationally experienced managers are more confident in estimating risks and returns associated with foreign countries (Davidson, 1980; Erramilli, 1991). Accordingly, we propose:

**Hypothesis 5 (H5a)** *Decision makers with more international experience are more sensitive towards the risk–return relationship.*

Research in International Business and International Entrepreneurship reveals a mixed picture with regard to managers' age and the propensity to internationalize. Westhead, Wright, and Ucbasaran (2001) conclude that managers' age exerts a positive influence on export propensity while Manolova, Brush, Edelman, and Greene (2002) do not find age of the manager to be a significant characteristic that distinguishes international from non-international firms. Federico, Kantis, Rialp, and Rialp (2009) reveal a non-linear U-shaped relationship between the age of the founder and probability of creating early internationalizing firms in Latin America and the Mediterranean and an inverted U-shaped relationship in South-East Asia.

However, heuristics have been found to differ by age (Besedeš, Deck, Sarangi, & Shor, 2012; Golledge et al., 1985) and these differences will influence how older, respectively younger managers perceive the risk and return associated with international locations. Research in cognitive psychology shows that older individuals indicate higher risk in ignoring and disregarding warning signs than do younger ones (Otani, Leonard, Ashford, Bushroe, & Reeder, 1992). We thus propose:

**Hypothesis 5 (H5b)** *Older decision makers are more sensitive towards the risk–return relationship.*

Managers' risk-taking propensity varies across individuals and it depends on the positive and negative expectations of outcomes as well as the aspiration level of the decision maker if they accept a risky alternative (Luo & Bu, 2018; March & Shapira, 1987). Miller and Friesen (1978) define risk-taking propensity as the degree to which managers are willing to make large and risky resource commitments that bear a reasonable chance of costly failure. Research (e.g., Sitkin & Weingart, 1995) in psychology finds that there is a negative relationship between risk propensity and risk perception and between risk perception and risky decision-making behavior.

Internationalization exposes decision makers to different markets, requiring sensitivity to their inherent risks and returns. A high risk-taking orientation is associated with a tendency to be optimistic and to perceive opportunities rather than threats in any given situation (Neck & Manz, 1996), and low risk-takers are expected to forgo even potentially valuable international opportunities (Hughes & Morgan, 2007). We hypothesize:

**Hypothesis 5 (H5c)** *Decision makers with a higher risk-taking propensity are more sensitive towards the risk–return relationship.*

The stream of research on decision-making and firm ownership suggests that ownership of managers will also influence their perception of risk and returns. Carpenter, Pollock, and Leary (2003) find that owners are likely to take risks if they see potential increases in returns that commensurate with the risks. Owner CEOs are also more likely to take risky action if they are convinced that it will improve a firm's long-term value (Adams, Almeida, & Ferreira, 2009). Chittoor et al. (2018) find that owner CEOs positively influence the decision for outward-FDI whereas George, Wiklund, and Zahra

(2005) demonstrate that an increase in CEO's and top management's ownership negatively relates to scale and scope of internationalization. We thus suggest that the perception of risk and return among CEOs with ownership and those without are different, because personal payoffs among owner and non-owner CEOs from strategies involving risk and return are likely to be different (Chittoor et al., 2018). We suggest that CEOs with ownership will be more sensitive to risk and returns because they may capitalize personally from them.

**Hypothesis 5 (H5d)** *Decision makers who are shareholders are more sensitive towards the risk–return relationship.*

## 4 | RESEARCH DESIGN

### 4.1 | Discrete choice experiment

We analyze managers' decisions within a discrete choice experiment (DCE). DCEs are among the most popular methods to measure decision-makers' preferences, especially in domains such as transportation or marketing (Louviere et al., 2000; Rao, 2014) but are also applied in internationalization contexts (see Buckley et al., 2007; e.g., Kraus, Ambos, Eggers, & Cesinger, 2015). DCEs present choice sets to decision-makers. The choice sets are systematically varied in terms of experimental factors. By observing choices in multiple consecutive sets, decision-makers' sensitivities to the varied factors can be estimated.

In our research context, we analyzed managers' decisions among internationalization options that systematically varied in terms of target countries and market entry modes. Germany, Austria, and Switzerland represent the home countries of the target sample. Regarding the target countries, we identified the top-ten trading nations of the aforementioned three countries by secondary data from the Federal Statistics Offices of the three countries (for Germany: Federal Statistical Office, 2012a; for Switzerland: Federal Statistical Office, 2012b; for Austria: Statistics Austria, 2011).

To capture the complexity of internationalization decisions and to make the choice options more realistic, we also included five different entry modes in our experiment as control variables (e.g., Chang & Rosenzweig, 2001; Kraus et al., 2015; Samiee, 2013). The experimental design therefore consists of 15 potential target countries (excluding Germany, Switzerland, or Austria as a respective home country) x 5 entry modes. In order to avoid fatigue, we selected a random fraction of the full factorial of 75 combinations for each manager using random sequences (Addelman, 1962; Huber & Zwerina, 1996; Kuhfeld, Tobias, & Garratt, 1994) allocated to 11 choice sets with four internationalization options each. Thus, each target country was shown in different combinations about three times to each manager during the experiment.

We placed the managers in a situation (e.g., Kraus, Meier, Eggers, Bouncken, & Schuessler, 2016) in which they had to assume that they were taking over the management of one of the companies in the choice sets. All of these companies are headquartered in the same home country as the company the managers are currently working for, active in the same industry, and serving only the domestic market so far. Accordingly, the studied decisions focus on the company's initial international market entry. In each choice set, managers then had to indicate the most risky internationalization strategy ("most risky for the company"). In a separate decision, they had to identify the strategy that will yield the highest expected return ("most successful under my leadership"). In addition to the four experimentally varied options, a static option of *no internationalization* was included as a

reference in each choice set that could be selected if none of the alternatives were perceived as riskier or more rewarding than focusing on the home country.

## 4.2 | Utility model

To model managerial decisions, we draw on random utility theory (Manski & Lerman, 1977; McFadden, 2001; Thurstone, 1927). Managers  $m$  choose a location strategy  $i$  that exhibits the highest expected utility from a set of internationalization opportunities. The theory assumes that utility  $U$  is a latent construct that consists of a systematic component  $V$  and a random error component  $\varepsilon$  that is inherent to managers' choice behavior and/or unobservable to the researcher, that is,  $U_{mi} = V_{mi} + \varepsilon_{mi}$ . By experimental variation of the target countries, we aim to identify their systematic utility contribution  $V$ . Accordingly, we assume that the overall utility of an internationalization strategy  $i$  for a manager  $m$  is systematically influenced by part-worth utilities for different host countries  $C$  and other attributes  $X$ , such as entry modes, that we define as controls since they are not the primary focus of this study. We also allow managers the option to choose neither of the internationalization strategies but instead choose a national strategy, which we capture by a separate dummy variable  $N$ . In order to analyze dynamics over time, we also consider time  $t$ . By modeling separate choices, we are able to differentiate effects of risk perception and of perceptions of return, shown in Equation 1 (for risk perception) and Equation 2 (for perceptions of return). We define Equations 1 and 2 as the *Country Model*, that is, estimating effects for specific countries rather than summarizing them by perceptions of distance (see below).

$$V_{\text{mit, risk}} = \beta_{\text{Cmt, risk}} C_{it} + \beta_{\text{Xmt, risk}} X_{it} + \beta_{\text{Nmt, risk}} N_{it}. \quad (1)$$

$$V_{\text{mit, return}} = \beta_{\text{Cmt, return}} C_{it} + \beta_{\text{Xmt, return}} X_{it} + \beta_{\text{Nmt, return}} N_{it}. \quad (2)$$

For exposition, we apply Equations 1 and 2 to each cross-section in  $t$  and analyze the relationship between the  $\beta_{\text{Cmt, risk}}$  and  $\beta_{\text{Cmt, return}}$  over time. Subsequently, we present a model that considers all effects jointly and simultaneously estimates the risk–return relationship between the host countries  $\alpha_{\text{C, rr}}$  and its change over time  $\delta_{\text{C, rr}}^t$ . This joint model is given by Equation 3. Equation 3 represents the risk perception only, if return = 0. Return perceptions (return = 1) are estimated as a factor  $\alpha$  of the risk perception. We also account for differences of other attributes and the national strategy. We check if the risk–return relationship varies over time by factor  $\delta$ , which is estimated for the 2017 cohort ( $t = 1$ ), not for the 2013 sample ( $t = 0$ ). We also add the moderating effect of time  $t$  on the host countries  $C$ , controls  $X$ , and the national strategy  $N$ .

$$\begin{aligned} V_{\text{mit, rr}} = & \left( \alpha_{\text{C, rr}} \cdot \delta_{\text{C, rr}}^t \right)^{\text{return}} \cdot (\beta_{\text{Cm, risk}} C_{it} + \beta_{\text{Cmt, risk}} C_{it} \cdot t) \\ & + \left( \alpha_{\text{X, rr}} \cdot \delta_{\text{X, rr}}^t \right)^{\text{return}} \cdot (\beta_{\text{Xm, risk}} X_{it} + \beta_{\text{Xmt, risk}} \cdot t) \\ & + \left( \alpha_{\text{N, rr}} \cdot \delta_{\text{N, rr}}^t \right)^{\text{return}} \cdot (\beta_{\text{Nm, risk}} N_{it} + \beta_{\text{Nmt, risk}} \cdot t). \end{aligned} \quad (3)$$

In another step, we include different dimensions of distance to estimate the utility contribution in a *Distance Model*, namely geographic distance  $GD_i$ , cultural distance  $CD_{mi}$ , economic distance  $ED_{mi}$ , and political distance  $PD_{mi}$ , such that  $C_i = f_m(GD_i, CD_{mi}, ED_{mi}, \text{ and } PD_{mi})$ . In order to account for these distances, we can rewrite the utility function to Equation 4 to be applied to both the riskiest choice and the most successful choice:

$$V_{mit} = \beta_{GDmit}GD_{it} + \beta_{CDmit}CD_{mit} + \beta_{EDmit}ED_{mit} + \beta_{PDmit}PD_{mit} + \beta_{Xmt}X_{it} + \beta_{Nmt}N_{it}. \quad (4)$$

Figures 1 and 2 illustrate the Country and Distance models.

### 4.3 | Sample and measures

We invited CEOs and top-level managers responsible for the internationalization of companies headquartered in Germany, Switzerland, or Austria to our survey via a professional panel provider in February/March 2013 (in a globalizing world). Another cross-sectional sample completed the study in April 2017 (in a de-globalizing world). We screened out self-employed managers, managers who did not play a management role related to internationalization, or who completed the survey in an unrealistically short period of time. A total of 238 respondents remained for the analysis. They

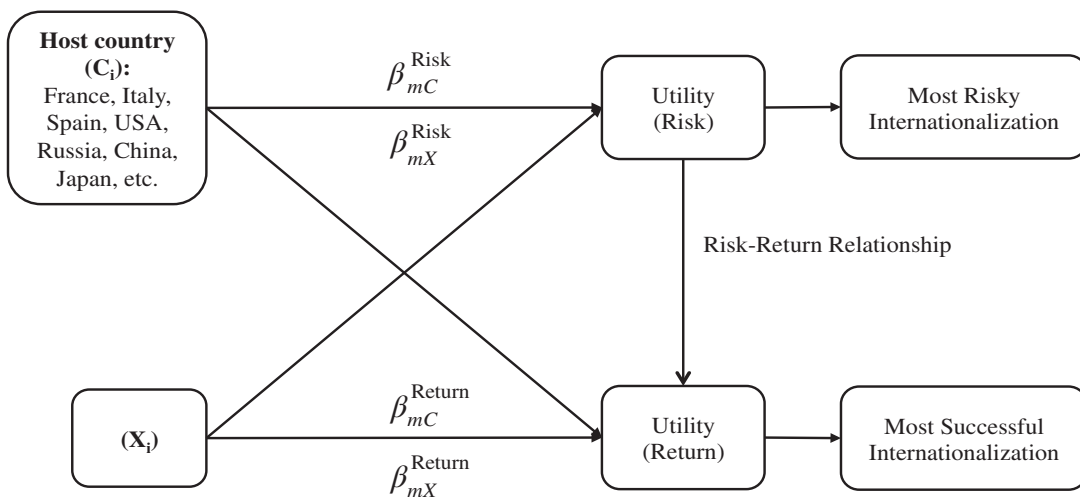


FIGURE 1 The country model

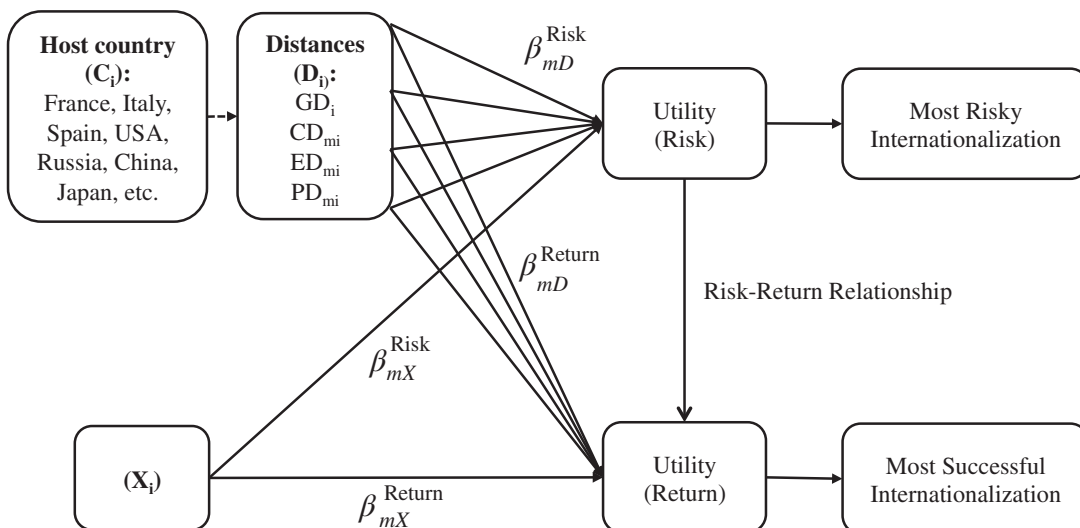


FIGURE 2 The distance model

answered a total of 2,618 internationalization decisions each for the riskiest option and the option that offers the highest expected return.

Our sample is equally divided between the two cross sections (2013 = 55%; 2017 = 45%) and between German (34.9%), Swiss (34.9%), and Austrian (30.2%) managers. About half of the sample is male (55.9%). The average age of the manager is 43.7 years (SD = 11.9). About two thirds (63.0%) have international work experience. 47.1% were the CEO of their company and the remaining 52.9% had a management role that was involved with internationalization decisions. 52.1% of the managers hold shares of their company.

To measure the respondents' perceived distance between home and host country, we added the following variables: *Geographic distance* was measured by the following two variables: (a) (log) distance in km between the centers of the home and target countries, and (3) a dummy variable that indicates whether the host country and the home country are neighboring. For measuring cultural, political, and economic distance, we relied on managers' perceptions. Managers selected the countries that they associated with the specific distance measure, following a pick-any approach (Sonnier & Ainslie, 2011). Although this procedure reduces the scaling to a dummy variable (associated = 1, or not = 0), it avoids respondents' fatigue compared to rating scales. It is therefore more fundamental in nature than the use of rating scales.<sup>1</sup> Measures of *cultural distance* assessed the managers' perception of differences (Solberg, 2008) regarding: 1) task-completion and time-use routines, 2) context orientation, 3) directness of communication (Hall & Reed Hall, 1990), 4) power distance (Hofstede, 1983), and 5) attitude towards risk (see items in Table A1). We measured *economic* and *political distances* between the home and target countries according to Dow and Karunaratna (2006) (see items in Table A1). As the measurement includes positive and negative loadings for these two constructs, the dummy-coding scale included three points ranging from -1 (negative/complicated) to +1 (positive/simple).

We measured several managerial and firm characteristics to serve as potential explanatory variables for location decisions. As firm measures, we used the size of the international network, the number of employees, the age of the company (in years), and the legal status of the company, that is, whether it is a public (0) or a private (1) company. To characterize the managers, we included gender (dummy variable; 1 = male), age in years, shareholding status (dummy variable; Yes = 1), international work experience (dummy variable; 1 = Yes), international studies (dummy variable; 1 = studied in a foreign country), number of fluently spoken foreign languages, and risk-taking propensity. We used four items for risk-taking propensity from a 12-item-scale developed by Eggers et al. (2013). It is based on previous research, has been validated by several subsequent studies, and is tailored to the German-speaking context.

## 5 | ANALYSES AND RESULTS

We apply choice modeling, that is, a multinomial logit model (MNL; Louviere et al., 2000; McFadden, 1974) to estimate the parameters. The MNL function represents a manager's  $m$ 's choice of strategy  $i$  from the set of internationalization alternatives  $J$  at time  $t$  in terms of choice probabilities  $p$ , as given in Equation 5:

$$p_{mt}(i|J) = \frac{\exp(V_{mit,rr})}{\sum_j \exp(V_{mjt,rr})}. \quad (5)$$

<sup>1</sup>As a comparison, one item was measured on both scales using a pick-any question as well as an explicit rating of each country on a five-point scale. The measures correlate significantly ( $\rho = .52$ ) and led to the same implications.



## 5.1 | Country model

In the country model, we used effect-coding for target countries and market entry modes so that the parameters are zero-centered (we report results on the market entry modes in a separate chapter below). For exposition, Table 1 presents the results of separate estimation models consistent with Equations 1 and 2. The countries perceived as least risky for internationalization in 2013 were Switzerland, Austria, the UK, the Netherlands, and Germany. Most risky were Russia, Spain, Italy, and China. In fact, managers also perceive *no internationalization* as risky, which represents the fourth most risky strategy. In 2017, this ranking changed considerably. The UK and the USA have gained substantially in risk, while Spain and Italy were perceived as less risky. Also, a national strategy (*no internationalization*) became less risky in 2017.

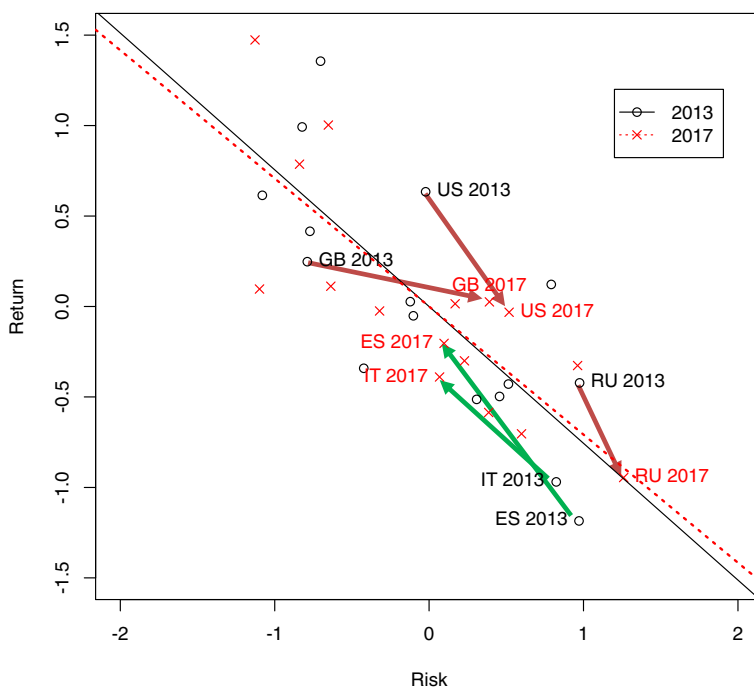
In the estimation model, where the expected return is the dependent variable, Germany, Austria, the USA, Switzerland, and the Netherlands were perceived as countries promising the highest return in 2013. The remaining host countries were generally perceived to yield lower returns than focusing on the home market alone. The least attractive countries for internationalization in terms of expected return were Spain and Italy. Consistent with the development in the risk perception, the expected return in 2017 increased substantially for Spain and Italy, while the USA, the UK, and Russia lost.

For illustration, Figure 3 shows how the perceptions of analyzed countries vary for 2013 and 2017, and Table 2 provides the statistics of a joint estimation model (Equation 3). In order to address H1, we show the marginal risk change in 2017 that risk perceptions for selected target countries changed over time. Specifically, we see that the UK is perceived as more risky in 2017 than in 2013 ( $p < 0.001$ ; risk in 2013 =  $-0.433$ ; risk in 2017 =  $-0.433 + 0.686 = 0.253$ ). We find similar significant positive effects, that is, a perception of higher risk for the U.S., China, and Russia. Significantly less risky in 2017 is the perception of Belgium, Italy, and Spain. The perception of return is

**TABLE 1** The country model: managers' perceptions of risk and return over time (exposition)

	Risk 2013 $\beta$	Risk 2017 $\beta$	Return 2013 $\beta$	Return 2017 $\beta$
Mature markets				
CH	-1.080	-0.653	0.614	1.003
AT	-0.823	-0.839	0.992	0.787
GB	-0.789	0.390	0.248	0.025
NL	-0.772	-1.098	0.415	0.097
DE	-0.703	-1.128	1.356	1.473
BE	-0.423	-0.636	-0.341	0.112
FR	-0.122	-0.321	0.027	-0.025
JP	-0.102	0.169	-0.052	0.015
US	-0.022	0.518	0.634	-0.032
Emerging markets				
IT	0.823	0.068	-0.970	-0.390
ES	0.971	0.097	-1.185	-0.204
PL	0.307	0.386	-0.514	-0.586
HU	0.456	0.599	-0.497	-0.703
CZ	0.513	0.229	-0.429	-0.301
CN	0.791	0.961	0.122	-0.327
RU	0.974	1.260	-0.422	-0.946
No internationalization	0.800	0.551	0.357	0.236

Note. Log-likelihood values: Risk 2013 =  $-2086.5$ , Return 2013 =  $-2,114.0$ , Risk 2017 =  $-1,758.1$ , and Return 2017 =  $-1,772.9$ .



**FIGURE 3** Risk–return relationship of examined target countries

calculated via the risk–return relationship. The change in risk–return from 2013 to 2017 is 0.850 and not significantly different from 1, that is, it does not change significantly over time (95% confidence interval: [0.61; 1.09]). Thus, countries that have become riskier in 2017 are also perceived as offering a lower return.

The estimation results for the model that jointly estimates all parameters shows the risk perception of the host countries and the change in risk perceptions in 2017 (also separated for no internationalization). The risk–return relationship for the host countries is  $-0.926$  (95% confidence interval:  $[-1.10; -0.75; p < 0.001]$ ). This means that the return of the host countries can be calculated as  $-0.926$  times their risk perception, supporting the negative risk–return hypothesized in H2a.

While the perception of some of the countries changed considerably over time, most importantly, the relationship between risk and return stayed the same, supporting H2b. Differences between two separate regression lines are hardly discernible with a slope of  $-0.756$  in 2013 ( $R^2 = 0.60$ ) and  $-0.708$  in 2017 ( $R^2 = 0.65$ ; the constants are not significant in both models).

## 5.2 | Distance model

The distance model was integrated into the MNL model via country-specific covariates. To reduce the number of items and to avoid multicollinearity, we conducted an exploratory factor analysis with Varimax rotation. The analysis resulted in three factors, pertaining to geographic distance, cultural distance, and a combined factor for economic and political distance (see Table A2 for factor loadings). We included these factor scores in the estimation model according to Equation 4. Table 3 depicts the results for the distance models. The overall fit in Log-Likelihood remains comparable (see Table 3 compared to Table 1). This indicates that the distance measures are able to represent the target countries well and that distances provide an adequate heuristic for managers' decisions.

**TABLE 2** Estimation results of joint model (Equation 3, H1 and H2)

	Estimate	SE	t-Value
Risk host countries			
DE	-1.303	0.148	-8.822
AT	-1.002	0.133	-7.559
CH	-0.756	0.132	-5.745
NL	-0.538	0.103	-5.211
GB	-0.433	0.102	-4.256
US	-0.429	0.098	-4.371
FR	-0.067	0.098	-0.689
JP	-0.016	0.098	-0.165
BE	-0.009	0.098	-0.091
PL	0.397	0.099	4.001
CN	0.441	0.086	3.980
HU	0.486	0.101	4.807
CZ	0.495	0.101	4.911
RU	0.835	0.104	7.997
IT	0.872	0.099	8.807
ES	1.026	0.099	10.316
Host countries marginal risk change in 2017			
DE	-0.423	0.255	-1.660
AT	0.057	0.204	0.279
CH	-0.326	0.208	-1.571
NL	0.049	0.161	0.301
GB	0.686	0.155	4.420
US	0.804	0.153	5.250
FR	-0.075	0.151	-0.496
JP	0.126	0.151	0.831
BE	-0.344	0.155	-2.225
PL	0.101	0.149	0.681
CN	0.412	0.086	2.568
HU	0.197	0.149	1.317
CZ	-0.200	0.152	-1.321
RU	0.430	0.152	2.838
IT	-0.640	0.149	-4.286
ES	-0.852	0.150	-5.668
Risk no internationalization	0.794	0.062	12.788
No internat marginal risk change in 2017	-0.218	0.095	-2.298
Risk–return relationship (RRR)			
RRR host countries	-0.926	0.091	-10.194
RRR change in 2017 (host countries)	0.850	0.124	6.861
RRR no internalization	0.434	0.086	5.030
RRR change in 2017 (no internationalization)	0.957	0.358	2.670

Note. Log-likelihood = -7,794.16.

**TABLE 3** The distance model: the effect of distances on risk and return (H3)

	Risk 2013 $\beta$	Risk 2017 $\beta$	Return 2013 $\beta$	Return 2017 $\beta$
LL	-2,090.1	-1,702.5	-2,157.5	-1,765.0
Geographic distance	<b>0.092</b>	<b>0.312</b>	<b>-0.134</b>	<b>-0.235</b>
Cultural distance	<b>0.363</b>	<b>0.477</b>	<b>0.099</b>	0.075
Economic and political distance	<b>-0.845</b>	<b>-0.900</b>	<b>0.860</b>	<b>0.954</b>
No internationalization	<b>0.722</b>	<b>0.434</b>	<b>0.338</b>	<b>0.353</b>

Note. Bold = significant at  $\alpha = 0.05$ .

Cultural and geographic distance of the host country have a significant positive effect on the perceived risk of the internationalization, so that countries with higher distance are more likely to be viewed as risky. Economic and political distances have a significant negative effect ( $p < .001$ ). Since we measured these distances in terms of both positive and negative differences, this result has the following implications: positive differences (i.e., favorable economic or reliable political conditions) reduce the perceived risk, while negative distances (i.e., negative differences in economic development or complicated political conditions) enhance the risk perceived. Comparing the effects of the distances on risk between 2013 and 2017 shows that the effects increase in magnitude, mostly for geographic distance. Overall, these results support H3.

For expected returns, we find inverse effects of these distances; that is, the distance measures mirror the negative risk–return relationship between the target countries. The only exception is cultural distance (H4a), which exhibits a small but significant positive effect in 2013, or does not affect the expected return in 2017. Nevertheless, the results of geographic (H3b), and economic and political distance (H3c, d) overall support H4.

### 5.3 | Managerial characteristics

Hypotheses 5a–d referred to the level of international experience, age, the risk propensity and the shareholder status of the decision-maker. As each of these characteristics would have to enter the choice model as moderating effects, this would lead to issues regarding degrees of freedom and potential overfitting. We therefore relied on a hierarchical Bayesian estimation procedure (Rossi & Allenby, 2003) to estimate individual-level (manager-specific) parameters, which we then checked for differences ex post. Specifically, we considered the individual-level risk–return parameters in a linear regression model with managerial and firm level characteristics as predictors. The regression is significant ( $p = 0.017$ ) and explains 11.3% of the variance in the risk–return relationship. Table 4 shows the regression parameters.

We find marginal significant results at the 10% level for international experience (H5a,  $p = 0.059$ ), such that those with international experience have a more negative risk–return relationship. Moreover, their risk-taking propensity affects the results (H5c,  $p = 0.071$ ), that is, those more oriented towards risk exhibit a less negative risk–return relationship. In addition, if managers are shareholders of the company (H5d,  $p = 0.055$ ) the risk–return relationship is less pronounced, that is, they do not necessarily associate lower return with high risk. However, managers' age (H5b  $p = 0.457$ ) was not significant.

**TABLE 4** Managerial characteristics

	Estimate	SE	p-value
(Intercept)	-0.553	0.414	0.183
<i>Control variables</i>			
Gender (dummy, 1 = male)	-0.167	0.168	0.321
Number of foreign languages	0.063	0.088	0.479
Int. studies (dummy)	0.187	0.205	0.361
Education (dummy, qualified for university)	-0.102	0.198	0.606
Size of international network	-0.055	0.062	0.380
Age company (in years)	0.001	0.002	0.714
Number of employees (log number)	0.073	0.043	0.089
Legal status (0 = public, 1 = private)	-0.066	0.171	0.701
<i>Independent variables</i>			
Int. work experience (dummy)	-0.358	0.189	0.059
Age manager (in years)	-0.005	0.007	0.457
Risk-taking propensity	0.212	0.117	0.071
Shareholder (dummy)	0.374	0.194	0.055

#### 5.4 | Robustness tests

To test the robustness of our results, we included several control variables and checked alternative estimation procedures. First, as mentioned earlier, our scenarios included three different entry modes to capture the complexity of internationalization decisions. Managers usually perceive more equity-intensive entry as riskier because of greater financial exposure (e.g., Chang & Rosenzweig, 2001; Kraus et al., 2015; Samiee, 2013). More equity-intensive entry modes also entail more control mechanisms and mechanisms with greater complexity but should offer managers higher returns. When controlling for the entry modes in the country models, we only find three significant parameters (out of the 20 estimated effects). Thus, the results do not remain stable either across time or across the different decision scenarios (risk vs. return) so that we do not interpret the findings further. We can only conclude that, in our research context, decisions were dominated by target countries rather than market entry forms.

Second, the use of perceptual distance measures has often been criticized. Although we believe that these are adequate for our purpose of revealing individual perceptions and testing whether they are a useful proxy for risk and return perceptions (see also Kraus et al., 2015), we extended our analyses. To test the correspondence of our measures with commonly used aggregate distance indices, we ran an alternative estimation of Equation 4 with Hofstede-based proxies (Kogut & Singh, 1988). We find consistent results of these proxies to our distance measures such that larger distances significantly increase the perception of risk and significantly decrease the perception of return (for 2013 and 2017).

## 6 | DISCUSSION AND CONCLUSION

This study responds to calls from several international business scholars for a deeper understanding of the underlying mechanisms of managerial perceptions and microfoundations in internationalization research (Aharoni et al., 2011; Buckley et al., 2007; Kogut, Walker, & Anand, 2002; Maitland & Sammartino, 2015a). Our study aimed to shed light on the heuristics used by managers to interpret

complex sets of information that exist in different environments. Based on an experimental design with 2,618 international location decisions, we analyzed how managers evaluated different international locations in 2013 (in a globalizing world) and 2017 (in a de-globalizing world). Our study offers a number of empirical and theoretical contributions to the literature on international location choice, but also to the wider research on managerial decisions with regard to risk and return.

Prior research has emphasized the value of fast and frugal heuristics in decision-making (Bingham & Eisenhardt, 2011; Davis et al., 2007; Gigerenzer & Gaissmaier, 2011) and we followed this logic to uncover international location decisions. An important contribution of this research is to shed light on the heuristics managers use for international location decisions by applying a discrete choice experiment. Such an experiment is particularly suited to study international location decisions in light of bounded rationality (e.g., Aharoni et al., 2011; Buckley et al., 2018; Canabala & White, 2008; Kraus et al., 2015). The choice experiment allowed us to control the stimuli and to draw *causal* inferences from the results (Louviere et al., 2000). By putting the individual managers' perceptions in the spotlight, we contribute to a more refined analysis of managers' decision heuristics (Buckley et al., 2007) in a stream of research that has mostly relied on secondary data or surveys about the actual location choices of companies.

Our study refines prior work on heuristics in international business (Bingham & Eisenhardt, 2011; Maitland & Sammartino, 2015a), as it demonstrates that heuristics guide strategic decision-making and determine which countries should be approached. Specifically, we show that managers apply fast and frugal mechanisms for screening international locations to rank different opportunities. This decision-making procedure aligns with what Bingham and Eisenhardt (2011) called *priority heuristics*.

Another central finding of our research is that the negative relationship between perceived risk and return of international location decisions remains stable over time. While the fundamental idea of a negative risk–return relationship is not new (Bowman, 1980; Finucane et al., 2000; Slovic et al., 2004), our study tests the cognitive foundations of this assumption based on managerial perceptions. Although perceptions of specific locations change over time due to political and economic events, managers consistently employ heuristics for choosing the least risky and most profitable international locations. Our results suggest that managers exploit context-specific information (e.g., Goldstein & Gigerenzer, 2002; Hogarth & Karelaia, 2007) and then apply heuristics in their decision-making that remain stable over time (e.g., Artinger et al., 2015). The changes in the institutional environment between 2013 and 2017 influenced managers' perception of risk and return with regard to specific countries but the overall disposition of opting for locations that offer high returns but have low risks does not change.

In line with Bingham and Eisenhardt (2011), we highlight a positive view on heuristics and show that they in fact provide consistency in decision making in dynamic and complex contexts. Both, the stable risk–return relationship and the changes of priority heuristics inform further on the insights from Bingham and Eisenhardt (2011) that “heuristics constitute ‘rational’ strategy in unpredictable markets. That is, unique rules of thumb that guide key organizational processes are not just cognitive shortcuts. Rather, they are also the basis of value-creating strategies that can be more effective than information-intensive, cognitively demanding approaches” (p. 1438).

Another important feature of our study is that it highlights the strategic option of “*no internationalization*”. Our findings show that “*no internationalization*” is also seen as a strategy, which can bear a substantial amount of risk. Managers viewed the risk of a purely national strategy—in our case the reference point—as yielding less utility and more risky than going international in 2013 compared to 2017. This also extends the theoretical perspective of the behavioral school of internationalization that attributes risk and uncertainty primarily to foreign host countries and not the home market (Buckley et al., 2018; Clarke & Liesch, 2017; Johanson & Vahlne, 1977). Our findings however,



demonstrate that a home market strategy can indeed bear a substantial amount of risk depending on the current context and geopolitics.

We believe that this perspective does not put the general premise of the Uppsala School of internationalization into question but rather reflects the changes that have profoundly affected the environment of international business since the seminal work of Johanson and Vahlne (1977). On the one hand, globalization is an overarching mega-trend that continues to change the world and to transcend the economic world. Markets of the Triad (the U.S., the EU, and Japan) are saturated, and a domestic strategy may not yield enough returns, albeit bearing risk. Rather, emerging economies, such as the BRICS countries Brazil, Russian Federation, India, China, and South Africa offer business opportunities (Luo & Tung, 2007). Further, increased (global) competition for scarce resources, learning opportunities, and knowledge-intensive assets in foreign locations, and windows of opportunities that close much faster than decades ago, may let managers perceive a home market strategy as quite risky. On the other hand, current tendencies against globalization, as mirrored by the Brexit referendum or the new style of politics by Donald Trump, may change perceptions and let managers opt for a temporary national strategy. We therefore contend, that the general underpinnings of the behavioral, respectively Uppsala School of internationalization that learning and distances matter, still hold true, but more emphasis needs to be placed on the fact that a *no internationalization* strategy maybe a context-specific risky option. As such, our findings clearly reflect the sample of managers from developed markets. Previous research found that emerging market firms take greater risks, especially in their early stage of internationalization to compensate for their competitive weaknesses and reduce the institutional constraints at home (Cuervo-Cazurra & Ramamurti, 2014; Guillén & García-Canal, 2009; Luo & Bu, 2018). It is likely that such firms expand more rapidly into physically, culturally, and economically distant countries (Morck, Yeung, & Zhao, 2008).

Another contribution of our research vis-à-vis the behavioral school of internationalization is that the Uppsala school considers risk only with regard to commitment decisions. Johanson and Vahlne describe the uncertainty effect in their seminal paper from 1977 as the “decision-makers’ perceived lack of ability to estimate the present and future market and market-influencing factors” (p. 29) and they contend that risk is not only a consequence of commitments but can also increase due to market entry of new competitors, introductions of new technology (Johanson & Vahlne, 1977); or in extreme situations, revolutions or political regime changes (Figueira-de-Lemos et al., 2011). While the Uppsala School attributes risk and return to specific country markets, they do not include the microfoundations view that decision makers in fact can evaluate the risk and return international locations offer. The Uppsala model focuses exclusively on existing and future commitment decisions as overall risk (i.e., the tolerable risk level between downside risk and returns). That is, risk may arise from the market but the decision maker does not have enough information / market knowledge to evaluate a priori which markets offer the highest return and lowest risk. Accordingly, the market is a variable that decision makers only passively react to whereas the commitment variable plays an active and controllable role (Figueira-de-Lemos et al., 2011) for which managers can develop capabilities. Thus, the model does capture international location decisions and the idea that possible returns and downside risk also arise from the foreign country context in which a firm commits resources but ignores the role the decision maker can play in opting for one or the other country.

Another contribution of our study aimed to address whether distances between home and host countries serve as a useful proxy for the assessment heuristics of risk and return. Countries differ in their political, economic, social, and cultural institutions (Tsui, 2007). The behavioral school of internationalization assumes that distances are a primary constraint for internationalization because they impede information flows and lead to information asymmetries. While this school of thought advocates the concept of psychic distance, the measurement of this construct has not been based on

individual perceptions (Baack et al., 2015; Dow, 2017). Inspired by these recent calls for more research on individual perceptions, our study adds to the theorizing on the microfoundations of international location decisions and the role of distance. Because international location decisions are complex and difficult to rationalize, our study gives us and practicing managers some confidence that the assessment of distances will lead to similar outcomes, supporting the idea of fast and frugal heuristics. Thus, we also advance our understanding of the mechanisms behind managers' decision heuristics and extend the debate on the role of distance in internationalization and location choice.

Last but not least, our study has shed some light on which managerial characteristics affect location decisions. We found that managers, who are more experienced, more risk-prone and who are shareholders are less sensitive to the risk–return relationship. While our results are only marginally statistically significant, we find it important to highlight that such differences exist and that future research should look deeper into managerial characteristics (Leonidou, Katsikeas, Samiee, & Aykol, 2017). Equally interesting are our non-findings here: gender, age as well as many firm-specific characteristics do not seem to have a major impact on decision-making heuristics in our sample. This certainly calls for further research of individual as well as organizational antecedents of decision-making patterns for international location choice.

## 6.1 | Limitations and future research

As with any study, this study comes with several limitations. While controlling for some organizational variables, we were not able to incorporate the organizational history and context (e.g., industry and firm level effects; location and non-location bound activities; overall business model, and internationalization strategy (e.g., market seeking vs. resource seeking) in more detail. These variables can influence perceptions of risk and return, and of distances (Clarke et al., 2013; Zaheer et al., 2012). Ideally, future studies will include a richer decision making context. We measured distance as a symmetric construct while the asymmetry of distances had been advocated by Zaheer et al. (2012). Another limitation of our empirical context is the German-speaking origin of our sample. Potentially a truly cross-cultural sample may portray different choices and relationships.

In past research on internationalization, the individual has been under-represented (Buckley et al., 2007). It is a key contribution of our study to highlight individual managerial perceptions, but of course, there is no direct path from an individual perception to an organizational wide perception (Dow, 2017; Liesch et al., 2011). Accordingly, criticism has been voiced that only few risk researchers bring together the individual and organizational levels of research (Felin, Foss, & Ployhart, 2015). Future studies will have to link the individual and organizational perceptions better to advance our theory.

Another limitation of our study, is that it did not focus on the *commitment* aspect (e.g., Chittoor et al., 2018; Clarke & Liesch, 2017), that is, which entry modes decision makers chose. We indeed found the commitment decision to be subordinate to the location decision and acknowledge that research will have to look deeper into the complex decision, where to locate and how to locate; potentially, in a sequential way.

## 7 | CONCLUSION

Our study set out to shed more light on the microfoundations, specifically the risk and return perceptions of international location decisions by applying a discrete choice experiment. The empirical findings address three main areas: they uncovered the heuristics for decision-making (the negative and

stable risk–return relationship); explored the role of distance as a proxy for perceptions; and revealed how managerial characteristics influence perceptions of risk and return. On a theoretical level, these insights contribute to the microfoundations perspective in international location decisions, in particular to the application of heuristics in managerial decision-making, and extend the behavioral school of internationalization. We hope this study will add to a stream of research that puts the individual decision maker in international business research in the spotlight.

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## APPENDIX A: PERCEPTUAL VARIABLES

**TABLE A1** Measures

Cultural Distance (Hall and Reed Hall, 1990; Hofstede, 1983)

Please indicate the countries that have ...

- Different routines for time use and tasks completion (tasks are carried out either more in parallel or more sequentially).
- Different context use in communication (more task oriented or including more context information).
- Different levels of communication directness (direct discussion or more indirect discussions / paraphrasing).
- Different levels of power distance, characterized by a higher/lower power differential between hierarchical levels.
- Different risk attitudes (the degree to which information and rules are set).

Economic and Political Development (Dow & Karunaratna, 2006)

Please select those countries that ...

- Differ positively (negatively) from your home country in terms of economic development.
- Have simpler (more complicated) political conditions than your home country.

Risk taking propensity (Eggers, Kraus, Hughes, Laraway, & Snyderski, 2013)

- We encourage people in our company to take risks with new ideas
- We value new strategies/plans even if we are not certain that they will always work
- To make effective changes to our offering, we are willing to accept at least a moderate level of risk of significant losses
- We engage in risky investments (e.g. new employees, facilities, debt, and stock options) to stimulate future growth

**TABLE A2** Factor loadings of distance measures

Item	Factor 1	Factor 2	Factor 3
Cultural distance_routine	0.52		
Cultural distance_communication context	0.64		
Cultural distance_communication style	0.60		
Cultural distance_power	0.65		
Cultural distance_risk	0.54		
Geographic distance_log(km)	0.31	0.95	
Geographic distance_neighbor		-0.64	
Economic distance			0.58
Political distance			0.40

Note. Absolute factor loadings >0.2