

Guest Editorial Preface

Decision-Making for International Strategies: Perspectives for Research

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INTRODUCTION

Decision-making has been described as a complex process, in which individuals must evaluate variables and events in order to select among the different alternatives (von Winterfeld & Edwards, 1986). It is possible to trace the studies on decision-making back to the 1950s, when the main purpose of research was to indicate how an individual should decide by behaving rationally (e.g. Edwards, 1954; Bernoulli, 1954). The basic assumption was that decision-makers are rational and consistent with the objective of maximizing an expected utility, based on full rationality (Blume, & Easley, 2008). The theory of expected utility, developed in the 1940s by Von Neumann and Morgenstern (1999), provided the theoretical basis for this approach. The theory hypothesizes a utility function that assigns a numerical value to the satisfaction associated with alternative events. As a result, the choices of individuals were supposed to be based on the calculation of the expected value associated with each of the alternatives they can choose from.

This approach was defined as normative, since it was based on the optimization of resources and with the assumption of rationality during the decision-making process. However, it did not consider some important variables involved in decisions, such as the affective evaluation of the alternatives and the limits of the individual's cognitive resources. Indeed, managers and entrepreneurs, as individuals, reveal behaviors that are not fully rational, being subject to emotional factors that can have influence on the decision-making process. Some of them are inclined to decide based on instinct and intuition, especially when a significant amount of experience supports them. Other decision makers overestimate their ability to control events, believing that their abilities are superior to the aleatory components.

For these reasons, the regulatory approach was criticized right away, bringing out a further approach, defined as descriptive. This approach aimed to predict the behavior of a decision maker in certain circumstances, taking into account of the various factors of influence, and considering the individual as endowed with limited cognitive resources. One of the first to support the need to review the regulatory approach was Simon (1947), who defined the concept of bounded rationality, according to which the decision-making process suffers from strong limits of human cognitive abilities. This concept was subsequently used as a basis for the definition of further theories, including the prospect theory of Kahneman & Tversky (1979), of a psychological nature, which proposed a model with the aim of describing more precisely how people choose. Indeed, individuals, with their behavior, often violate the axioms of rationality even when faced with very simple problems.

The prospect theory, acting as an alternative theory to that of expected utility in conditions of uncertainty, represents a model whose main objective is to describe the real behavior of individuals, trying to explaining how and why the choices made by decision makers recurrently deviate from those described by the theories based on full rationality.

Such a behavioral perspective added more parameters related to the influence of social norms, emotions, environmental factors, taking into account that humans' powers of computation and cogitation are limited, and people are not always consistent and stable in their behavior. Several factors intervene in decisions, and these factors are related not only to individual cognitive mechanisms, but also to relational mechanisms, which are the basis of the functioning of markets. Market relations are nothing more than relationships between individuals who base their choices on apparently rational logics.

HEURISTICS, BIASES, AND FRAMING EFFECT

Kahneman and Tversky (1979) brought the term "heuristic" to the fore, associating it with that of "bias". Differently from Simon (1947), who argued that humans rely on heuristics not only because of cognitive limitations, but also because of the environment influence (Miller, 1983), Kahneman and Tversky begun to use this term to explain why people are not always rational.

Heuristics (Kahneman, Slovic & Paversky, 1982) represent a shortcut for reasoning, deciding and evaluating. They ensure quicker decision-making processes but, on the other hand, they expose to the risk of failure, since they reproduce approximations of rational choices. Heuristics can be considered as a kind of mental path that individuals follow in order to simplify, unconsciously, the assessments to be made when faced with a choice. Consequently, they are difficult to avoid since they can only be recognized after they have been adopted. The main heuristics are: representativeness, availability, anchoring, and affect heuristic (Gilovich, Griffin, & Kahneman, 2011; Musso, 2020).

The heuristics of representativeness are empirical rules based on similarities or stereotypes that individuals adopt for making predictions or express judgments. The probability of an event is estimated depending on its similitude with preconceived categories. It can be used for classifying situations, individual or organizations, attributing them standardized behaviors even before knowing them (Tversky & Kahneman, 1974).

The availability heuristic is the ease with which examples of an event can be recalled, influencing the estimates of how frequently the same event occurs (Kahneman, Slovic & Paversky, 1982; Tversky & Kahneman, 1973). It can be summarized in the tendency to use the information that is more easily available.

Anchoring is the disproportionate influence on decision makers of an initially presented value (Furnham & Boo, 2011). This is the consequence of the inadequacy of individuals to adapt to changes in the environment. Therefore, they remain anchored, in their decisions, to a reference value without adequately modifying previous assessments (Tversky & Kahneman, 1974).

The affect heuristic represents the behavior of individuals who act by listening mainly to intuition and instinct (Dane & Pratt, 2007). Consequently, they set their decisions based on what, from an emotional point of view, makes them feel better (Slovic et al., 2007).

Biases, or systematic errors, represent a form of distortion due to various forms of prejudice. The most frequent biases are: excessive optimism, overconfidence, confirmation bias and illusion of control.

Excessive optimism and overconfidence fall within a broader state of mind in which the individual, in the context of a given situation, tends to overestimate his skills and competences (Riaz & Iqbal, 2015). Overconfidence represents the tendency to show unjustified confidence in one's abilities, which often leads to not accepting the idea to be wrong, and to seek information in favor of one's opinions rather than objective information (Trevelyan, 2008; De la Rosa, 2011).

Confirmation bias occurs when individuals tend to make decisions by ignoring information that runs counter to their way of thinking (Nickerson, 1998). It is a mental process that consists in taking note of the information received and selecting them in order to pay more attention and give greater credibility to those that confirm previous beliefs.

Illusion of control is a bias that leads to overestimating the ratio of success for a task. As a result, the higher the perception of control, the higher the likelihood of underestimating risks (Durand, 2003).

Excessive optimism, overconfidence, confirmation bias and illusion of control lead decision-makers to misjudge exogenous variables, making decisions that weaken the rational components of evaluations.

In the literature, in addition to heuristics and biases, a third category of distortion has been described, namely the framing effect, such as loss aversion – people’s tendency to prefer avoiding losses than acquiring equivalent gains (Abdellaoui, et al., 2007) – and certain loss aversion, which occurs when a person is led to choose an option with a risk of loss higher than the certain loss incurred if no option is chosen. A frame that is generated in a given decision depends on a number of factors: previous patterns and experience, norms and expectations, the desire for simplicity, and habits (Johnson-Laird, 1983; Schoemaker & Russo, 2001).

In summary, the criticisms to the rational choice theory argue that it is completely unrealistic to think that the decision maker can consider and understand the large number of factors that can influence the final result of the decision made (Grégoire, Williams & Oviatt, 2008; March, 1994). Therefore the entrepreneur or manager will make decisions that will meet expectations rather than optimize the results, thus decisions are subject to the availability of information and follow heuristics that reduce decision-making costs (Cuervo-Cavurra, Narula & Un, 2015).

DECISION-MAKING AND SMES INTERNATIONALIZATION

As regards decisions related to the internationalization process of companies, it worth considering one of the most well-known theories on market functioning, that is the transaction costs analysis (TCA), proposed in its early versions by Coase (1937) and then by Williamson (1975; 1985). The TCA approach supported the academic literature in explaining the criteria of organizational forms and strategic choices, among which are diversification, vertical integration, internationalization, and various forms of cooperation and interaction between firms. Two key assumptions of human behavior support this theory: bounded rationality and opportunism.

Bounded rationality assumes that decision makers have limited cognitive capabilities and a not fully rational behavior. This constraint emerges in conditions of uncertainty, for which the context of an economic interaction cannot be specified *ex ante* and performance cannot be verified *ex post* (Rindfleisch & Heide, 1997).

Opportunism is defined as “self-interest seeking with guile. This includes but is scarcely limited to more blatant forms, such as lying, stealing, and cheating. ... More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse” (Williamson, 1985, p. 47).

Unfortunately, the TCA literature lacks an understanding of what determines limited rationality and opportunism, and which are the factors that have influence on these dimensions of human behavior. In this theory, the concepts of “utility”, “rationality”, “trust”, and also “intelligence” are not clearly defined, since they do not have universal meanings, depending on the influence of ethics, social rules, physiological factors and even “visceral factors” (e.g. hunger, thirst, sexual desire, anger, fear) (Loewenstein, 1996). This issue clearly occurs facing relationships between individuals and organizations of different cultures, as international interactions are.

With reference to small and medium-sized enterprises (SMEs), the importance of the strategic decision-making process in international businesses has been widely recognized, even if the international business literature traditionally assumed that internationalization decisions are purely rational. Indeed, the analysis of how non-rational factors affect foreign expansion decisions has been in large part neglected (Brouthers & Hennart, 2007). Although different researches investigated strategic decisions with specific reference to small firms (Brouthers, et al., 1998; Gibcus, Vermeulen, & Jong, 2009; Huang, 2009; Jocumsen, 2004; Guercini et al., 2014), internationalization process (Aharoni, Tihanyi, & Connelly, 2011; Dimitratos, et al., 2011; Brondoni and Musso, 2010; Nielsen & Nielsen, 2011), or both perspectives (Lieberman-Yaconi, Hooper, & Hutchings, 2010; Musso and Francioni,

2013; Child and Hsieh, 2014; Aharoni, Tihanyi, & Connelly, 2011; Dimitratos, et al., 2011; Nielsen & Nielsen, 2011; Musso & Francioni, 2009; 2013; Gervais, 2018; Musso, 2019; Francioni et al., 2013) few of them analyzed non-rational factors among the influencing variables of decisions. Therefore, there is space for research that could take into account not only of rational factors in international decisions, but also of behavioral distortions, such as heuristics, biases and framing effects, as well as emotional factors, that can act positively or negatively in the process of formulating choices. Decisions for international strategies of companies are among those choices that require such an approach.

FUTURE RESEARCH DIRECTIONS AND THE CONTENT OF THE SPECIAL ISSUE

Behavioral traits, like intuition and overconfidence, combine their influence with decision maker's personality characters and mental processes, bringing to choices that change over time and depending on the context. Finding interpretive models that could support managers in behaving effectively is a challenge that scholars are facing, with much work still to be done and many implications yet to be discovered.

Of course, when interpreting economic phenomena, the assumption of purely rational and coherent behavior is unlikely to be realistic. Adam Smith, who prior to introducing the concept of the "invisible hand" published in 1759 a book entitled "The Theory of Moral Sentiments", stated that to make economy improve, philosophers are required. To understand the economic behavior, a multidimensional, interdisciplinary approach becomes necessary, the distance between different research communities must be reduced and opportunities from the integration of research methodologies must be pursued.

This special issue of the International Journal of Applied Behavioral Economics provides some first responses to the issue of the strategic, structural and organizational setting of SMEs facing internationalization processes.

The article entitled "Entrepreneurial Logics in International Entry Mode Decisions", by Valentina Macovei and Birgit Hagen, analyzes the entrepreneurial decision-making in contexts of uncertainty and scarcity of resources. According to the Authors, decision-making for international strategies is characterized by uncertainty and risk, especially for SMEs, for which missteps in the international arena may threaten survival and growth. In this context, one of the most critical decisions is that of the choice of entry modes in a foreign market.

Izabela Kowalik, Lidia Danik, Agnieszka Pleśniak and Elżbieta Duliniec, in their article entitled "Decision Making and Entrepreneurial Orientation of SMEs", explore the decision-making styles of SME exporters following different expansion routes, with the aim to find the connections of decision-making with the entrepreneurial orientation of such firms. The analysis has been conducted on a sample of manufacturing SMEs in Poland.

"The Impact of Customer Education on the Perception of Made in Italy Products in the Agri-Food Sector" is the title of the contribution from Anna Claudia Pellicelli and Claudia Franzè. The Authors propose a conceptual model regarding the relationships between customer education, experiential marketing (in the food context) and country-of-origin perceptions in order to establish a successful approach to international markets and consumers. The assumption adopted is that customer education on the perception and evaluations of Made in Italy food products, can contribute to strengthen the country-of-origin effect, leading to a positive impact on purchasing decisions.

The article entitled "Innovation Openness in Supply-Side Relationships: Analysis of SME Cases" by Maria Rosaria Marcone, focuses on supply chain performance measurement systems, with the purpose to offer the most appropriate managerial practices that can help innovative firms that want to improve their performance in dynamic competitive contexts, as international production and supply chains are. The article suggests that there is a close relationship between innovation, efficiency and

firm performance, and many innovations are technology driven and related to business models re-configuration.

Finally, Marcello Sansone, Annarita Colamatteo and Maria Anna Pagnanelli propose a contribution on “The Dynamic Capabilities of International Retailers”. Their article analyses retailers’ dynamic capabilities to understand whether divergences emerge in the cases of international companies versus retailers operating in their own domestic market. Results highlight significant differences in the capability of sensing the external and internal environment of the enterprise and in the capability of transforming the value proposition of the company.

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