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Microfoundations Approach to Risk and Uncertainty in the Uppsala Internationalization Process

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Abstract

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John P. Merli

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This study answers rising calls in International Business to employ a microfoundations approach for greater insight on differences in managerial cognition for entering business in high-risk locations. Consequently, findings challenge the Uppsala model's longstanding stance concerning the risk-internationalization association governed by strict firm-level analysis. I examine CEO decision-making through the lens of their values, represented by their political ideology score along the liberal-conservative continuum, to offer greater predictability for rationalizing strategic choices. Accordingly, political ideology proved a significant predictor for explaining the circumstances in which CEOs elect high-risk locations based on their political ideology's degree of liberalism. Additionally, its interactions with prominent predictors, such as managerial discretion and compensation incentives, underscore how these influences are perceived differently between liberals and conservatives' perception of risk.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

From a managerial decision-making perspective, *uncertainty* is defined as the outcome of a lack of knowledge, while *risk* is defined as the extent that this lack of knowledge will result in beneficial or harmful outcomes from decisions made within context (Clarke & Liesch, 2017). Thus, as Liesch, Welch, and Buckley (2011) argue, risk and uncertainty coevolve, making it difficult to disentangle the intricacies of their interaction. Consequently, risk taking is commonly portrayed in literature as synonymous with decision-making under uncertainty – as an interdisciplinary approach to choosing the most advantageous outcomes within an uncertain environment (Kahneman & Tversky, 1982; March & Shapira, 1987). This premise illustrates the core dilemma surrounding a firm's internationalization decisions – the ability to recognize and exploit opportunities under the confines of foreign risk (Forsgren, 2016).

A common portrayal of the Uppsala internationalization process model (Johanson & Vahlne, 1977) involves its focus on risk reduction (or avoidance), implying the internationalization process cannot proceed until perceptions of risk and uncertainty are largely reduced or removed. Johanson and Vahlne (2009: 1418) counter this critique stating they believe "risk is unavoidable…the firm's approach to risk is complicated and

variable. This assertion, however, does not imply risk avoidance, only a need for risk management." They stipulate "internationalization is more contingent on developing opportunities than transcending uncertainties" (Johanson & Vahlne, 2009:1423). However, this claim does not adequately reflect the dichotomy that exists between Uppsala's gradual, incremental and risk-averse expansion internationally in similar markets right across borders or within their immediate region (Johanson & Vahlne, 1977, 2009), and that of international new ventures (INVs) or born globals, which from (near) inception seek competition in multiple countries (Oviatt & McDougall, 1994; Knight & Cavusgil, 2004). Furthermore, even after firms learn through significant attainment of knowledge, which theoretically reduces risk and uncertainty, the Uppsala model does not predict entry into high-risk countries. Yet, firms *are* operating in "high-risk" locations. Thus, significantly more heterogeneity appears to exist in firm risk perception at the managerial level than currently captured conceptually in the firm-level analysis of the Uppsala model.

This heterogeneity in risk perception at the managerial level reflects a significant gap in international business (IB) and global strategy studies that exists as a result of a nearly exclusive focus on the firm as the unit of analysis to explain internationalization. Attempts to translate certain actions, such as decision-making, learning, or perceptions of the environmental landscape, prove challenging at this level when studies commonly accede to aggregate, generalize, or completely shift levels away from the individual, or *microfoundations* level, where these actions actually reside. Such is the case in the Uppsala model where Johanson and Vahlne consistently acknowledge they disregard the decision makers themselves by aggregating a generality to represent the firm –

significantly reducing the model's predictive value (e.g., Johanson & Vahlne, 1977, 2009; Vahlne & Johanson, 2020). This shortcoming becomes more noteworthy in later adaptations of the model where they not only recognize that managerial discretion is important, but that the relationship between market entry order and psychic distance (i.e., individual's perception of differences between home country and a foreign country; Sousa & Bradley, 2006) applies at the level of the decision maker, not the firm (Johanson & Vahlne, 2009). Likewise, the authors later add elements of entrepreneurship, management of uncertainty, and the effectuation process (Sarasvathy, 2001) – all focused on the decision maker – yet treat this microfoundations level as a black box except where resource allocation through path dependency occurs (Vahlne & Johanson, 2017). In fact, the individual level, where decisions involving risk and uncertainty are made, lacks considerable attention across IB and global strategy fields; hence, ensues as a detriment to clearer interpretation.

To accurately understand the complexity of this phenomenon, multi-level investigations will need to be integrated to capture the macro-environmental, institutional, firm, and individual level influences on the wholistic decision-making ecosystem (Coviello, Kano, & Liesch, 2017; Williamson, 1996). The purpose of microfoundations is to use a level of analysis lower than the phenomenon in attempts to identify potential causes (Contractor, Foss, Kundu, & Lahiri, 2019). Inclusion of this micro-level allows for multilevel explanations between the macro and micro levels. To accurately explain any macro phenomenon, which is the case in internationalization literature, it necessitates capturing the actions and interactions of individuals. Microfoundations seeks to unpack the aggregated firm-level concepts in terms of these

individual actions and interactions to determine how they affect organizations and transpire into strategic outcomes (Felin, Foss, & Ployhart, 2015). Microfoundations research shows that in similar situations, decision makers initiate different strategy choices depending on their backgrounds, preferences, and beliefs, as well as personal shaping from their country's culture and institutions (e.g., Coviello et al., 2017; Aharoni, Tihanyi, & Connelly, 2011; Contractor et al., 2019). This viewpoint aligns with risk literature which considers individuals' risk attitudes as stable properties, associated with personality development and culture membership, and with the categorical belief that different individuals will view the same risk dissimilarly (Douglas & Wildavsky, 1982; Kahneman & Tversky, 1982).

Shifting the unit of analysis below the firm level to the microfoundations level provides a richer representation of the strategic decisions made by the actual decision maker(s); thereby, providing greater predictability in the internationalization process. Additionally, this approach may negate many of the literature's contradictions between traditional incremental approaches and born global accelerated approaches as the focus rests solely on the individual's perceptions that drive decisions. As emphasis on "high-risk" contradicts the Uppsala model's approach to internationalization, I expect results would reveal greater nuance that challenge long-standing assumptions. This specific consideration could also garner important understanding on risk tolerance, as a country's risk measurement may not affect a CEO's prospect for entering a particular market (Contractor et al., 2019). However, this could seem like a daunting task to achieve generalizability, for as there exists heterogeneity amongst firms within an industry, the

heterogeneity across decision makers of firms across all industries is exponentially greater (Hambrick & Mason, 1984).

Various IB studies (e.g., Coviello et al., 2017; Forsgren, 2016; Coviello, 2015; Jones & Casulli, 2014) have called for research to concentrate on gaining insight into the decision reasoning of key individuals who shape the firm's internationalization process, since one cannot understand the firm's internationalization behavior without understanding the individual leading the firm. Most recently, Vahlne and Johanson (2020: 4, 7) "suggest that our model can still be improved further by recognizing general characteristics of managers...that research on cognitive and emotional processes can shed light on the phenomena of internationalization, and firm evolution in general…[and] suggest centers for IB research invest in longitudinal data collection so as to conduct qualitative time-series analyses." This study answers that call.

Recently, strategic management has used political ideology in the context of Upper Echelons (UE) theory (Hambrick & Mason, 1984) as a proxy to represent the values that govern the psychological constructs of CEOs in attempts to provide predictability for their strategic choices (e.g., Chin, Hambrick & Treviño, 2013; Elnahas & Kim, 2017; Unsal, Hassan, & Zirek, 2016; Kashmiri & Mahajan, 2017; Gupta & Wowak, 2017). The common theoretical lens of political ideology is the liberal-conservative construct; where conservatives seek uncertainty avoidance and threat management, while liberals value change, equality and are more open to experience. Of the prominent internationalization theories, the Uppsala model represents the lowest level view, is considered behavioral (based on psychological cognitive constructs), and thus presents an optimal framework to incorporate a microfoundations' insight to determine if

political ideology's liberal-conservative construct can provide rationalization for CEOs' strategic choices of internationalization in high-risk locations.

In this dissertation, I initiate a microfoundations framework which can extend Coviello et al.'s (2017) micro-level influences layer in their adaptation to the Uppsala model of internationalization. In particular, I investigate how key decision makers perceive and frame risk differently in their quest to exploit valuable opportunities in the midst of uncertainty (Kahneman & Tversky, 1982). Accordingly, my research question is: ***how do differences in managerial cognition, namely political values, help to explain decisions to pursue, or not pursue, business in "high-risk" locations?*** I seek to answer this question by examining CEOs of U.S. S&P 1500 firms for all industries that conduct international business between 2000 and 2018. Specifically, I examine CEO decision-making through the lens of their values as represented by their political ideology score. This is interpreted through analysis of CEO political donations to members of Congress, who in turn, have an assigned political ideology score based on their voting record that can be associated back to the donating CEO. As extant internationalization research is captivated by such decision-making limitations as bounded rationality, liability of foreignness, psychic distance, and uncertainty avoidance, I provide evidence that firm CEOs' strategic choices to conduct international business in high-risk locations can be predictive based on their political ideology. I also investigate whether the impact of political ideology's influence diminishes based on how CEOs' incentives are structured to influence motivation. In my approach, I discount entry mode choice as the complexity of differences across industries quickly becomes conceptually and empirically difficult to

disentangle. Exclusive focus on location is cleaner to draw out micro-level perceptions at the heart of the desired analysis.

My study contributes to uniting multiple fields (e.g., international business (IB), international entrepreneurship (IE), strategic management, and economics) that are not well-aligned in this cross-disciplinary debate on internationalization in several meaningful ways. First, I contribute to IB research in providing a missing microfoundations level analysis of internationalization decision making. While Maitland and Sammartino (2015) were perhaps the first to approach the subject with an excellent case study on managerial cognition through sensemaking in internationalization decisions, I believe my study offers greater predictability of the global mindset of the firm CEO by indicating how his or her associated political ideology manifests his or her values and attitudes, that in turn, influence strategic decisions such as internationalization locations for the firm. This contribution not only provides empirical backing to Coviello et al.'s (2017) micro-level influences in their adaptation proposal of the Uppsala model to a three-layer model but also provides challenging views of risk perception to traditional internationalization literature.

Second, I introduce political ideology as a new proxy to IB literature where only general M&A has been studied. Additionally, I contribute to the political ideology literature by introducing a new topic of investigation that is not considered as clear-cut on differences between conservatives and liberals as common in previous research to provide greater validation for political ideology's use as a logical representation. The challenge for areas where the views of conservatives and liberals appear to blur is in accurately capturing the correct lens the CEO uses to frame the strategic choice. For

instance, psychology and moral foundations studies (Jost, Nosek, & Gosling, 2008; Jost, 2006; Haidt & Joseph, 2004) reference that liberals are more inclined to international experience than conservatives; yet perhaps the framing of competitive advantage and financial incentives are how conservatives view the strategy. This contribution provides greater insight to prominent discussions on liability of foreignness, psychic distance, bounded rationality, and uncertainty avoidance central to the internationalization debate.

Third, I contribute to both risk literature and the behavioral agency model (BAM), commonly portrayed in both strategic management and finance literatures, by showing to what degree incentives structures likely affect CEO motivation for or against certain locations for internationalization in the context of risk. My investigation of potential competition between political ideology and incentive structures extends research in both areas.

The research model below depicts this study's investigation in which I propose my independent variable, CEO political ideology, will explain the dependent variable (the magnitude of risk level of the firm's location choice for foreign business). CEO power (i.e., level of managerial discretion), CEO incentives structures, and the current degree of the firm's internationalization (i.e., scope) will moderate the relationship between CEO political ideology and the firm's location choice for foreign business.

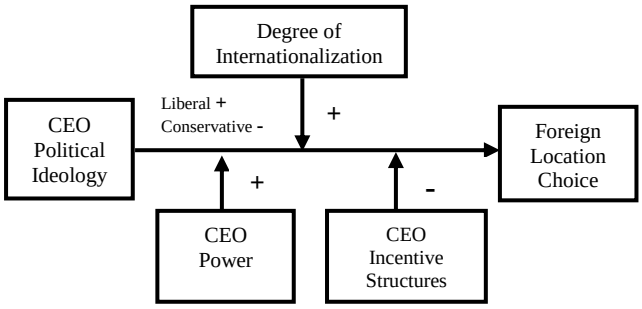

Figure 1. Research Model

CHAPTER TWO

LITERATURE REVIEW

Contextual Setting for Employing Risk Taking in Internationalization

Accelerated globalization and technological advances have drastically altered the environmental landscape over the last several decades. These phenomena place the onus on IB and global strategy scholars to continuously reinterpret what drives the internationalization process of the firm in attempts to explain new paradoxes to previously established conclusions. The phenomenon of firms contemplating entry into foreign markets or considering international expansion endure various aspects of uncertainty due to substantial unknowns; in fact, lack of foreign market knowledge is considered the leading obstacle (Figueira-de-Lemos, Johanson, & Vahlne, 2011). Simon (1956) pioneered the term *bounded rationality* that encompasses this reality. Within the context of internationalization, he advised individuals make decisions based on limited, often unreliable information concerning potential alternatives and associated consequences, with a limited time to decide. Individuals are obligated to satisfice (rather than optimize) choices in complex situations and are unable to determine means to confront every contingency.

Different fields of study offer various slants with regards to bounded rationality: for example, traditional economists believe there may exist either, an unknowable future,

or a knowable but incalculable future, where risk is associated with certain consequences based on probability distributions (Knight, 1921). Transaction cost economics (Williamson, 1985) functions from the argument that all possible contingencies to decisions can never be known, so uncertainty is considered deterministic. IE literature takes a counter approach and adopts the concept of *effectuation* where expert entrepreneurs can control the future through the use of on-hand resources to seize situations that arise, so there is no need to predict the future (Sarasvathy, 2001; Sarasvathy, Kumar, York, & Bhagavatula, 2014). IB literature attributes various causes of uncertainty in internationalization under the umbrella of *foreignness*. This could be *spatial* for firms deciding to enter a foreign market with a multitude of different countries with various institutional systems offering both incentives and constraints for firms seeking to acquire value (Beugelsdijk & Mudambi, 2014). It also incorporates *liability of foreignness* (Hymer, 1960, published 1976), which signifies that as an outsider, the foreign firm not only lacks location-specific knowledge about the market, laws, social norms, etcetera, but is also excluded from the domestic relational networks – suppliers, regulators, and lobby groups (Eden & Miller, 2004; Nachum, 2003; Zaheer, 1995). Johanson and Vahlne (2009) rechristen this concept as *liability of outsidership* to stress the relevance of network insidership for internationalization. As a result of all of the above, Maitland and Sammartino (2015) maintain that a high-level of *sensemaking* is required by decision-makers dealing with activities such as screening feasible locations; identifying and assessing location-specific information; and determining preferred strategic options.

These previously mentioned aspects of uncertainty associated with foreign markets elevate risk perception as the leading paradox in this contextual setting. For instance, Knight (1921) describes risk as "a situation in which an individual making a choice knows both the potential outcomes of each available option and the probabilities that those outcomes will occur" (Holmes, Bromiley, Devers, Holcomb, & McGuire, 2011: 1071). However, we also know from Kahneman and Tversky (1982) that theoretical literature definitions of risk do not accurately describe how decision makers view risk, or actually behave towards it. Risk analysis involves cognitively evaluating the variation in possible outcomes, the likelihood of those outcomes, and the resulting values associated.

Additionally, prospect theory (Kahneman & Tversky, 1982) informs us an individual's risk behavior can be determined by how they frame the situation. For example, decision makers may completely disregard unlikely outcomes regardless of the consequences or they may only concentrate on a few outcomes in great detail. Likewise, more experienced decision makers may be more willing to take risks based on their confidence gained from past successes than less experienced individuals (March & Shapira, 1987). While individuals tend to evaluate alternatives based on their preferences, they are also influenced by their confidence to modify or control the risks involved. So, choice becomes a trade-off between risk and the expected return, where decision makers are assumed to prefer larger expected returns to smaller ones; and conversely, smaller risks than larger ones (Sitkin & Pablo, 1992; March & Shapira, 1987). Customarily, managers believe they should limit risk taking when things are going well and increase risk taking when things are going poorly (March & Shapira, 1987). This belief contrasts

with advocates of Knight's (1921) position on uncertainty where the future is unknowable, so it is impractical to calculate risks. Instead, it correlates with businesses' regard for aspirational performance targets to inform decisions – identified as *problemistic search* in internationalization literature. In this practice, business managers advocate risk prone behavior if they consider themselves above their performance target, and risk-taking behavior if they believe they are close to the target line or below it (Chittoor, Aulakh, & Ray, 2019). There are exceptions to the norm, however. A recent example of this is Chittoor et al.'s (2019) findings that owner CEOs are more likely to pursue internationalization when their organizations are performing above aspirations. They find the governance structure is important as firms that were an independent stand-alone rather than in business groups were more prevalent to internationalization. Therefore, the type of individuals who make the decisions need to be considered in predictions.

Hoskisson, Chirico, Zyung, and Gambeta's (2017) metatheoretical review of managerial risk taking in the context of top managers' strategic choices associated with uncertain outcomes provides us with analysis of the five prominent theories in this research area. These theories possess different assumptions, levels of analysis, and are rarely integrated together in an effort to provide greater explanatory power. At the individual level, research on risk-sharing problems due to separation of corporate ownership and control leverage agency theory (AT; Jensen & Meckling, 1976) which focuses primarily on compensation incentives, monitoring, and ownership structure to align preferences. Prospect theory (Kahneman & Tversky, 1979) is another individual-level behavior theory that emphasizes minimizing losses over seeking gains. In this

context, individuals create a reference point for themselves – if they are above that reference point, they use loss-framing through risk-averse behavior, and if they are below the reference point, they use gain-framing through risk-seeking behavior. UE theory (Hambrick & Mason, 1984), based on bounded rationality, concerns the psychological properties of executives' values, cognition, and personality to construct their orientation framing that drives strategic choices involving risk. Shifting to the organizational level, the behavioral theory of the firm (Cyert & March, 1963) concentrates on coalitions of individuals or groups who compare the firm's performance to their aspirational levels to make risk-taking decisions. Now, if performance is collectively considered above aspirations, then firms would be risk-averse; if they are close to their aspirational target, they would be risk-seeking. The behavioral agency model (BAM) shifts the assumption that CEOs are risk averse to instead being loss averse. Here, CEOs' reference points are reflections of their compensation plans, which in turn, shapes their framing to determine their risk-taking threshold (Wiseman & Gómez-Mejía, 1998). Therefore, it is intuitive that integration of UE and BAM will offer valuable insight for examining how CEOs frame their risk-taking decisions for internationalization.

In the next section, I expand beyond simply spotlighting the Uppsala model to demonstrate how extensive the theoretical landscape is in internationalization literature. The biggest takeaway from the plethora of other, and in some cases, more dominant models and theories, is the breadth of rich contextual impact they have on the operating environment, market, and decision maker. Appreciation for this wide-ranging milieu concedes the importance of incorporating a multi-level approach as strategic choices are influenced by factors at various levels.

Macro-level Overview of Internationalization

A limiting factor of scholarship on internationalization is its nearly myopic focus on the macro-level which yields a sizeable disregard for how key decision makers influence the process. I agree with Williamson (1996) and Coviello et al., (2017) that *both* macro and micro level focal points are critical in understanding the internationalization process and subsequent evolution of a firm, as the firm is continuously impacted by both. In this section, I examine the most prominent theories in the internationalization debate to illustrate how they inform understanding of the process and where they fall short in explanatory power. Specifically, these theories are the *Uppsala Internationalization Process (IP) model* (Johanson & Vahlne, 1977, 2009; Vahlne & Johanson, 2017), *transaction cost theory* (Williamson, 1971, 1985, 1988, 2010; Hennart, 1982), *internalization theory* (Buckley & Casson, 1976), and the *eclectic paradigm (or OLI-Model: for ownership, locational, internalization advantages*; Dunning, 1980). The universal conclusion is: if we want to understand the full scope of a firm's internationalization decisions, we will need to introduce a stable and reliable approach that captures the heterogeneity in firm risk perception of internationalization at the managerial level, largely missing from these models.

The first priority is to review the basic assumptions of the Uppsala model and analyze what each explains to determine the contributions and shortfalls. The Uppsala model establishes internationalization as a series of incremental decisions made at the firm level in response to market uncertainty that stems from a lack in firm knowledge due to existing cultural differences (Johanson & Vahlne, 1977). Characterized as a behavioral process, the firm gradually develops knowledge and measures its resource commitments

based on the changing conditions of the firm and the foreign market (based on Aharoni, 1966). Johanson and Vahlne (1977) believed firms initially lack the required knowledge but can gain it over time. Consequently, they contend firms methodically internationalize across immediate borders in similar cultures with a building block approach – first exporting through an agent, then progressing to a sales subsidiary, and perhaps later, initiate production across the border. They argued firms will take these small steps instead of a large increase in scope to limit risks, unless they possess an abundance of resources to overcome the risks.

Building on the original Uppsala model outlined above, Johanson and Vahlne provide periodic adaptations to these core assumptions over the next forty years to account for their perceived changes in the business environment. Aside from updates to the assumptions, one new insight typifies international business as "a web of relationships (or networks)" where markets exemplify networks of relationships. Now, the key to internationalization success is insidership and the source of uncertainty is no longer perceived differences between cultures but outsidership from networks (Johanson & Vahlne, 2009). Additionally, they contemplated merging the Uppsala model with the eclectic (OLI) paradigm which they recognize as the dominant theoretical paradigm in IB; however, perceptions concerning uncertainty were too pronounced. Instead, they incorporate dynamic capabilities, theory of entrepreneurship and theory of management of uncertainty to provide an alternative model that explain how an MNE evolves (Vahlne & Johanson, 2013).

The next priority is to dissect these key assumptions analytically starting with Uppsala's focus on an incremental approach to internationalization. This process ensues

from the Stage Theory of MNE Evolution (Oviatt & McDougall, 1994) which characterizes that firms start as domestic; build substantial levels of total resources and dynamic capabilities over time; and then grow into large, mature and integrated MNEs (Chandler, 1986). The resource based view (RBV; Barney, 1991) initiated the concept that the firm's internal environment drives competitive advantage and therefore drives performance. Extending Penrose's (1959) initial concept that economic base formulation of resources explains a firm's growth, Barney's (1991) research was pivotal in addressing the limitations of competitive advantage covered within the IO literature and in establishing the initial RBV framework. Central to Barney's analysis is that resources are the determinants of firm performance – this encompasses two key assumptions: 1) firms within an industry may be heterogeneous with respect to strategic resources they control, and 2) these resources may not be perfectly mobile across firms, so heterogeneity can be long lasting. Peteraf (1993) extends the RBV-performance discussion to explain the theory of diversification. She states this is a result of excess capacity in resources which have multiple uses and in which there is a market failure – in other words, simply an opportunity of matching resources to specific market opportunities. The dynamic capabilities framework, however, stresses that just having a large accumulation of valuable resources is not always enough. In an ever-changing environment, the ability of a firm to renew competences and provide novel responses is critical for achieving competitive advantage. Teece, Pisano and Shuen (1997: 516) originally defined dynamic capabilities as a "firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments." This traditional view focuses on large MNEs whose dynamic capabilities are incrementally developed over numerous

years (cannot be bought, must be built) to achieve high performance and (sustain) competitive advantage. The foundation is constructed through the firm's organizational (learning) processes, (asset) positions, and path (dependencies).

This gradual approach of the large MNE, in a stage-by-stage evolution of acquiring the resources and knowledge to conduct international operations, is in direct contradiction to international new ventures (Oviatt & McDougall, 1994) and born globals (Knight & Cavusgil, 2004). International new ventures are defined as "business organizations that, from exception, seek to derive significant competitive advantage from the use of resources and sales of outputs in multiple countries" (Oviatt & McDougall, 1994: 49). Knight & Cavusgil (2004) place emphasis on the born global concept as small, young, resource-poor firms that focus on exporting as their main internationalization entry mode.

The dichotomy between these unique international new ventures or born globals and traditionally studied MNEs continues to be a noteworthy gap, both in literature and with the Uppsala model. In comparing born global literature with strategic management literature, it is intuitive, born global firms require and possess dramatic variations of strategic capabilities compared to non-born global firms. Smaller, less-experienced firms are considered less capable of managing uncertainty and risk than larger, more experienced, and financially secure firms (Freeman, Edwards, & Schroder, 2006; Westhead, Wright, & Ucbasaran, 2002). Internationalization also traditionally emphasizes the MNE's success to perform on the international stage due to its size and strength of resources. Born globals typically possess less financial and other resources than larger MNEs, so are more vulnerable. They require strong networking capability and

superior marketing capabilities to balance (Weerawardena, Mort, Liesch, & Knight, 2007). In line with Social Network Theory, Cavusgil and Knight (2015) argue that born global managers leverage social networks and alliances to internationalize faster, more profitably, and overcome resource constraints. Born global literature identifies born global firms, more aggressively than traditional firms, as seeking networks and alliances due to a lack of economies of scale (seeking cost reductions), a lack of resources (financial and knowledge), to block competition, to have access to new technologies, to learn new abilities/competencies, and to reduce risk (Freeman et al., 2006; Garcia-Canal, Duarte, Criado, & Llaneza, 2002; Ali Ulubaşoğlu, Akdiş, & Kök, 2009). Global alliances cover wider geographical area and provide opportunity for partners to enhance their core capabilities (Garcia-Canal et al., 2002). So, rather than competing directly with large firms, collaborative partnerships – through alliances with suppliers and distributors, joint-ventures, licensing agreements, and wholly-owned subsidiaries – offer increased market knowledge and sharing of the financial liability (Freeman et al., 2006). Essentially, firms can avoid the need to collect their own experience and knowledge by using alliances, thereby allowing them to penetrate and expand in multiple foreign markets through an internationalization process significantly different from the traditional one (Garcia-Canal et al., 2002).

Next, Johanson and Vahlne (2009) identify the development of knowledge through experiential learning as the answer to overcome the liability of foreignness / outsidership. Firms use knowledge about foreign cultures as a requisite for internationalization for both exploration and exploitation of new markets (Barkema & Drogendijk, 2007). An individual's interpretations are heavily dependent on previously

acquired knowledge from past experiences. Both knowledge (intellectual capital) and how a firm learns can be considered dynamic capabilities (Teece at al., 1997). “Dynamic capabilities directly address concerns deeply rooted in behavioral theory, including organizational growth, routines and processes, organizational learning, and managerial decision-making” (Helfat & Peteraf, 2009: 92).

The importance of being an insider in a business network to gain access to the right type of knowledge is one of the principal arguments in the Uppsala model. Internationalization literature commonly connects the firm’s commitment level to its knowledge level; in that, commitment increases as knowledge gaps are filled (e.g., Figueira-de-Lemos & Hadjikhani, 2014; Malhotra & Hinings, 2010; Barkema & Drogendijk, 2007). The traditional approach, as represented by the Uppsala model, views experiential learning as potentially a lengthy process, particularly early on. Born globals, in contrast, leverage their internal learning orientation and network connections (Weerawardena et al., 2007), as a result, “benefit enormously from possession of specific knowledge-based internal organizational capabilities that support both early internalization and subsequent superior international performance” (Cavusgil & Knight, 2015: 7). Weerawardena et al., (2007: 298) propose a conceptual framework by combining dynamic capabilities with organizational learning theory in attempts to explain the born global phenomenon. The keys to the capability building process in a born global are “driven by entrepreneurial owner-managers with a global mindset, prior international experience, and a learning orientation.”

IB literature traces the systematic study of firm activities outside their national boundaries to Hymer (1960) (Dunning, 2009). Hymer (1960) redirected the MNE focus

from the nation to the firm where MNEs could moderate industry competition governed by monopolistic barriers (Hennart, 2009). The analysis level debate originated in IO Economics which held an industry level focus centered on the Bain/Mason Paradigm in the 1950s/60s. Porter (1981: 610) highlighted the essence of this "structure-conduct-performance" framework as first making the case that a "firm's performance in the marketplace depends critically on the characteristics of the industry environment in which it competes," i.e., a deterministic relationship between market structure and profitability (Hawawini, Subramanian, & Verdin, 2003). Additionally, Porter (1981) distinguished a firm's operational effectiveness (performing similar activities better than a rival) is different from its competitive strategy which is all about being different based on "positioning" (e.g., variety-, needs- and access-based). The paradigm granted a deductive framework for making predictions in strategic management.

This initial focus on industry effects originated as a power game with motivation towards antitrust economics and how to end monopolies. In one sense, how could large enterprises be limited; and for others, what decisions were required to increase their market power, protect themselves from new competitors, suppliers, or raise entry and mobility barriers to keep new entrants and industry incumbents out of their specific niche? As a result, market share performance became a spinoff debate – if a firm had a higher market share, was it considered to have a higher degree of competitiveness? If a firm had a smaller degree of market share, was it perhaps in a specialized niche and thus still considered competitive? If a firm found itself somewhere in the middle, perhaps they were in trouble. Porter's (1980) competitive forces approach emphasized the exploitation of market power within the industry environment.

Within IO research, performance linked to competitive interactions. Oligopoly theory branched out to specify how industry structure and firm-to-firm rivalry within the marketplace impacted competition. This stream keyed in on attributes of game theory to show the effects of rival interaction. Porter (1981) addressed the starting shift of focus from the industry to firm concentration with the emergence of the strategic groups concept (i.e., how firms could be clustered according to their strategies and reactions to events within an industry). Cluster analysis led to numerous taxonomies in the 1980s and paved the way for discussion of entry and mobility barriers. Entry barriers were deterrents for new firms to enter the targeted market and mobility barriers countered the ability of firms within an industry to shift their strategic position relative to other incumbents (Caves & Porter, 1977).

The debate finally shifted to a long examination between industry versus firm effects. Industry effects could only explain 17-20% of firm productivity (Rumelt, 1991). Rumelt (1991) followed up on Schmalensee (1985) to argue firm effects explained more variance. His central finding was firms within an industry differ much more from each other than industries differ from one another, and IO tradition cannot explain this intra-industry heterogeneity in performance. Similarly, extant IB research faces an equivalent dilemma in capturing the variance in key leader decision making for a firm's strategic execution. IB scholarship largely ignores the microfoundations level that could better explain the heterogeneity in individual perceptions influencing strategic choices. In fact, Johanson and Vahlne acknowledge this gap in virtually all of their publications on the Uppsala model by stating many assumption drivers (e.g. knowledge development, entrepreneurial action, managerial discretion) reside with the decisionmaker, not the firm.

They recognize Uppsala model's neglect of microfoundations has consequences – "our model has only limited predictive value" (Johanson & Vahlne, 1977:23).

IB and global strategy research below the firm level are underrepresented (Contractor et al., 2019). Accordingly, Coviello et al., (2017) propose a three-layer model (see Figure 2 below) adaptation to the 2017 Uppsala model version by adding a "macro-level influences" layer that reflects technological advances such as digitization which allows firms to traverse the international landscape without previously viewed restrictions, as well as a "micro-level influences" layer that actual decision makers bring to the overall internationalization choices executed by the firm. Coviello et al., (2017:1156, 1159) underscore three crucial counterpoints to the Uppsala model that play a central role in this dissertation:

> 1) The micro-level characteristics and actions of individuals are tightly intertwined with firm-level outcomes, and as argued by Kano and Verbeke (2015), they should constitute a key ingredient of any credible, managerially relevant theory; 2) Microfoundations enhance the Uppsala's processes predictive capacity (by linking the transition to corresponding states); and 3) following Wood, McKelvie, and Haynie (2014): individuals' personalities, social competences, and certain cognitive attributes might shape the firm's internationalization processes and patterns…[in that] more/less open to experience will generate different risk perceptions, i.e., the amount of uncertainty perceived and the willingness to bear uncertainty.

While micro-level influences are vast, the Coviello et al., (2017) proposed model offers a starting point for this dissertation to provide empirical support for microfoundations in the hopes that it inspires future research to extend this critical unit of analysis.

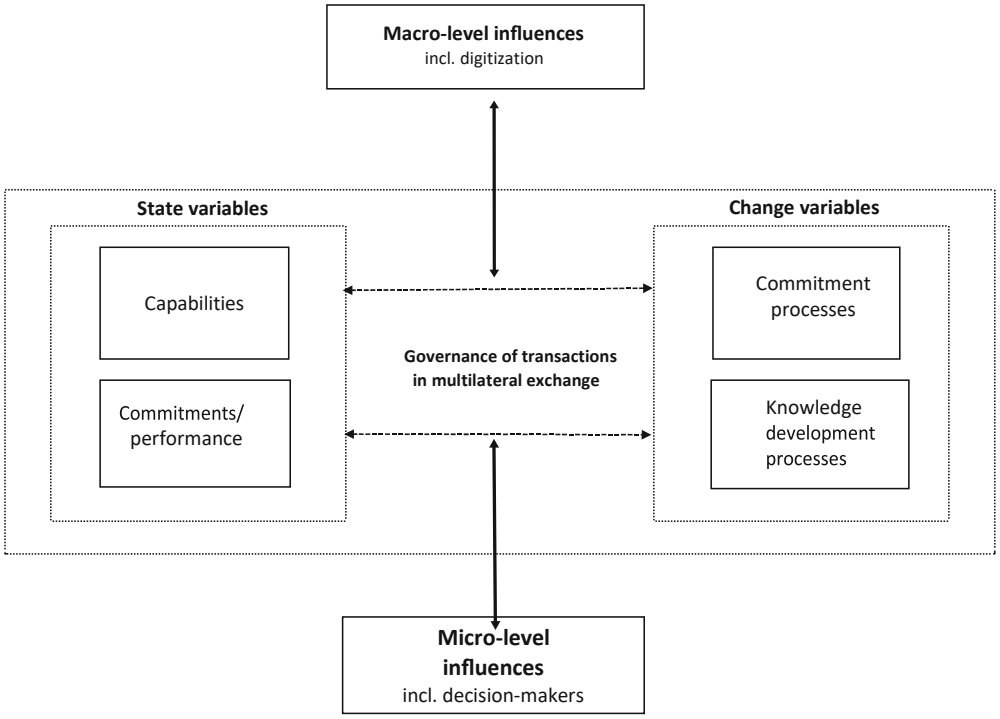

Figure 2. Coviello et al.'s (2017) Three-layer model inspired by Vahlne and Johanson (2017); Williamson (1996)

While the Uppsala model represents one leading stream of IB literature seeking to explain the process firms follow to internationalize, a second stream derived from mainstream economics (e.g., transaction costs, internalization, eclectic (OLI) paradigm) has been more prevalent within IB literature to explain international expansion by using macro-level patterns of foreign direct investment (FDI; Dunning, 2009; Vahlne & Johanson, 2020). On one hand, these theoretical models are normally employed to provide explanations for choice of entry mode, which is outside the scope of this study, but on the other hand, they do provide valuable insight at the firm level for considerations of location choice and FDI that should affect decisionmakers' cognition. These macro-economic models are better categorized as governance theories that explain the existence and control of the firm. Governance theories relate to firm design, the boundaries of the

firm, and what to make or buy. Firm design can be thought of as a continuum from market to hierarchy (organization), with intermediate structures such as alliances or joint ventures. Thus, governance structures have implications for strategic transactions, such as mergers/acquisitions, divestitures, and restructuring. They are also useful in understanding the evolution of decisions about capital structure, capital budgeting, dividend policy, and strategic alternatives as a firm moves through its life cycle, including the internationalization of its activities.

Transaction cost theory is a broad theory that tackles numerous dimensions, several which directly apply to firms' financial decisions, organizational efficiency, and operations internationally (Ketokivi & Mahoney, 2016). At its core, transaction cost theory seeks to answer the central theme for all organizations: what is the least-cost solution to how a complex transaction should be structured and governed so as to minimize waste (especially in a resource-strained environment)? This theme originated from Coase (1937, ref in Williamson, 2010: 215), who posed "what efficiency factors determine when a firm produces a good or service to its own needs rather than outsource?" Williamson (1971) extended this premise into "The Vertical Integration of Production," defined as "the make-or-buy decision" (Ketokivi & Mahoney, 2016), which became a paradigm for the study of complex contract and economic organization. In economics, this is referred to as "backward integration" – for MNEs, exemplified as "resource-seeking investment" (Buckley & Casson, 2009).

IB literature takes a different slant on Williamson's views of transaction costs in its development of the *transaction cost theory of the multinational enterprise* (shaped by Buckley & Casson, 1976; Rugman, 1981; and Hennart, 1982). IB's concentration centers

on the imperfections of markets due to agents' bounded rationality and opportunism. If these imperfections are high, firms will likely see expansion across national boundaries to be more efficient in internalizing 'non-pecuniary externalities' through mergers and acquisitions where both producers and consumers benefit (Hennart, 2009). Within the field of IB, transaction cost theory is applied to determine solutions for organizing interdependencies between individuals to generate rents by merging capabilities where firms happen to be the best institution to manage those interdependencies (Hennart, 2009). As bounded rationality and opportunism amongst the players imparts cognitive limitations, transaction costs associated with acquiring information, bargaining and enforcement will result. Hennart (2009: 5, 9) believes:

> an MNE will expand abroad (will organize interdependencies through hierarchy, i.e., through employment contracts) when it can organize interdependencies between agents located in different countries more efficiently than markets…many cases of foreign expansion can be explained by the high cost of using the market when property rights are imperfectly defined and enforced and in situations of information asymmetry, and not by asset specificity [as Williamson (1985) stresses], which is only a special case of narrow, and hence inefficient markets.

Transaction cost theory also plays a leading role for firms' contemplation of degree of control they should have in strategic choice execution, specifically, in the case of balancing risk versus return in international entry mode choices. This type of consideration likely impacts the degree of decision-makers' perceived risk holistically, and thus, an important element for my examination of microfoundational decisions for operating in high-risk locations. Anderson and Gatignon (1986: 3) argue "international entry mode choices are most usefully and tractably viewed as a tradeoff between control and the cost of resource commitments, often under considerable risk and uncertainty."

They reason firms should use a low level of ownership strategy (particularly in highly competitive markets) unless proven otherwise (such as in the absence of competitive pressure) to have both high return and low risk (Anderson & Gatignon, 1986). The caveat is degree of environmental volatility and degree of asset specificity, i.e., specialized investments made by any of the parties to make the exchange (Ketokivi & Mahoney, 2016). Anderson and Gatignon (1986: 15) maintain:

> the greater the combination of country risk (e.g., political instability, economic fluctuations) and transaction-specificity of assets (propriety content, poorly understood products, customization, product class immaturity), the higher the appropriate degree of control.

Williamson (1971) describes the existence of transaction (market) failures that leads to substitution of internal organization to market exchange, referred to as internalization. Transaction cost theory provided the foundation for the development of the internalization theory formulated by Dunning (1980). Dunning's premise in the internalization theory is transactions will be completed inside an institution if the transaction costs on the free market are higher than the internal costs. He proceeded to refine this theory further into the 'eclectic paradigm' which incorporates the international activity factors of Export, FDI, and Licensing into the OLI-Model. According to Rugman and Verbeke (2009: 8), the eclectic paradigm is the leading conceptual framework within IB for explaining the international expansion strategies of business firms, principally because it can cross various units of analysis – countries, sectors, and firms. Dunning (2009: 7) claims the following interrelated factors determine MNE activity:

1. The competitive (or O-specific) advantages of existing or potential MNEs (e.g., as identified by the resource based, evolutionary, and organizational theories of the firm).

2. The locational (or L-specific) advantages of particular countries in offering complementary assets for these advantages to the exploited or augmented, and
3. The propensity of the firms possessing the O-specific advantages to combine these with those of foreign-based assets, by FDI, rather than by (or in addition to) the market mechanism, or some kind of non-equity cooperative venture.

A fundamental emphasis within internationalization literature concerns foreign direct investment (FDI) which Dunning distinguishes as either *resource seeking investments* to establish access to materials or *market seeking investments* to either enter or establish a market (Dunning, 1980). Traditionally, internalization production through FDI is a key component to established firms' internationalization strategy – FDI occurs when investors exert control over their foreign assets. If firms have strong ownership advantages but weak location advantages it is in their interest to conduct FDI to capture rents – if both ownership and location advantages are strong, they are more likely to stress exporting. So, for Dunning, MNEs are more likely to exploit their competitive advantages (particularly the greater their perceived costs of the transactional market failure) through international production than through contract agreement with foreign-based enterprises (Dunning, 2015).

One applicable perspective of FDI for this dissertation is how location advantages influence its outcome. Hymer (1960, published 1976) initiated the belief in his FDI analysis that liability of foreignness will instill location disadvantages for MNEs compared to indigenous firms in conducting host-country production. However, extending work by Vernon (1966, 1983), Rugman and Verbeke (1992) determined:

> it is precisely the nature of a company's [firm specific advantages] FSAs and the type of country-specific advantages (CSAs) it faces, that will determine whether a particular production activity will be located

> in a foreign country through FDI, i.e., whether internationalization will occur (Rugman & Verbeke, 2009: 10).

Following Dunning's (1977, 1988, 2000) eclectic paradigm, we know that location advantages can vary significantly between firms. For example, MNEs typically attach greater importance to locations with better infrastructure and institutional facilities than lower labor costs and access to raw materials (Rugman & Verbeke, 2009), while smaller firms seek locations where they can join a foreign network for access to valued resources (Chen & Chen, 1998). The host nation's governmental policy to attract inward FDI is also fundamental to the firm's analysis of location advantages. Globerman and Shapiro (2003) stress the importance of a business-friendly climate as reflected by the degree of essential factors such as: political freedom and stability, rule of law, lack of corruption, property rights, and market openness.

Finally, Buckley and Casson (1976) argue the principle of internalization explains where organizations' boundaries lie and how they shift in response to changing circumstances – these not only include geographical boundaries, but also those of industry, product range, diversification, etcetera. They identify two categories of internalization: *operational* that involves intermediate products passing through successive stages of production and the distribution channel, and *knowledge* resulting from R&D. Production is viewed as a multi-stage process where the firm chooses the optimal location for each production stage based on where the minimized cost of production exists. Domestic firms principally profit from operational internalization; while MNEs profit more from knowledge internalization due to their entrepreneurial nature and greater success at R&D (Buckley & Casson, 1976). Bottom-line, the subject of

costs is paramount within the internalization debate – the costs for production location, transportation, information, etcetera.

This section clearly demonstrates inclusion of both macro and micro levels is vital for comprehending firms' location decisions for internationalization as risk and uncertainty transcend the levels of analysis. The customary macro-economic models (transaction costs, internalization, eclectic (OLI) paradigm) used to explain internationalization provide unique framing considerations for governance and control to reduce risk, as well as providing the actual motivation to initiate internationalization. They provide insight into the analysis required for determining how to balance risk with return decisions, especially in volatile environments. While these dominant internationalization models in IB, including Uppsala, offer essential deliberations that key decision makers incorporate in their perception framing for making strategic decisions, the lack of the individual decision maker across the board leaves an important hole in the equation. In the next section, I shift my examination to this missing level of analysis – the individual decision maker – where I make the case: CEOs, as the firm's most important decision maker, are guided in their perception filtering by their values, which can be interpreted through their political ideology as a means to predict key strategic decisions, such as internationalization location choice, based on level of country risk involved.

Upper Echelon Perceptions through the Lens of Values and Political Ideology

Global business leaders overcome complex liability of foreignness (Hymer, 1960, 1976) challenges to significantly shape their organizations' strategies, direction, and performance. The way they perceive and interpret the global environment radically

impacts strategic success (Gupta & Govindarajan, 2002). Thus, it is not surprising that research assessing how global leaders formulate decisions based on personal interpretations of the complicated strategic environment has gained popularity across a spectrum of scholastic fields (e.g., IB, global leadership, strategic management, entrepreneurship, psychology). These research fields have expended considerable effort attempting to open the black box of the decision maker's (e.g., TMT, CEO, global leader) mindset to determine how they shape organizational outcomes. Correspondingly, extant global leadership literature considers 'global mindset' to be *the* cornerstone for understanding what differentiates a global leader from a strictly domestic one in mastering the inconsistencies between the global and local level (Story & Barbuto, 2011). Unfortunately, despite the rapidly growing focus on global mindset, a large consensus continues to see it as an ambiguous framework with only minor definition for antecedents and initial development, and considerable vagueness still for explaining outcomes (e.g., Levy, Beechler, Taylor, & Boyacigiller, 2007; Beechler & Javidan, 2007; Osland, Taylor, & Mendenhall, 2009).

Fortunately, borrowing from strategic management, UE (Hambrick & Mason, 1984) underscores the global mindset concept more broadly by recognizing an organization's outcomes can be partially explained or predicted by its top executives' background characteristics as forged by their personalities, experiences, and values. Finkelstein and Hambrick (1996) state those who make the decisions matter – for the firm, the Chief Executive Officer (CEO) has the overall responsibility for the success or failure of the strategy, direction and performance of the organization. "If we want to

understand why organizations do the things they do, we must consider the biases and dispositions of their most powerful actors – their top executives" (Hambrick, 2007: 334).

UE, as well as various leadership theories, connects to behavioral strategy (Abatecola & Cristofaro, 2018; Kahneman & Tversky, 1979) and introduces the prominence of psychological constructs, such as cognitive processes, beliefs, values, and personality traits, as a response mechanism to bounded rationality where situations cannot be known due to sheer complexity and uncertainty, only interpreted (Carpenter, Geletkanycz, & Sanders, 2004). Decision makers filter their perceptions through these psychological constructs to acquire a personal interpretation of reality to reach their decisions (Hambrick & Mason, 1984; Abatecola & Cristofaro, 2018; Carpenter et al., 2004). The most consequential filter for leaders' perceptions are their values. Values shape cognition by clearly framing whether strategic choices are or are not aligned (Hambrick & Mason, 1984). Thus, values are the decisive element in the strategic choice process because not only are they factors that lead to the decision maker's perception realization, but they can also cause him or her to discard a certain choice based on perceptions that are in contradiction (Hambrick & Mason, 1984). In Hoskisson et al.'s (2017) review of UE in the context of risk taking, in comparison to research devotion to cognitive models and personality characteristics, they find considerably less attention paid to values, which they consider more specifically reflect CEOs' preferences.

A stream of UE research follows a related approach to describe the process executives follow when experiencing an overload of stimuli from mass quantities of information, ambiguous cues, and competing objectives (Aharoni et al., 2011). This stream stresses that decision makers' cognitive processes must filter such complex

stimuli through their biases and heuristics to reach an actable interpretation (Einhorn & Hogarth, 1981). Biases and heuristics refer to simplifying strategies – decision rules, cognitive mechanisms, and subjective opinions – used to make decisions, particularly in uncertain and complex situations (Busenitz & Barney, 1997). Busenitz and Barney (1997) empirically found that entrepreneurs used biases and heuristics more than managers in large organizations. They imply that not only do entrepreneurs and managers in large organizations think differently, but they distinguish the two groups in how they perceive and think about risk. Biases and heuristics are psychological attributes involved in filtering perceptions, where the influence of values cannot be avoided. Therefore, values present a viable lens to look inside the black box of CEOs' mindset for rationalizing their strategic choices which shape their organizational outcomes.

To interpret just how powerful values are in influencing attitudes, behavior, and actions, let us begin with Rokeach (1973, 1979), considered the foremost authority within the vast values literature. He defines a value as an "enduring belief that a specific mode of conduct or end state of existence is personally or socially preferable to an opposite or converse mode of conduct or end state of existence" (Rokeach, 1973: 5). He considers values to be *the* core concept across all social sciences as they are the main independent variable in the study of social attitudes and behavior to represent the universal role human values play in everyday life. Rokeach and Grube (1979) summarize the values literature assumptions:

> The number of human values are small, the same the world over, and capable of different structural arrangements, that are the resultants of societal demands and psychological needs, and that they are learned and determined by culture, society, society's institutions, and personal experience, that they are determinants in turn of attitudes, judgements, choices, attributions, and actions,

> that they are capable of undergoing change as a result of society, situation, self-conceptions, and self-awareness, and finally, that changes in values represent central rather than peripheral changes, thus having important consequences for other cognitions and social behavior (p. 2-3).

Rokeach considers individuals' values are learned early in life from experience. Values become cognitively represented by the person's individual needs, as well as societal goals and demands, which become entangled when the internal psychological and external societal forces interact within the person's interpretation (See Williams, Ch. 2 of Rokeach & Grube, 1979). As could be imagined, there is not always a perfect fit between the individual and the environment, so individuals tend to select social environments to minimize any value discrepancies – a form of selection bias. This selection of preferential standards is organized into a value system that has an anchoring effect for psychological defenses of any made or proposed choice (i.e., attitude structure) (See Williams, Ch. 2 of Rokeach & Grube, 1979).

Williams argues an imperative understanding of the phenomenon of values is the reality of criteria or standards of preference (Williams, 1968). So, different values have differing degrees of importance to any given individual by how he or she arranges them in priority of importance (Rokeach, 1973). Thus, the stronger or more central the belief and value is to the individual, the greater would be the resistance to change it, as it will initiate changes in numerous other beliefs and values as a result (Rokeach & Grube, 1979). Differences in individuals' hierarchy of values are connected to substantial differences in attitudes and behavioral outcomes, such as political attitudes and behavior (Rokeach, 1973). Wilson (2004) extends Rokeach's premise that attitudes are predicated upon value systems by recognizing that political attitudes are then predicated on values.

For example, Rokeach finds political ideologies differ distinctly across two main values in perception, referred to as his "two-value model" – equality and freedom – where equality equates to universal values and freedom to self-direction values.

Schwartz (1994: 20-21) specifies wide-spread agreement exists in literature regarding the conceptual definition of values. Specifically, he views "a value is a belief, pertaining to desirable end states or modes of conduct that transcends specific situations, guides selection or evaluation of behavior, people, and events, and is ordered in importance relative to other values to form a system of value priorities." However, he prefers to define values "as desirable transsituational goals, varying in importance, that serve as guiding principles in the life of a person or other social entity…that can motivate action – giving it direction and emotional intensity…and function as standards for judging and justifying action." He found testing of 10 value types differentiated by their motivational goals provides sufficient cross-cultural reliability. Additionally, his findings provide applicability in the political domain where polar opposites in political ideology in many countries revolves around classical liberalism and economic egalitarianism. Classical liberalism references the degree that government should either guard personal freedoms and civil rights or should protect societal status quo by controlling deviance. This ideology construct is represented by Schwartz' value dimension: openness to change vs. conservation. Economic egalitarianism concerns itself with whether the government should redistribute resources to enhance equality or to protect citizens' earned wealth to promote economic growth. This construct reflects Schwartz' self-transcendence vs. self-enhancement value dimension (Schwartz, 1994).

IB research has longstanding interest in internalized cultural value orientations as influences on individuals' perceptions and decisions, so it is important to provide detailed accounts of the most popular methods represented in internationalization research. Within the global environment, culture provides the frontline for competing values and beliefs and thus should be a starting point for global business discussions because cultural values are what impact practices (Javidan & Teagarden, 2011). In fact, culture impacts nearly all human behavior and is particularly influential in how an individual communicates and interprets information (Javidan, Dorfman, De Luque, & House, 2006; Carlson, 1974; Dow & Karunaratna, 2006). Schwartz (2006: 138) views culture "as the rich complex of meanings, beliefs, practices, symbols, norms, and values prevalent among people in a society…where values represent the shared conceptions of what is good and desirable in the culture" (i.e., the cultural ideals).

Within IB, vast research has evolved from cultural value orientations. At the industry level, the CAGE framework (cultural, administrative, geographic, and economic distances) helps map the global landscape in determining which differences between countries matter to one's industry (Ghemawat, 2007). Cultural distance (i.e., degree of difference or similarity between cultures) has been a prominent influencing predictor on various outcomes such as location choice, entry mode of internationalization, and performance (Cuypers, Ertug, Heugens, Kogut, & Zou, 2018). Cultural distance is primarily used in between-country comparisons (home and host country), particularly for economic issues, and typically viewed as an impediment for MNE performance (Shenkar, 2001; Cuypers et al., 2018). Hofstede (1980) is recognized as the founding father for initiating between-country cultural differences with his revelation that culture is

comprised of four dimensions: uncertainty avoidance, power distance, masculinity/femininity, and individualism/collectivism. Hofstede later added a fifth dimension, long-term vs. short-term orientation, to account for Chinese values around the world. Hofstede's study provided usable data for creating distances which Kogut and Singh (1988) then advanced, by first developing the concept of cultural distance, followed by creating an algorithm to measure it in a similar manner to geographic distance, and finally by providing the data for future research to follow (Cuypers et al., 2018).

While Kogut and Singh (1988) remains the predominant method for cultural distance measurement, others have been critical and consequently submitted variant measurements stating theirs are more representative (e.g., Shenkar, 2001; House, Hanges, Dorfman, & Gupta, 2004 (GLOBE); Schwartz, 1994). As cultural distance is at the country or national level, additional debate continues on whether it is a static variable (Sousa & Bradley, 2006), whether it can be reduced (Shenkar, 2001), or if it only provides a snapshot in time that needs to be considered with caution in light of globalization effects (Kogut & Singh, 1988). The greatest critique, however, is over how cultural distance is routinely operationalized using exogenous national-level indicators that inadequately represent individual decision-level perceptions (e.g., Baack, Dow, Parente, & Bacon, 2015; Tung & Verbeke, 2010; Harzing, 2003; Shenkar, 2001).

Cultural distance is frequently used interchangeably with psychic distance with virtually no distinction made between the two concepts (Sousa & Bradley, 2006). The Uppsala model popularized psychic distance as one of its key determinants for firms' decisions to internationalize (Johanson & Vahlne, 1977; Johanson & Weidersheim-Paul,

1975). Psychic distance is defined as being shaped by the individual's perception of the differences between the home country and the foreign country (Sousa & Bradley, 2006). Baack et al., (2015: 940) borrow from the Uppsala framework to elaborate a *perceived psychic distance* definition, stated as "an individual's perception about the collective magnitude of the factors preventing or disrupting the flow of information between firm and market." Such factors include: "differences in language, culture, political systems, level of education, level of industrial development, etc." (Johanson & Weidersheim-Paul, 1975: 308).

Sousa and Bradley (2006) argue conversely that cultural distance and psychic distance are related but conceptually quite different due to the level of focus. Whereas they consider cultural distance to be applied at the country level, they contend psychic distance is in the individual's mindset and is formulated by his or her perceptions. Therefore, psychic distance perceptions are determined by each individual's cognitive style and values, which means it will vary from individual-to-individual, as well as from country to country for the differences associated with the individual's perceptions (Sousa & Bradley, 2006).

Dow and Karunaratna (2006) differentiate the two constructs by terming the macro-level (cultural distance indicators) as *psychic distance stimuli* that create the climate where the manager's cognition functions, and the individual level indicators as *perceived psychic distance* based on the actual cognitive mapping within the framed conditions of that climate. They support the influencing effect claim – in that an individual's psychic distance will be a function of stimuli exposure but moderated by his/her level of sensitivity to that stimuli (Dow & Karunaratna, 2006). Sousa and Bradley

(2006) concur with distinctions. They find cultural distance influences psychic distance in that the greater the cultural distance, the greater the individual's psychic distance – indicating that cultural distance is outside of the firm's control, and thus is not an accurate representation by itself for global managers' views or decisions. Meanwhile, psychic distance is considered impressionable, so could be reduced. Empirical evidence for most significant methods to reduce (or close) psychic distance is lacking in extant research. It is intuitive that the more one is exposed to a certain culture through immersion and focused learning, the more one will start to understand and identify with the other culture's values and beliefs.

Regardless, Baack et al., (2015) provide some caution in this area. Following social cognition theory, they show confirmation bias (where individuals search for and trust information aligned with existing beliefs, and discount contradicting information) plays an important role in how global leaders shape and modify their psychic distances. This has crucial implications, as not only might global managers over or underestimate their initial perceived psychic distance with any specific country, but it could also cause any desired altering of their perception all the more difficult. In any event, psychic distance is considered subjective and malleable, and therefore, should be considered a troubled predictor as one would need an immediate real time computation for the individual; the scoring would vary in perception from country-to-country; and scoring will continuously change across time. Accurately capturing psychic distance measurements would be near impossible unless the researcher is embedded within a case study, and certainly not imaginable for longitudinal studies.

Thus, the greater challenge becomes how to determine the right proxy to accurately represent observable characteristics that epitomize CEOs' psychological constructs. The troubling measurements of IB research's concentrated use of cultural and psychic distances means we need to look elsewhere for a practicable solution. Alas, UE research also has its own challenges with validity. Hambrick and Mason (1984: 196) declare that demographic background characteristics, while by no means pure indicators, are reasonable enough proxies that can provide greater generalizability – "examples of such characteristics are age, tenure in the organization, functional background, education, socioeconomic roots, and financial position." Carpenter et al.'s (2004) analysis of UE recognizes the problem of ambiguity when demographics are varied across studies. As a result, they reference the expansion of observed demographics in recent years, to include international career experience (Carpenter, Sanders, & Gregersen, 2001; Daily, Certo & Dalton, 2000); race and gender (Richard, Barnett, Dwyer, & Chadwick, 2004; Westphal & Milton, 2000); exposure to organizational founding (Kor, 2003); while other key examples, such as prior government or military service and non-profit leadership, are noticeably absent. Use of demographic proxies was originally deemed to be a methodological convenience, not as the key theoretical force for strategic choices – that has always been cognitions, values, and perceptions (Carpenter et al., 2004). Demographics may act as more significant influencers in early career stages of CEOs, but likely dissipate over time as perspectives are not stationary.

In contrast, legitimacy of CEO political ideology as a values proxy is starting to become pervasive based on its close reflection of values, attitudes, and behaviors and ease of a bona fide measurement (e.g., Chin et al., 2013; Jost et al., 2008; Goll & Zeitz,

1991). Political ideology (PI) is a cross-disciplinary phenomenon that finds an individual's political ideology reflects his or her values and perception filtering which produces differences in attitude and behavioral outcomes to fulfill their daily psychological preferences. According to psychology literature, the dominant behavioral viewpoint, political ideology influences individuals' positions on subjects and decisions because it is engrained in their personality and psychological make-up. Beyond political viewpoints, political ideology is a universal element of human nature that can predict the thoughts, feelings, and behaviors of how individuals rationalize themselves (Jost et al., 2008; Jost, 2006). Johnson and Roberto (2018) trace the focus of the different disciplines:

> Political scientists study PI in terms of outcomes concerning public policy, elections, and other macro-level sociological phenomena. Psychologists study PI from an attitude development and group polarization perspective. Research in neuroscience and social cognition examines the motivational effectiveness of PI. Management research primarily centers on how PI of executives' affects firm-level decisions. The amalgamation of work across these disciplines suggests that PI influences human behavior (p. 1041).

Strategic management's interest in political ideology has been steadily growing in recent years as referenced by examples of the vast range of topics its use is applied to: financial reporting (Notbohm, Campbell, Smedema, & Zhang, 2019); how board ideology affects CEO pay (Gupta & Wowak, 2017); innovation propensity, shareholder value, and risk (Kashmiri & Mahajan, 2017); mergers and acquisitions decisions (Elnahas & Kim, 2017); pay egalitarianism within top management teams (Chin & Semadeni, 2017); corporate lobbying (Nalick & Kuban, 2019; Unsal et al., 2016); the CEO and corporate social responsibility (Petrenko, Aime, Ridge & Hill, 2016; Chin et al., 2013); top team integration and dependence (Hambrick, Humphrey, & Gupta, 2015); corporate

tax avoidance (Christensen, Dhaliwal, Boivie, & Graffin, 2015); the effects of activism on firms (Briscoe, Chin, & Hambrick, 2014); and unmasking firms' political ideology associations (Nalick, Kuban, Schijven, & Xu, 2014).

Goll and Zeitz (1991) consider ideology, in general, as a view of the world, comprised of beliefs and values, that provides a frame of reference for organizational action – where beliefs are defined as standards that influence choices, and values connotate the preferences for action and outcomes (Goll & Sambharya, 1995). Political ideology, more specifically, is considered an approximate representation of values used as filters in sensemaking when individuals construct mental frames of their environment (Ring & Rands, 1989). This mental framing, in turn, influences how they perceive the world, shape critical decisions, and over time can lead to patterns of behavior (Basu & Palazzo, 2008). From a political science point of view, Knight (2006) considers political ideology as a belief system composed of a coherent and stable set of attitudes that can communicate a broad, abstract concept efficiently. From a psychology point of view, Tedin's (1987) definition of political ideology is most commonly used in literature as articulated by Jost (2006):

> An interrelated set of moral and political attitudes that possesses cognitive, affective, and motivational components. That is, ideology helps to explain why people do what they do; it organizes their values and beliefs and leads to political behavior (p. 653).

Political ideology is considered to begin forming early in life and fairly solidified by early adulthood, and then considered to be fairly stable throughout the course of one's life (Gupta & Wowak, 2017; Chin et al., 2013). This evidence of relative permanence is in line with behavioral consistency theory (Cain & McKeon, 2016; Cronquist, Makhija,

& Yonker, 2012) which proposes core values compel individuals to behave consistently across both their personal and professional domains (Kashmiri & Mahajan, 2017). In fact, it would be rare for individuals to reexamine or modify their beliefs even after the most dramatic of events (Jost, 2006). Therefore, political ideology offers a permanent, stable, less ambiguous and richer depiction of CEOs' cognition, values, and perceptions than traditional UE demographic proxies to analyze their strategic choices.

The most common theoretical lens to analyze political ideology in the United States is the liberal (left) and conservative (right) continuum construct (Jost et al., 2008; Knight, 2006). The robust differences reflected in this construct between liberals and conservatives in terms of cognitive styles and motivations are psychologically meaningful because they constitute opposing mental frames that direct their daily lives (Jost, Glaser, Kruglanski, & Sulloway, 2003). At the macro level, Jost et al., (2008: 128) believe this structure represents psychological reasons that vary in the needs to reduce uncertainty and threat. They sum this dichotomy between two competing dimensions (social change and inequality) as "either one advocates for social change to bring about increased egalitarianism, or one justifies existing forms of inequality in order to maintain the status quo." At the micro-level, the differences in beliefs between liberals and conservatives becomes much more nuanced.

The great divide between liberal and conservative political ideologies is metaphorically explained by moral foundations theory (MFT; Haidt & Graham, 2007; Haidt & Joseph, 2004) as an invisible wall separating the clash of visions about fundamental moral issues. Moral foundations are considered the building blocks of moral systems comprised of "interlocking sets of values, practices, institutions, and evolved

psychological mechanisms that work together [for rapid, implicit, evaluative judgements] to suppress or regulate selfishness and make social life possible" (Haidt, 2008: 70; Haidt, 2012). Growing research in recent years uses MFT as a rationalization of political values (e.g., Hatemi, Crabtree, & Smith, 2019; Clifford, 2017; Miles, 2016; Franks & Scherr, 2015).

MFT increases clarity to individuals' ideologies by offering a lens to view the ideologies through the context of five dimensions of moral foundations. This presents a more refined degree to which liberals and conservatives value or endorse the foundations, and consequently, a deeper understanding of each side's psychological make-up that impact the moral debates of the culture war (Graham, Haidt, & Nosek, 2009; Haidt, Graham, & Joseph, 2009). Hatemi et al., (2019) regard moral foundations as situational assessments, with an emotional charge, formulated to substantiate preexisting ideological beliefs. Haidt and Graham (2007) suggest that MFT shows the inability for liberals and conservatives to even understand each other because their respective moral visions are based on deep differences in the importance level they attach to the foundations. Social identity theory is often used to explain how the political ideologies are applied to political parties, where based on party identification, individuals are motivated to maximize the differences (even by exaggeration) between their in-group and the other party (outgroup) (Graham, Nosek & Haidt, 2012).

Haidt and Graham (2007) label these five psychological foundations of morality as: harm/care, fairness/reciprocity, ingroup/loyalty, authority/respect, and purity/sanctity. For global generalizability, they stipulate that at its core, morality is about protecting individuals, but cultures vary on the degree to which they build values (or virtues) on

these foundation dimensions. Within the U.S. political construct, Haidt and Graham (2007) find:

> Political liberals value virtues based on the first two foundations, while political conservatives value virtues based on all five. A consequence…is that justice and related virtues (based on the fairness foundation) make up half the moral world for liberals, while justice-related concerns make up only one fifth of the moral world of conservatives. Conservatives have many moral concerns that liberals simply do not recognize as moral concerns (p. 99).

Psychology literature labels the first two foundations (Fairness/reciprocity and Harm/care) as *individualizing foundations* since they emphasize the rights and welfare of individuals, and the following three (Ingroup/loyalty, Authority/respect, and Purity/sanctity) as *binding foundations* as they concern group-binding loyalty, duty, and self-control (Graham et al., 2009). So, liberals endorse binding foundations significantly less than they do individualizing foundations, while conservatives endorse them all fairly equally.

Graham and colleagues (2013) reference a small set of studies that affirm the theory that moral foundation endorsements mediate the relationship between an individual's personality traits and political ideology (e.g., Lewis & Bates, 2011; Hirsh, DeYoung, Xu, & Peterson, 2010; Van Leeuwen, & Park, 2009). Extant literature (e.g., Treier & Hillygus, 2009; Choma, Hafer, Dywan, Segalowitz, & Busseri, 2012) regards political ideology as a complex, multidimensional construct; and consequently, many have suggested it be distinguished separately along social and economic preference dimensions (e.g., Weber & Federico, 2007; Duckitt, 2001). While Jost (2006) argues that the liberal-conservative continuum provides useful information as a first pass, the

diversity of MFT (Haidt & Joseph, 2004) provides greater resolution for the one dimension by offering its own multidimensionality.

Various studies have sought to define attributes associated with each dimension of the liberal-conservative continuum. For example, conservatives are considered supportive of the status quo (tradition) and place more emphasis on business needs (Chin et al., 2013), are hierarchical in nature (Jost et al., 2008), seek uncertainty avoidance and threat management (Jost et al., 2003), more favorable to economic elites and free markets/capitalist system in general (Jost et al., 2008), are more orderly and believe resources should be administered by the most efficient users (Chin et al., 2013; Murtha & Lenway, 1994), are less tolerant of ambiguity and need closure (Jost et al., 2007). In contrast, liberals support progressive social change and egalitarian ideals (Jost et al., 2008), are considered more open-minded, seek creativity and diversity (Jost, 2006; Chin et al., 2013), and are more open to experience – as a result, considered to embrace more international travel and foreign experience (Jost et al., 2008).

Jost et al., (2003) consider conservatism as containing two components – resistance to change and opposition to equality – that reduce uncertainty and threat. The literature debates whether uncertainty and threat are separate clusters or should be combined as "the threat of uncertainty" (e.g., Navarrete, Kurzban, Fessler, & Kirkpatrick, 2004; van den Bos, Poortvliet, Maas, Miedema, & van den Ham, 2005). Jost et al., (2003) consider uncertainty avoidance and threat management as independent although related motivational clusters. They performed a meta-analytic review of motivational antecedents of the liberalism-conservatism spectrum to evaluate the uncertainty-threat model. Their findings (ref in Jost et al., 2007) include:

> Results revealed the tendency to endorse conservative (rather than liberal or moderate) opinions was positively associated with uncertainty avoidance; intolerance of ambiguity; and needs for order, structure, and closure, and it was negatively associated with openness to experience. Conservatism was also positively associated with threat variables such as mortality salience (or death anxiety), system instability, and fear of threat or loss (p.990).

McCrae and John (1992) argue that the concept of Openness is the most controversial and inconsistent of the five basic factors of personality among psychologists. In general terms, most people are considered intermediate on the continuum from "open" and "closed" (McCrae & Costa, 1997) in which individuals' ideas, beliefs, and attitudes are considered to be structured differently between the two ends. However, liberals are considered to be open to experience, while conservatives are considered not to be, based primarily on their contrasting stances toward tolerance of ambiguity.

This study is interested in determining if a CEO's political ideology (i.e., whether they are considered liberal or conservative) can better predict their strategic choice to initiate international business in a high-risk country. Therefore, my particular focus will be on the conservative inclination to seek uncertainty avoidance and threat management and the liberal inclination of being open to experience as the contending positions for internationalization choices in high-risk countries. By obtaining a political ideology score for CEOs, degrees of the five moral foundations can provide contextual insight for greater descriptive power that accounts for why individuals can hold different attitudes across issues that are typically considered to share similar moral concerns (Graham et al., 2013). Thus, viewing political ideology through an MFT lens can help explain political

differences in individuals' endorsement of a wide spectrum of values (Feather, 1979; Graham et al., 2009).

Interpreting the Sway of CEO Compensation Incentives

In this section, as a matter of equal importance, I examine how CEO self-interest might impact the influence of political ideology or even override it in decision-making. One of the most essential factors in an organization's success is its compensation policy because of its power to persuade executive behavior (Jensen & Murphy, 1990). The utility of the firm's compensation incentives structure boils down to how risk averse or risk seeking ownership wants its CEO to manage operations. However, as agency theory (AT) (Dalton, Hitt, Certo, & Dalton, 2007; Jensen & Meckling, 1976) is traditionally the lens used to explain compensation incentives, this approach to risk becomes a double-edged sword. AT generally adheres to the presumption that CEOs are risk-averse, shareholders are risk neutral, and organizational risk and return are positively associated (Holmes et al., 2011; Sanders, 2001). Insinuations are that ownership only needs mechanisms to increase CEO risk taking tendencies. The incentive alignment logic in AT studies is based on simplistic theories on how CEOs make decisions (Donaldson & Lorsch, 1983) and tends to overlook the organizational and situational contexts linked to decision making (Amburgey & Miner, 1992). As Sanders (2001) illustrates, research on risky decision making indicates CEOs may react to the asymmetric risk properties of ownership and incentive options quite differently than expected.

The central view of AT (Dalton et al., 2007; Jensen & Meckling, 1976) is the risk preferences of CEOs can be better aligned with those of shareholders by paying equity-

based incentives as a reward for creating shareholder value (Sanders, 2001). Jensen & Meckling's (1976) seminal work on AT suggests the incentive alignment hypothesis allows boards to use stock-based incentives to deter managerial opportunism, encourage behaviors that maximize shareholder wealth, and attain higher levels of firm performance. In other words, AT values risk seeking, just not rogue risk taking.

Tosi and Gomez-Mejia (1989) adds greater perspective on the owner (principal) – manager (agent) relationship for large firms in the United States where ownership is separated from control. For these entities, management (i.e., CEO) has the fiduciary responsibility to act in the interests of the organization's shareholders while the owners have little authority to make any decision regarding the firm's operation. As a result, Tosi and Gomez-Mejia (1989) recognize the concentration of equity holdings in a firm matters to management's behavior. They highlight this has different connotations for risk aversion in respects to owner- and management-controlled firms. Owner-controlled firms more easily align CEO compensation to firm performance which equalizes related uncertainty and risk. However, management-controlled firms, the greater norm, can detach performance from compensation which not only decreases interest alignment with owners, but shifts the preponderance of uncertainty and risk to the owners who have less control over the organizational decision processes (Tosi & Gomez-Mejia, 1989). Accordingly, CEOs would then have greater latitude to pursue options in their self-interest, even if damaging to owners. Jensen and Murphy (1990) specify that boards can rectify this problem by structuring "pay-for-performance" stock ownership. CEOs need to receive larger rewards for great performance and severer punishments for poor

performance, even dismissal. This minimizes agency costs. Otherwise, they find the CEO position to not be a very risky job.

Faleye, Hoitash, and Hoitash (2011) find arrangements of CEO stock ownership in the firm reduces unwarranted managerial risk taking because of the greater personal exposure of the CEO. Coles, Daniel, and Naveen's (2006) study also provides empirical evidence suggesting existence of a strong causal relationship between managerial compensation and value-critical managerial decisions. Specifically, they find higher prior CEO wealth to stock return volatility, or vega, leads to riskier policy choice implementation, while sensitivity of CEO wealth to stock price, or delta, aligns incentives between CEO and shareholders because the value of their shares incur the same gains and losses. Firm performance appears to moderate the degree of risk taking. In line with risk taking literature, Sanders (2001) submits that AT findings on incentives generally show the higher the firm performance the less new risks CEOs are willing to take outside of their current strategic course.

Hoskisson et al., (2017) suggest incentive compensation is not a perfect control, and therefore, monitoring may also be used to improve CEO risk taking. In essence, this is considered a risk sharing problem at the individual level that is rooted in self-interest within a managerial discretion context. This infers that limiting CEO power (managerial discretion) to make strategic choices or creating an incentives structure where the CEO has more to lose by those choices, ownership or the board can better align goals and share the risks involved.

The fundamental agency problem arises when the goals of ownership and the CEO conflict and it is difficult for ownership to verify the CEO's actions (Jensen &

Meckling, 1976). A classic example is Jensen's (1986: 323) "free cash flow" problem defined as the "excess cash flow required to fund all projects that have positive net present values when discounted at the relevant cost of capital." The idea of *moral hazard* becomes a friction point where one of the parties use misleading information and/or exhibits behavior changes because they think they can get away with it – so it becomes a trade-off between the cost of measuring behavior and measuring outcomes (Eisenhardt, 1989). Jensen (1986) maintains that payouts to shareholders reduce the resources under managers' control causing a reduction in the managers' power and making it more likely that capital monitoring will incur. He argues financing projects internally will eliminate monitoring. However, if managers have no constraint placed on them, they will look to use the free cash flow to grow their fiefdoms, typically in a wasteful means, rather than returning it to shareholders. Fama (1980) proposes this dilemma can be rectified through a manager's wage revision process through ex post settling up.

While research generally acknowledges the important role of CEO incentives in influencing firms' strategic choices, including foreign market expansion strategies, it is less resolute empirically on whether incentive alignment and monitoring actually result in higher firm performance. Some scholars believe there exists little empirical evidence regarding the effects of stock-based financial incentives (e.g., Finkelstein & Hambrick, 1996; Murphy, 1999) or that empirical work only relates indirectly to how compensation incentives impact managerial decisions (Coles et al., 2006). This position may be a direct result of the scope limitations of AT on the subject. Holmes et al., (2011) follows Eisenhardt's (1989) recommendation to use prospect theory's insights on risk taking to better inform the AT positions on executive compensation. As a standalone, prospect

theory studies on compensation incentives overly rely on the CEO's values of a perceived reference point and associated loss aversion which inevitably lead to a disparity between CEO behavior and shareholder interests (Holmes et al., 2011). However, integrating AT and prospect theory into the behavioral agency model (BAM; Wiseman & Gomez-Mejia, 1998), CEOs are no longer viewed as risk averse, only loss averse, and their compensation structures represent their reference point. BAM suggests loss averse CEOs will take less risk as they accumulate equity wealth (Wiseman & Gomez-Mejia, 1998), but they are also less concerned about potential losses if the firm is experiencing strong financial performance (Benischke, Martin, Gomez-Mejia, & Ljubownikow, 2020). So, following BAM, the compensation structure could either encourage or discourage risk aversion depending on how they view the relation between outcomes and the reference point. CEOs are expected to follow the ascribed framing as laid out in the risk-taking literature – if outcomes exceed their reference point CEOs would assume a gain framing and be risk averse, but if they have a high incentive target, they may embrace a loss framing and be risk seeking (Holmes et al., 2011; Wiseman & Gomez-Mejia, 1998).

Benischke et al., (2020) recently leveraged BAM in studying CEOs with higher risk bearing (due to incentives) in the context of foreign market decisions and found that incentives alone, while influential, were not enough to predict these types of decisions. Henceforth, we must investigate how CEO compensation incentives are structured to determine what influence they might have on strategic choices to internationalize in high-risk locations. Of particular interest is the interaction between the CEO's political ideology and his or her compensation incentive structure when both are present in the decision-making equation. Is the relationship reinforcing (i.e., compounding) or

competitive in nature? Using archival data, we can determine the compensation incentive structure related to salary; however, we may not be able to determine if this compensation is tied to performance or not. So, we may be able to infer the reference point, but will not have the qualitative understanding of how the CEO regards that reference point.

Hypotheses

Following a microfoundations approach that firm decisions are determined at the individual level, UE literature recognizes the firm's CEO as the most important player in shaping strategic choices (Finkelstein & Hambrick, 1996). The international landscape presents considerably more uncertainty, risk, and threats than the better-known domestic environment. To make sense of this complexity, CEO values are used as filters to form their perceptions that ultimately define interpretations and rationalizations for strategic decisions. Political ideology literature identifies the strong influencing role of an individual's political ideology, shaped by these values and perceptions, which drives actionable behavior.

MFT provides greater depth to the political ideology discussion by specifying morality stances on various issues creates the interlocking set of values that form an individual's political ideology. In turn, opposite ends of the liberal-conservative continuum reflect antagonistically different visions for each side's incumbents on how they view the world and react to it. Political ideology and MFT literatures are united that this conflict is evident in the uncertainty-threat model. This model clearly states conservatives favor uncertainty avoidance, an intolerance for ambiguity and system

instability, and a need for threat management to reduce their fear of threat or loss; while liberals are clearly more open to experience, considered more open-minded, and embrace foreign experience.

Based on these findings in extant literature, I predict that liberals will be considerably more inclined to decide to conduct business in foreign locations with higher risk than conservatives will. As the liberal-conservative continuum provides a spectrum from one extreme degree to its polar opposite on the other end, there will be considerable variation in the results of where the CEOs political ideology scores will land along the spectrum. Individuals are not considered as only one extreme or the other – there are varying degrees of political ideology including centrist views. Therefore, I predict the relationship will be considered linear that will start on the low-risk side for conservatives and will have a steeper increase as the political ideology scoring crosses into the liberal side of the spectrum. Therefore, I propose the following hypothesis:

H1: A liberal CEO will be positively related to higher foreign choice location risk while a conservative CEO will be negatively related.

The Moderating Influence of Compensation Incentives on Motivation

The literature also considers a firm's compensation policy (i.e., incentives structure) as a mechanism that shapes CEO behavior. AT (Jensen & Meckling, 1976) considers self-interest can be reduced or removed, and thus motivates certain desired risk preferences, by paying equity-based incentives as a reward for supporting shareholders' interests. An interesting consideration is to what degree might personal self-interest in the form of financial gains trump one's personal values. Does the existence of both the

CEO's political ideology and his or her compensation incentives in the decision-making equation fortify or diminish certain outcomes?

AT literature argues that CEOs, by nature, are risk averse and incentives are a means to increase risk taking. However, this belief does not account for other important influences from situational and environmental variables which may lead to a natural tendency for risk seeking to the detriment of the firm. Following BAM (Wiseman & Gomez-Mejia, 1998), we see CEOs establish their risk preference in either direction (i.e., degree of aversion or seeking) based on a loss aversion with respect to the compensation incentives' reference point setting.

BAM (Wiseman & Gomez-Mejia, 1998) incorporates aspects of prospect theory (Kahneman & Tversky, 1982) that underscores CEOs will act in a risk averse manner when their incentives payout based on firm outcomes is above their reference point and in a risk seeking manner if they consider themselves below the threshold. For a compensation policy to be effective, it must be aligned to performance results (Jensen & Murphy, 1990). I view incentive structures being coupled to performance by the degree that company stocks are part of the incentives structure. Compensation incentives literature highlights that firm stock equity not only aligns the CEO with the shareholders' losses and gains in value but also connects these gains and losses for the CEO with the firm's performance that reflects those outcomes.

I predict CEO incentive structures will have an influential role for the firm's foreign operations by regulating the magnitude of the relationship between political ideology and the firm's foreign location level of risk. Thus, I propose the following hypothesis:

H2: CEO incentives structures tied to performance (e.g., company stocks) will be negatively related to higher foreign location risk.

The Moderating Role of CEO Power in Internationalization Decisions

Power is often defined in terms of psychological change influence based on work by French and Raven (1959) who detail five bases of power: reward, coercive, legitimate, referent, and expert. More succinctly, power can be defined as the "capacity of individuals to exert their will" (Haleblian & Finkelstein, 1993: 848). The size and range for any type of power may vary greatly (French & Raven, 1959). In business terms, the extent of power is sometimes viewed as the scope of managerial discretion from the board (Hambrick & Finkelstein, 1987) within the perspective of ability to manage the firm's uncertainty (Daily & Johnson, 1997; Velte, 2019). Businesses have different corporate governance structures – for example, owner CEOs enjoy different forms of power to execute their will than management-controlled firms where CEOs possess varying degrees of discretion given to them by boards to initiate strategic actions. As in the discussion of compensation incentives, ownership can establish the degree of managerial discretion (i.e., the latitude of action) to discourage CEO opportunism. Finkelstein and Hambrick (1990) specifically added managerial discretion as a moderator between executives' characteristics and organizational outcomes because of the great heterogeneity of discretion allotted to CEOs. They found that when the level of discretion was significant, the firm's strategic decision patterns typically reflected that of the executives.

Accordingly, we can infer that the impact of a CEO's political ideology on a strategic choice, such as the degree of the firm's internationalization and foreign location,

will also vary in strength and importance depending on the amount of latitude that CEO has to make those decisions. Therefore, in concert with Finkelstein and Hambrick (1990), I believe that CEO power, as conceived as managerial discretion, will act as a moderator where the more power the CEO possesses to make the firm's strategic choices, the more influence his or her political ideology will affect those outcomes. Consequently, I propose the following hypothesis:

> *H3: CEO power (managerial discretion) moderates the relationship between CEO political ideology and the firm's foreign location's risk, such that this relationship is weaker (vs. stronger) when power is weaker (vs. stronger).*

The Moderating Factor of a Firm's Degree of Internationalization (DOI)

The underlying theory behind the Uppsala model is that firms follow an incremental, or staged approach to internationalization and start internationalizing in close, similar markets. This approach is a response to uncertainty and risk. Johanson and Vahlne (1977) recognized early on that firms change from learning through their experiences in foreign markets. As they gain more information through this learning process, they commit more resources to additional markets and strengthen their position regionally. International experience is a customary antecedent in internationalization studies. As DOI increases, international experience as part of the equation increases, which subsequently infers greater learning and knowledge gain. As previously mentioned, this path dependency approach does not explain the process performed by INVs and born globals. The authors account for different approaches by INVs and born globals by attributing these agile firms with entrepreneur owners (Johanson & Vahlne, 2009; Vahlne & Johanson, 2013). These entrepreneurs are characterized as already possessing the required knowledge on how to be successful in foreign markets. They are

also regarded as holding a different perspective towards uncertainty and risk. They follow the effectuation process (Sarasvathy, 2001) where they predetermine an affordable loss and seek to exploit opportunities with organic resources under their immediate control.

In either case, knowledge (and learning to gain that knowledge), whether brought forth to a firm's inception for immediate internationalization, or gained through experience over time, is conclusively considered a very important component in both internationalization and IE literatures (e.g. Johanson & Vahlne, 1977, 2009; Vahlne & Johanson, 2013, 2017, 2020; Knight & Liesch, 2016; Figueira-de-Lemos et al., 2014; Hilmersson, Sandberg, & Hilmersson, 2015; Cavusgil & Knight, 2015; Figueira-de-Lemos & Hadjikhani, 2014; Santangelo & Meyer, 2011). Therefore, it is inferred that the greater degree of internationalization a firm already possesses will increase the probability that the CEO will be open to increase this degree of internationalization, as well as be less risk averse. Accordingly, I propose the following hypothesis:

> *H4: The degree of internalization (DOI) moderates the relationship between CEO political ideology and foreign location choice risk in that the greater (lesser) DOI the greater (lesser) the foreign choice location risk.*

CHAPTER THREE

METHODOLOGY

Sample and Data

I collected data from the Federal Election Commission (FEC) in Compustat-Capital IQ that reflect political contributions to federal politicians made by CEOs from U.S. S&P 1500 firms from 2000 to 2018. According to the FEC, contributions are considered the most common source of campaign support (FEC.gov, 2019). As this data only captures political party support, I merged with data collected from the GovTrack database which corresponds to the recipient politician's political ideology score (as exhibited on the liberal-conservative continuum) computed from the politician's voting record. GovTrack is a non-profit organization which maintains congressional voting records. In the case where CEOs made multiple donations in any given year, I averaged the scores across the donations.

For DV (foreign choice location risk) data, I first recorded entry locations from the firms' Annual Reports in Edgar (SEC.gov). In many cases, these reports only listed regions or stated a number of countries for foreign presence without specifying the specific countries. Consequently, I purchased a 1-year subscription to the Uniworld Online database which provided a listing of all country locations where each firm operated in years 2016-2018. In most instances, this supplemental information both filled

in the blanks and verified information listed in the Annual Reports. If a location could not be confirmed between the two sources, it was deleted. Then, I acquired the degree of risk in the associated country locations from the S&P Global Ratings (2017) which ranks specific countries on a scale of '1' (very low risk to '6' (very high risk) based on their sourced criteria that reflects economic risk, institutional and governance effectiveness risk, financial system risk, and payment culture/rule-of-law risk (see Appendix for country rankings). I used the highest risk location as the default.

Data for the moderators was pulled from various sources: data to compute CEO compensation incentives and CEO power was pulled from ExecuComp in Compustat. For the degree of internationalization, I compiled the international scope of operations (defined as the number of countries where the firm operates) from Annual Reports in Edgar (SEC.gov) and the Uniworld Online database.

Data Collection Timeline

My initial dataset was used from a previous project and contained a complete compilation of the computed IV (CEO political ideology), moderator (CEO power), and controls (SIC, firm age 'in years', firm headquarters' location in red or blue state as dummy 0=red 1=blue, and calendar year) for years 1992-2018 with a starting point of 33,600 records. I created a variable in the dataset that combined the gvkey and year in order to use a concatenate formula in MS Excel to merge data for the moderator (CEO compensation incentives) from ExecuComp. Data used to compute compensation incentives in ExecuComp is only available starting in 1994.

The longest data collection procedure revolved around compilation of the DV (foreign location choice risk) which required nearly nine weeks of roughly 30 hours per week. In order to create the most comprehensive dataset for future studies, I initially maintained the complete 33,600 records; however, Edgar information started in 2000. I first looked up each firm by year in Edgar and annotated all foreign countries listed where the firm operated (each firm lists the information in different sections of the report and at times modifies that location depending on the year involved). As mentioned, some firms (particularly the more expansive globally the firm is) limit the location information to a total number of countries or only list regions of involvement. After initial completion of the 33,600 records, I deleted all records before 2000 that I did not have data, resulting in a rough dataset of 10,450 records. I purchased subscription to the Uniworld Online database and conducted downloads of all US companies' foreign subsidiary locations for years 2016-2018. This information listed every country where the firm had physical presence. I repeated review of the now 10,450 records with the new information – this time listing each record with the name of the country with the highest risk and creating a categorical variable (low, med, high and dummy 1, 2, 3) in accordance with that highest country's risk level. I obtained the highest risk determination from comparing the list of countries for each record with the S&P Global Ratings Country Risk Assessment Update (2017). This final compilation also contained numerous years for many firms where there was only domestic operations, usually on the front or end sides, but occasionally in the middle. When I first conducted the statistical analysis, these records without foreign operations (coded 0) did not execute properly. Thus, I deleted all records that did not represent foreign operations. The final dataset comprises 1036 U.S. firms from the S&P

1500 with 9871 fields of data corresponding to international operations between 2000 and 2018.

Measures

Dependent Variable. The dependent variable is the foreign market entry location risk level. This variable is operationalized as categorical. Following the country risk assessments of the S&P Global six categorical rankings, the risk variable is tertiary (low; medium; high). Specifically, S&P Global's group 1 (very low risk) and group 2 (low risk) represent 'low' risk; group 3 (intermediate risk) and group 4 (moderately high risk) represent 'medium' risk; and group 5 (high risk) and 6 (very high risk) represent 'high' risk. [I contacted S&P to inquire if they would share the raw computations for the countries to make the DV a continuous variable, but they declined by stating the information was confidential.]

Independent Variable. I identify my independent variable as CEO political ideology. CEO political ideology is used as a proxy to represent the firm's key decision maker's values that shape his or her cognitive bias. To operationalize this variable, I first extract data concerning CEO political contributions to politicians from the data collected from the FEC database. Next, I pull the associated politician's political ideology score that is computed by the GovTrack database as a reflection of his or her voting record and transfer that score to the donating CEO (GovTrack.us, 2013). This score is indicated as a continuous variable along the liberal-conservative continuum where (0) indicates the liberal pole and (1) indicates the conservative pole. Where there may exist multiple

politician recipients from a single CEO, the score represents an average of all the politicians' scores.

Methods used in extant research for measuring political ideology only account for CEO's political contributions to a politician which merely equates to their political party affiliation (e.g., Gupta & Wowak, 2017; Elnahas & Kim, 2017; Unsal et al., 2016; Chin et al, 2013). Consequently, results from this method only produce extremes depicted at the polar ends of the liberal-conservative continuum, fueling the debate that the culture war is about polar opposites. This form of measurement misses capturing the complexity and degree of political ideology that includes more centrist views and implies that extant literature has been assessing inadequate constructs that produce less complete findings. My research strives to provide increased precision to the measurement of political ideology to employ the widely accepted liberal-conservative continuum as it was designed. So, my method connects political contributions with the corresponding politician's political ideology score based on voting record for increased accuracy. Still, although this measurement method is improved over previous studies, it remains imperfect as it cannot account for those situations where the CEO and politician disagree to a varying degree from issue to issue. Future research would likely need to incorporate additional secondary data sources, such as contributions to different causes, to subjectively compare with the politician's voting stances on similar issues.

Moderators. I identify my moderators as CEO incentives structure, CEO power (managerial discretion), and the degree of firm internationalization (international scope). CEO incentives structure, specifically whether or not tied to performance, acts as a moderator. Following Mishel and Sabadish (2012: 3) and Lazonick (2011), this variable

is defined as “realized direct compensation” which is the sum in a given year of “salary, bonus, restricted stock grants, options exercised, and long-term incentive payouts.” It is operationalized using variables SALARY, BONUS, RSTKGRNT, OPT_EXER_VAL, and LTIP, retrieved from the ExecuComp database from Compustat. Multinominal logistic regression and moderation tests through multiple regression do not execute the final dollar summation of the variable in raw form; consequently, consistent with prior literature (Coles et al., 2006; Guay, 1999; Core & Guay, 1999), I winsorize the compensation incentives dollar total at the 1st and 99th percentiles. This results in the quartile binning assignment of (1) for <$901K, a (2) for between $901K and $1.7M, a (3) for between $1.701M and $6.4M, and a (4) for any amount greater than $6.4M.

CEO power, conceived as the degree of managerial discretion for making internationalization decisions, is measured using a four-factor model as presented by Chin et al., (2013) and McDonald, Westphal, and Graebner (2008). In this case, a CEO power index is formed as a composite score based on ExecuComp. The compilation includes CEO duality coded 1 if the CEO is also the chairman of the board; CEO’s relative ownership in the firm calculated as a ratio of CEO to board equity holdings; the ratio of insider directors to number of total directors, and the CEO’s tenure in years. These components are updated for each observed year, standardized and aggregated. CEO tenure is one of the most studied variables in risk-taking literature as long-tenured CEOs are hesitant to make changes and therefore take less risks while newer CEOs are open to a wide-spectrum of strategic initiatives (Hoskisson et al., 2017).

The degree of the firm’s internationalization (DOI) also moderates the relationship between CEO political ideology and the foreign market entry location risk.

The Uppsala model suggests the internationalization process is incremental due to psychic distance where firms first enter nearby foreign markets that are known. Therefore, I expect the greater the degree of internationalization, the more likely a firm will engage in business in a higher risk location.

According to Sullivan (1994), estimating the degree of internationalization remains arbitrary. The most common DOI measurement used is simply FSTS (foreign sales as a percentage of total sales). Sullivan (1994) criticizes single item measurements as they may distort estimates due to measurement error. For example, it can provide a bias of home country size (e.g., USA vs Luxembourg). Sullivan (1994) devised the measurement: FSTS + FATA + OSTS + PDIO + TMIE = $DOI_{INTS.}$ In addition to FSTS, FATA equates to foreign assets as a percentage of total assets; OSTS is the overseas subsidiaries as a percentage of total subsidiaries to reflect the international scope of the firm's involvement; PDIO represents the psychic dispersion of international operations based on Ronen and Shenkar's (1985) ten psychic zones of the world; and TMIE measures the Top Managers' international experience calculated by career overseas duration.

The problem with all these measurements is a central focus on sales. My DV selection of foreign location risk solely concerns physical location presence and may not necessarily concern sales in that location (e.g., mining, oil exploration, and manufacturing). Instead, I follow Qian, Li, Li, and Qian (2008); Barkema and Vermeulen (1998); and Tallman and Li (1996) in using international scope to represent international or multinational diversity as a proxy for degree of internationalization. International

scope is measured as the sum number of countries where the parent firm has physical presence outside of the United States.

Controls. A study is said to have internal validity if a cause-effect relationship actually does exist between the independent and dependent variables (Rousseau, Manning & Denyer, 2008). The difficulty is determining if no other extraneous or confounding variables (not controlled) have an influence on the dependent variable(s). Controls are required to assure and/or increase internal validity.

At the individual level, I control for CEO succession and age. CEOs' tenure is already accounted for within the CEO Power composite. CEO succession is an important control to interpret when a CEO is replaced in a given year to explain any continuation or shift in strategic choices concerning risk. The variable is binary – 1 if there was a change in CEO or 0 if there was no change. Research also demonstrates CEO age affects risk taking as younger CEOs are more inclined to invest in R&D (Barker & Mueller, 2002), change strategies based on environmental conditions (Grimm & Smith, 1991), and accept financial fraud (Troy, Smith & Domino, 2011).

At the firm level, I control for SIC, firm age, firm HQ location (Red or Blue State), and calendar year. Standard Industry Classification (SIC) is a four-digit code used to classify firms by their industry and is a common control to account for inter-industry differences. Firm age is controlled because of the on-going debate on whether firms follow a gradual, incremental process where they do not internationalize until they have acquired a large quantity of resources over numerous years (Stage Theory of MNE) or near inception as explained by INV and born global literatures. Firm location in a predominant red or blue state may impact the firm's political ideology and basis for the

selection of a particular CEO, thereby interfering with the independent nature of political ideology. The calendar year is particularly important in establishing the use of panel data for statistical analysis rather than as cross-sectional data.

Analysis

I start with descriptive statistics (mean/standard deviation and correlation of the variables). Since my DV is categorical with three possible outcomes, I use multinomial logistic regression of foreign location risk on CEO political ideology using both main effects and stepwise interactions. To test for multicollinearity, I use variance inflation factor (VIF) tests to ensure there is independence of observations in the dataset to avoid any violation of Gauss Markov "Ordinary Least Regression" assumptions. I also execute moderation tests for CEO incentives structure, CEO power, and the degree of internationalization using the Hayes PROCESS Procedure (Model 1). Within SPSS, the PROCESS command centers the predictors (where the mean of each centered score is zero), computes the interaction term, and performs the simple slope analysis (Leech, Barrett, & Morgan, 2015).

***Endogeneity*.** Managerial decisions are not considered random; contrarily, they are endogenous to expected performance implications (Hamilton & Nickerson, 2003; Shaver, 1998; Bascle, 2008). Reviews of UE research consistently criticize the variability of proxy measurements used that do not sufficiently account for endogeneity issues (Neely, Lovelace, Cowen, & Hiller, 2020). These proxies now go beyond demographic measurements to include any non-self-report measures of cognition, values and personality. Endogeneity occurs from the omission of variables, measurement error in

variables, or reverse / simultaneous causality which results in correlation of the independent variable with the error term (Semadeni, Withers, & Certo, 2014; Neely et al., 2020). If non-experimental studies do not test for all possibilities of endogeneity, the findings may be considered biased. In this study, randomized trials are not feasible as archival data is used. Methods to address endogeneity, in many cases, only apply to one particular cause, while there could potentially be multiple causes that affect a single variable (Hill, Johnson, Greco, O'Boyle, & Walter, 2020). The question I focus on with this archival data is whether the estimated coefficients from the statistical tests approximate causal effects that would be obtained from an ideal experiment – covering various indications of potential bias simultaneously (Hill et al., 2020). "If a coefficient is determined to be insensitive to the impact of confounding variables, then it is more reasonable to interpret the coefficient as indicative of an effect" (Frank, 2000: 149). Therefore, I pivot my supplemental checks to *sensitivity analysis* which can quantify how robust inferences are to all potential sources of bias by employing the Impact Threshold for a Confounding Variable (ICTV) technique (Frank, 2000). Frank (2000) explains the ICTV technique as:

> Indexing the impact of a potentially confounding variable on the statistical inference with regard to a regression coefficient. The index is a function of the hypothetical correlations between the confound and outcome, and between the confound and independent variable of interest. The expression of the index allows one to calculate a single valued threshold at which the impact of the confound would be great enough to alter an inference with regard to a regression coefficient.

Pkonfound() function results provide the percentage of bias necessary to invalidate the inference and the impact threshold for a confounding variable.

I followed Frank, Maroulis, Duong, and Kelcey (2013) and Frank (2000) in determining the bias necessary to invalidate the inference of the effect, as well as the impact threshold for a confounding variable potentially omitted. I found that in order to invalidate an inference, 57.79% of the estimate would have to be due to bias. This is based on a threshold of -0.864 for statistical significance (alpha = 0.05). This means, to invalidate an inference, 5705 observations would have to be replaced with cases for which the effect is 0 (i.e., considered false to a source of bias), possibly a very robust effect. Additionally, the minimal impact to invalidate an inference for a null hypothesis of 0 effect is based on a correlation of 0.166 with the outcome and at 0.166 with the predictor of interest (conditioning on observed covariates) based on a threshold of -0.02 for statistical significance (alpha = 0.05). Correspondingly, the impact of an omitted variable (as defined by Frank, 2000) must be 0.166 x 0.166 = 0.028 to invalidate an inference for a null hypothesis of 0 effect. To put this in perspective, the omitted variable would have to be stronger in strength than any variable in the model (of traditional predictors). As this is unlikely, I assess it is doubtful that an omitted variable is driving the results.

CHAPTER FOUR

RESULTS

The central argument of this study is that through a microfoundations approach to internationalization, knowing the political ideology score of a firm's CEO can predict the firm's probability to incorporate operations in high-risk foreign locations. Reflecting on the political ideology literature and distinctions gleaned from moral foundations, I hypothesized that liberal political ideology scores of CEOs will be positively related to higher foreign choice location risk, while those of conservative CEOs will be negatively related. In essence, decisions to conduct international operations in high-risk locations will be significantly more prevalent for liberal CEOs than conservative CEOs.

Extant literature shows other variables have predictability in strategic actions involving risk and uncertainty, such as decisions concerning internationalization. These variables include: the structure of the CEO's compensation incentives, the level of the CEO's authorized managerial discretion (power to take desired action), and the firm's degree of internationalization. Thus, this study investigates the moderating role of each of these variables. Specifically, I hypothesized that CEO compensation incentives structures will be negatively related to higher foreign location risk; that the relationship between political ideology and foreign location risk will be stronger with higher CEO power; and

the greater the firm's degree of internationalization (scope of international operations) the greater openness to operations in high-risk locations.

Correlations among study variables for my statistical analysis appear below in Table 1. As shown, study variables are not significantly correlated, i.e., below .70.

Table 1. Descriptive Statistics and Correlations

	Mean	SD	Loc. Risk	Pol. Id.	CEO Power	Comp Incents	CEO Age	CEO T/O	DOI	HQ State	Firm Age	SIC
Loc. Risk	21.8	.74	1									
Pol. Id	.52	.230	.013	1								
CEO Power	.38	.677	.068	.024	1							
Comp Incents	2.48	1.14	.130	.002	.120	1						
CEO Age	57.34	7.95	.046	.048	.381	.022	1					
CEO T/O	.08	.28	.041	-.014	-.155	-.018	-.159	1				
DOI	10.92	13.23	.478	-.037	.040	.161	.052	.017	1			
HQ State	.32	.468	.013	-.181	.044	.017	-.023	-.012	.160	1		
Firm Age	30.54	18.56	.267	.110	.094	.087	.137	.069	.251	-.110	1	
SIC	4543	1957	-.184	-.135	-.076	.000	-.034	-.042	-.006	.108	-.256	1

As part of the data analysis, the moderation tests using the Hayes PROCESS models, are run as regression models. Variable analysis is required to ensure regression assumptions are not violated. The predominant regression assumption is the independence of all variables – that multicollinearity does not exist. In addition to the ballpark check above that correlations are not excessive; I conducted a Variation Inflation Factor (VIF) test which resulted in a mean value of 1.12. VIF results are reported below in Table 2. As the mean value is not substantially greater than 1 and all tolerances are

above .8, multicollinearity does not appear to be an issue, the regression is not biased, and no serious problems exist with the variables. Finally, the large sample size of 9,871 records is more than enough to eliminate multicollinearity as a factor. Therefore, I conclude from these three checks that the variables used in regression models are independent.

Table 2. VIF Analysis

Variable	**Tolerance**	**VIF**
CEO Political Ideology	.947	1.056
CEO Power	.824	1.213
Compensation Incentives	.958	1.044
Firm Age	.831	1.203
Degree of Internationalization	.880	1.137
SIC	.912	1.096
HQ State	.918	1.089
CEO Succession	.953	1.049
CEO Age	.829	1.206

Since the dependent variable is categorical with three potential outcomes (low, medium, or high risk), multinomial logistic regression was conducted to assess whether the four predictor variables, *CEO political ideology*, *CEO compensation incentives*, *CEO power,* and the firm's *degree of internationalization,* significantly predicted whether or not a firm conducted international operations in a high-risk location. I ran models both with and without controls added to compare the effects. The controls only predict an additional 3% of the variance in location risk and the only change when included is that CEO power in the high-risk category is not significant without the controls and becomes significant ($p < .05$) with the controls. The assumptions of observations being independent and independent variables being linearly related to the log were checked and

met. When all four predictor variables are considered together with controls they significantly predict whether a firm conducted international operations in a high-risk location, X^2=6229.81 *df*=26, N=9871, p < .001.

As a key component of the Uppsala internationalization theory is that firms seek to minimize or eliminate risk before starting or expanding internationalization, and low risk locations were the smallest category at 20.1%, I used Low Risk as the reference category. As listed in Table 3, all coefficients and key interactions between the IV and moderators in the high-risk category are significant to at least 95% confidence level with the exceptions of CEO succession and CEO age. All coefficients and interactions in the medium-risk category are also significant to at least 95% confidence level with the exceptions of CEO power, CEO succession, CEO age, and the industry control (SIC). In both the high and medium-risk categories, the model intercepts are significant (p < .001) with negative coefficients while CEO political ideology has negative coefficients in each case. When the reference category is shifted, results of the low-risk category show both the model intercept and CEO political ideology coefficients are positive. These two coefficients (intercept and CEO political ideology), when interpreted together, explain H1. As the CEO's political ideology score decreases from 1 (conservative) towards 0 (liberal) in the high-risk category, the location risk outcome is negatively related to CEO's political ideology score. Conversely, in the low-risk category, as the CEO's political ideology score increases from 0 (liberal) to 1 (conservative), the location risk outcome is positively related. Therefore, liberal CEOs are more positively related to high-risk locations and conservative CEOs are more positively related to low-risk locations. H1 is supported.

Table 3. Multinomial Logistic Regression Results Summary

	B (SE)	95% CI for Odds Ratio		
		Lower	Odds Ratio	Upper
High Risk Location vs. Low Risk Location				
Intercept	-61.86 (15.20)***			
CEO Power	-.32 (.14)*	.55	.72	.95
Comp Incentives	-.29 (.08)***	.64	.75	.88
CEO Political Ideology	-2.07 (.44)***	.05	.13	.30
Deg. of Internationalization	.56 (.04)***	1.62	1.74	1.88
CEO Succession	.09 (.14)	.83	1.10	1.44
CEO Age	.01 (.005)	1.00	1.01	1.02
HQ State (Blue/Red)	-.28 (.09)***	.64	.76	.90
Firm Age	.02 (.002)***	1.01	1.02	1.02
SIC	.00 (.00)***	1.00	1.00	1.00
Calendar Year	.03 (.008)***	1.02	1.03	1.05
PI * DOI	.24 (.07)***	1.10	1.27	1.46
PI * CEO Power	.74 (.25)**	1.29	2.11	3.44
PI * Comps	.58 (.15)***	1.35	1.79	2.39
Medium Risk vs. Low Risk Location				
Intercept	-58.90 (13.38)***			
CEO Power	-.23 (.12)	.63	.80	1.01
Comp Incentives	-.24 (.07)***	.68	.79	.91
CEO Political Ideology	-1.54 (.38)***	.10	.21	.45
Deg. of Internationalization	.45 (.04)***	1.46	1.57	1.69
CEO Succession	-.21 (.13)	.63	.81	1.04
CEO Age	-.001 (.01)	.99	1.00	1.01
HQ State (Blue/Red)	.16 (.08)*	1.01	1.17	1.36
Firm Age	.02 (.002)***	1.01	1.02	1.02
SIC	.00 (.00)	1.00	1.00	1.00
Calendar Year	.03 (.007)***	1.02	1.03	1.04
PI * DOI	.23 (.07)***	1.09	1.26	1.45
PI * CEO Power	.89 (.22)***	1.58	2.43	3.75
PI * Comps	.28 (.13)*	1.03	1.32	1.70
Low Risk Location vs. Medium Risk Location				
Intercept	58.90 (13.38)***			
CEO Power	.23 (.12)	.99	1.25	1.59
CEO Incentives	.24 (.13)***	1.1	1.23	1.46
CEO Political Ideology	1.54 (.38)***	2.23	4.68	9.80
Deg. of Internationalization	-.45 (.04)***	.59	.64	.69
CEO Succession	.21 (.13)	.96	1.24	1.59
CEO Age	.001 (.01)	.99	1.00	1.01
HQ State (Blue/Red)	-.159 (.08)*	.74	.85	.99
Firm Age	-.015 (.002)***	.98	.99	.99
SIC	.00 (.00)	1.00	1.00	1.00
Calendar Year	-.03 (.01)***	.96	.97	.98
PI * DOI	-.23 (.07)***	.69	.79	.91
PI * CEO Power	-.89 (.22)***	.277	.41	.63
PI * Comps	-.28 (.13)*	.59	.76	.97

Note: R^2= .47 (Cox-Snell), .53 (Nagelkerke). Model $x^2(26) = 6229.81$, p = <.001
*p < .05, **p < .01, ***p < .001

The study's three tests for moderation were conducted using Hayes PROCESS Procedure for SPSS Version 3.5. Multiple regression was first conducted to determine if CEO compensation incentives structure moderates the relationship between CEO political ideology and the firm's location risk choice. Assumptions of linearity, normality distributed errors, and uncorrelated errors were checked and met. A statistically significant interaction was found, $F(1, 9871) = 12.01$, $p < .001$, R squared = .018, well below consideration as a small effect. When CEO compensation incentives are low (<$901K), there is a statistically significant negative relationship between CEO political ideology and foreign location choice risk, b = -.11, 95% CI [-.22, -.004], t = -2.03, $p < .05$. When CEO compensation incentives are at the mean ($1.7M), there is no statistically significant relationship between CEO political ideology and foreign location choice risk, b = -.01, 95% CI [-.08, .06], t = -.32, *ns*. Finally, when CEO compensation incentives are high (>$6.4M), there is a statistically significant positive relationship between CEO political ideology and foreign location choice risk, b = .18, 95% CI [.08, .29], t = 3.52, $p < .001$. Therefore, H2 is supported, although with minimal impact. Table 4 summarizes the tests for moderation and Figure 3 shows the graphical interaction.

Table 4. Multiple Regression Analysis Summary for CEO Political Ideology and Foreign Location Choice Risk with Moderated by CEO Compensation Incentives (N=9871)

Variable	b	SE(HC0)	t	p
CEO Compensation Incentives	.034 [.002, .065]	.016	2.07	< .05
CEO Political Ideology (PI)	-.207 [-.36, .05]	.079	-2.64	< .01
PI x Comp	.098 [.04, .15]	.028	3.47	< .001
Constant	2.08 [1.99, 2.17]	.045	46.51	<.001

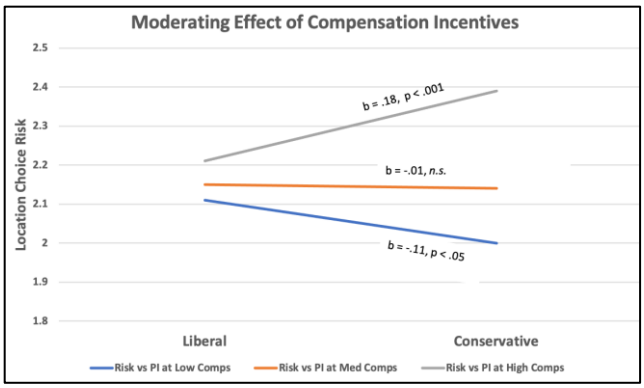

Figure 3. Simple slope analysis for moderating effect of compensation incentives

As shown in Figure 3, the impact of compensation incentives was considerably different between liberals and conservatives. The effect between low and high compensation at the liberal pole was approximately .1 increase in location risk choice, while the same effect at the conservative pole was approximately .4 increase in location risk choice. When compensation incentives are low, conservatives seek a lower location risk than liberals, but when compensation incentives are high, they seek considerably higher risk locations than liberals. Thus, conservatives are more influenced, both positively and negatively, by the level of compensation incentives than liberals when it comes to location risk. Interestingly, the moderation effect of compensation incentives predicts only a very small amount of variance in location risk (< 2%). Perhaps, this is impacted by an even weaker prediction level from CEO power (.5%). I ran an additional interaction to test this relationship using backward stepwise and discovered the interaction between CEO compensation incentives and CEO power is significant ($p < .05$) for explaining high-risk locations, but not significant for explaining either medium or low-risk locations.

Multiple regression was also conducted to determine if CEO power moderates the relationship between CEO political ideology and the firm's foreign location choice risk. Assumptions of linearity, normality distributed errors, and uncorrelated errors were checked and met. A statistically significant interaction was found, $F(1, 9868) = 6.29$, $p < .05$, R squared = .005. According to Cohen (1988) this is well below a small effect size, predicting less than one percent of the variance in location risk. When CEO power is low, there is no statistically significant relationship between CEO political ideology and foreign location choice risk, b = -.36, 95% CI [-.15, .05], t = -1.03, *ns*. When CEO power is at the mean, there is also no statistically significant positive relationship between CEO political ideology and foreign location choice risk, b = .42, 95% CI [-.02, .10], t = 1.28, *ns*. Finally, when CEO power is high, there is a statistically significant positive relationship between CEO political ideology and foreign location choice risk, b = .99, 95% CI [.03, .19], t = 2.59, $p < .01$. Thus, H3 is partially supported, only when CEO power is high, although with minimal impact. Table 5 below summarizes the tests for moderation and Figure 4 shows the graphical interaction.

Table 5. Multiple Regression Analysis Summary for CEO Political Ideology and Foreign Location Choice Risk with Moderated by CEO Power (N=9871)

Variable	b	SE(HC0)	t	p
CEO Power	.014 [-.04, .07]	.027	.52	ns
CEO Political Ideology (PI)	-.008 [-.08, .07]	.038	-.22	ns
PI x Power	.119 [.03, .21]	.047	2.51	< .05
Constant	2.16 [2.11, 2.20]	.021	101.85	<.001

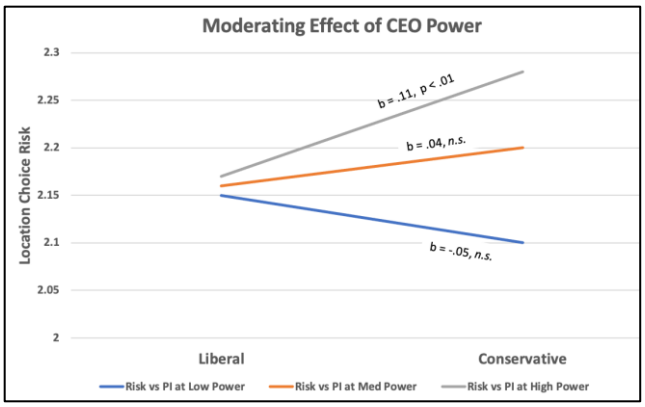

Figure 4. Simple slope analysis for moderating effect of CEO Power

As shown in Figure 4, once again, liberal and conservative CEOs are influenced quite differently by their level of power: the impact between low and high CEO power only increased the location choice risk level by .02 at the liberal pole, while increased nearly .2 at the conservative pole. While there is scant change for liberal CEOs across levels of power, conservative CEOs will seek less risk in location than liberal CEOs when their power is low, and considerably higher risk in location than liberals when their power is high. Thus, conservative CEOs are more influenced by the level of power than CEOs when it comes to location choice risk.

Finally, multiple regression was conducted to determine if the degree of internationalization moderates the relationship between CEO political ideology and the firm's foreign location choice risk. Once again, assumptions of linearity, normality distributed errors, and uncorrelated errors were checked and met. A statistically significant interaction was found, $F(1, 9868) = 5.20$, $p < .05$, R squared = .23. According to Cohen (1988) this is a small effect size, predicting 23 % of the variance in location risk. As a matter of comparison, this was the next strongest predictor after political ideology. When

the degree of internationalization is low, there is no statistically significant positive relationship between CEO political ideology and foreign location choice risk, b = -8.92, 95% CI [-.06, .11], t = .54, *ns*. When the degree of internationalization is at the mean, there is a statistically significant positive relationship between CEO political ideology and foreign location choice risk, b = -3.92, 95% CI [.00, .13], t = 2.06, p < .05. Finally, when the degree of internationalization is high, there is a statistically significant positive relationship between CEO political ideology and foreign location choice risk, b = 8.08, 95% CI [.08, .25], t = 3.88, p < .001. H4 is supported. Table 6 below summarizes the tests for moderation and Figure 5 shows the graphical interaction.

Table 6. Multiple Regression Analysis Summary for CEO Political Ideology and Foreign Location Choice Risk with Moderated by Degree of Internationalization (N=9871)

Variable	b	SE(HC0)	t	p
(DOI) Degree of Internationalization	.027 [.025, .029]	.0008	33.14	< .001
CEO Political Ideology (PI)	.098 [.041, .154]	.0287	3.40	< .001
PI x DOI	.008 [.001, .016]	.0037	2.28	< .05
Constant	2.18 [2.17, 2.19]	.0066	332.74	<.001

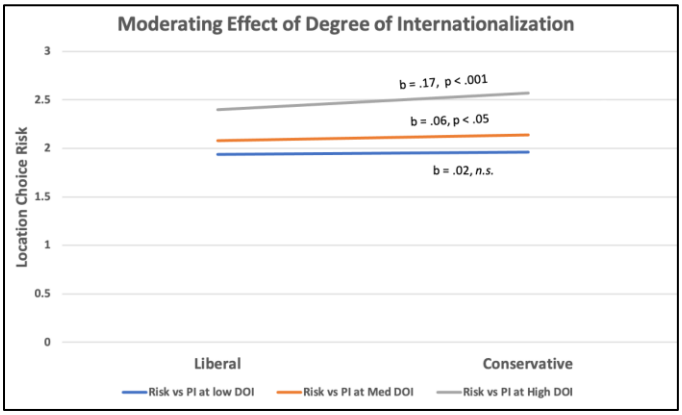

Figure 5. Simple slope analysis for moderating effect of Degree of Internationalization

As shown in Figure 5, for each level of internationalization, liberals and conservatives were similarly influenced, with conservatives just a fraction more than liberals except where the degree of internationalization was high – here, conservatives were influenced noticeably higher for location choice risk than liberals.

As earlier stated, standard controls (e.g., CEO age, SIC, firm age, calendar year) only contributed an additional 3% predictability to the model. First, the individual control of CEO succession was not significant for either medium or high-risk locations when compared to low-risk locations. CEO age was also not significant for either medium or high-risk locations, showing age was not a significant predictor in strategic decision-making involving risk. This infers that older CEOs may not actually be less inclined to enact higher risk choices than younger ones. At the firm level, the control for industry (by SIC) was significant ($p < .001$) in explaining high-risk locations, but not significant for medium and low-risk locations. This result was surprising as the dataset contains a large quantity of firms historically aligned by industry to the Republican party that do possess conservative-leaning ideology scores. For example, the Oil & Gas industry is typically aligned to the Republican party and associated firms are normally in high-risk locations such as Venezuela, Russia, or countries in Africa. Next, firm age is traditionally an important variable in the internationalization debate. On one side, you have traditional research that includes the Uppsala model that supports a belief that longer existing firms have gained more resources, experience, and knowledge, so possess a greater ability to internationalize – in other words, an older firm is considered a better predictor. On the other side, INV and born global literature downplay the importance of organic resources and believe these firms can internationalize faster because their knowledge and

experience is accelerated through experienced entrepreneurial leadership – so age is irrelevant. I found firm age was significant ($p < .001$) for every risk category of location choice but had the smallest b coefficient of any variables included in the model. Finally, I also found the calendar year was significant for each risk category of location risk with a b coefficient double that of firm age in each instance.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

Discussion

Various fields of study (e.g., international business, international entrepreneurship, global strategy, strategic management) devote significant attention to gaining greater understanding of the phenomenon of internationalization. These fields almost exclusively concentrate their unit of analysis at the firm level which only captures some of the explanations why firms decide to conduct international operations. Consequently, a significant gap emerges where studies struggle to adequately explain the quintessence of decision-making, learning, or perceptions of the environmental landscape through this higher-level focus, instead of where it resides – at the individual (microfoundations) level. The phenomenon of internationalization occurs at the firm level; however, the decision process to internationalize, and where, is multilevel – heavily impacted by both macro and micro influences. Alas, it is much easier to obtain macro and firm level data than it is to gain access to decision makers and determine what influences their specific thoughts and actions to employ a certain strategy. Yet, a micro-level investigation is imperative to interpret the potential causes witnessed at higher levels as well as opens up the availability for multi-level interpretation. Only then, through a multi-level approach, will we achieve greater predictability in the internationalization process.

The crux of a firm's internationalization decisions is the quandary between seeking new opportunities and profits against the backdrop of increased uncertainty and risk from a foreign environment. One of the most prominent internationalization theories in extant literature is the Uppsala internationalization process model (Johanson & Vahlne, 1977). This theory has long been governed by uncertainty and bounded rationality (Simon, 1956), reflecting its gradual, incremental, and risk-averse approach to international expansion to similar neighbor markets or within their same region (Johanson & Vahlne, 1977, 2009). This staged process may have indeed been the case with specific countries and markets decades ago but accelerated globalization and advanced technology have spawned an influx of international new ventures and born globals that accelerate international operations in multiple countries and regions. Today, firms frequently operate in high-risk locations – signifying an additional theoretical gap. I attribute this dichotomy to a belief that significantly more heterogeneity exists in firm risk perception at the managerial level than currently captured conceptually in the Uppsala model.

The purpose of this study was to fill these key gaps by introducing a microfoundations approach neglected in the Uppsala model that could offer greater explanatory power for the heterogeneity in firm risk perception for internationalization location choices. Precedence equates this logic: previous microfoundations research highlights that the backgrounds, preferences, beliefs, and culture of decision makers influence them to reach different strategy choices (e.g., Contractor et al., 2019; Coviello et al., 2017; Aharoni et al., 2001); while risk literature believes different individuals view the same risk differently because their risk attitudes vary based on their personality

development and culture membership (Douglas & Wildavsky, 1982; Kahneman & Tversky, 1982).

This study answered several recent calls in IB studies (e.g., Coviello et al., 2017; Forsgren, 2016; Coviello, 2015; Jones & Casulli, 2015) for research to explore the actual decision making of key individuals who shape the firm's internationalization process instead of aggregating representation to account for the firm's behavior. Vahlne and Johanson (2020) suggested that the Uppsala model could be further enhanced by understanding how the cognitive and emotional processes of managers impact internationalization and the firm's evolution. As an answer, I endeavored to make a contribution by submitting empirical results that initiate an unpacking of Coviello et al.'s (2017) micro-level influences in their adaptation proposal of the Uppsala model to a three-layer model. As projected, these results provide some challenging views of risk perception to traditional internationalization literature, the Uppsala model in particular.

My investigation of differences in managerial cognition centered on an attempt to explain CEOs' decisions to pursue, or not pursue, business in high-risk locations – an exposed contradiction to the Uppsala model. This study analyzed 1,036 S&P 1500 firms from the United States that engaged in international operations between 2000 and 2018. I leverage contributions from strategic management, political science, psychology and sociology in using these firms' CEO's political ideology scores as a proxy to represent their values that regulate their psychological constructs, which in turn, shape their strategic choices: specifically, in this study – operations in foreign high-risk locations. The liberal-conservative theoretical lens of political ideology and moral foundations offers powerful testimony to rationalizing how an individual is expected to view

uncertainty, threats, change, or be open to experience based on their ideological score. Additionally, I explored supplemental predictors expected to modify the magnitude of the location choice's risk, such as the quantity of CEO compensations incentives tied to performance, the degree of CEO power authorized to makes strategic choices, and the firm's degree of internationalization (scope of countries with physical presence).

My findings impart several practical implications important to this cross-disciplinary debate. First, by demonstrating a microfoundations approach, political ideology emerged as a powerful predictor of the firm's key decision maker's strategic choices concerning internationalization. In fact, compared to many of the usual variables applied in extant research as predictors and controls at both the firm and individual levels, CEO's political ideology score was four times more explanatory than the next highest variable in the model to justify international operations in a high-risk location, and three times more explanatory for both medium-risk and low-risk locations. Consequently, my central finding provides strong support for predicting that liberal CEOs will be more inclined to pursue international operations in a high-risk location than conservative CEOs. As such, this has implications for boards when selecting a new CEO for their firms beyond resume experience. If boards desire to hire a CEO who will be either risk-seeking or risk-avoiding in the pursuit of international operations, knowledge of the CEO candidate's political ideology score could provide valuable insight on his or her risk inclination. Likewise, the firm's shareholders could gain advantageous insight of the firm's strategic choices with the same knowledge.

Second, we know from UE (Hambrick & Mason, 1984) and AT (Jensen & Meckling, 1976) that the firm's compensation policy can persuade executive behavior to

garner the organization's success (Jensen & Murphy, 1990). BAM (Wiseman & Gómez-Mejía, 1998) considers CEOs to be loss averse rather than risk averse in their framing as they compare the firm's performance to their aspirational levels in determining their risk-taking decisions. Thus, CEOs' reference point used to frame their risk-taking threshold becomes a reflection of their compensation incentives (Wiseman & Gómez-Mejía, 1998). My finding that conservatives are more influenced, both negatively if incentives are low and positively if incentives are high, than liberals when it comes to location risk, has similar implications for boards of international firms. If boards are inclined to shape the risk behavior of their CEOs, the amount of compensation will be much more impactful to achieve desired results the more conservative the CEO, while the amount will not make a noticeable difference for influencing the risk behavior of a liberal CEO. That being said, the extremely small effect of compensation incentives in this study calls into question whether the topic merits much consideration. My findings support Benischke et al., (2020) who equally found compensation incentives to not be sufficient in predicting CEO decisions on foreign market entry.

Third, while Finkelstein and Hambrick (1990) found firms' strategic decision patterns typically reflect that of its executives who have significant power, I found CEO power to only be significant in predicting international operations in high-risk location choices, not in medium and low-risk locations. Similar to compensation incentives, power (managerial discretion) had an almost non-existent effect within the study, calling into question why both of these topics continue to capture such widespread attention in extant literature. Nevertheless, the differential impact of power on liberal versus conservative CEO is revealing. Boards can be less concerned by the degree of power they

allow their liberal CEOs to have as it will not notably alter their risk attitudes; however, conservative CEOs' risk attitudes will more closely reflect their level of power – low risk with low power; high risk with high power.

Finally, results from my inclusion of a firm's degree of internationalization corresponds with the level of importance prescribed in internationalization literature. Internationalization theory has long reasoned that a firm's degree of internationalization matters greatly in decisions to expand internationalization or enter new markets. More succinctly, firms with a greater degree of internationalization will have gained more knowledge and experience and thus will view risks and uncertainties of a new location differently than less internationalized firms. Therefore, the degree of internationalization is considered a requisite variable in related research. After political ideology, I found the degree of internationalization to be the next strongest predictor of foreign location choice risk – predicting 23% of the variance. As this is a firm-level variable, individual-level differences between liberals and conservatives were not very pronounced. However, using historical data, moderation tests for degree of internationalization supported the theory that firms, in practice, are more open to higher risk locations based on the magnitude of their international scope of operations. The implication, as addressed in the literature review, is that a multi-layer impact on decisions does exist. In this case, the degree of internationalization found at the higher firm level influences the decision maker's choices, as do situational specifics of even higher macro-level aspects.

Theoretical Contribution

My study makes three main contributions to internationalization, political ideology, and strategic management/finance streams of research. First, I provide a less subjective or malleable microfoundations level of analysis of decision making missing from the internationalization debate that is easy to replicate. Research focusing on individual decision making is difficult when one must gain steady access to executives, determine meaningful qualitative data from interviews in the moment, or deal with post-decision bias and other reliability issues. Conversely, this study's use of political ideology from archival data as a predictor converts a typically qualitative interpretation of the CEO's global mindset to a quantitative representation of the CEO's values and attitudes that shape strategic decisions such as internationalization locations. I extend Coviello et al.'s (2017) micro-level influences in their adaptation proposal of the Uppsala model by unpacking some of these micro-level influences and shifting the dialogue from theoretical to empirical support.

Analysis of my results pose interesting challenges to the Uppsala model's stance on the internationalization-risk relationship. The most distinctive feature of the more updated Uppsala internationalization process is a focus on knowledge development to balance risks through decisions on commitment of resources (Vahlne & Johanson, 2017). Knowledge development is achieved at the individual level; and while resource commitments can be determined at the firm level, they are decided at the individual level. On one hand, Uppsala's focus is a continuous process that becomes cumbersome to measure over time in relation to risk perception (at the individual level); on the other hand, political ideology can indicate the degree to which the decision maker is open to

experience, or prefers threat avoidance and uncertainty reduction, to offer a more compelling explanation for high-risk decisions. So, bounded rationality may exist in the internationalization decision-making arena, but CEOs choose to internationalize in high-risk locations despite the fact based on the strength of their values. Furthermore, the implication remains in the Uppsala model that firms will follow the Stage Theory of MNE Evolution to minimize risk with a gradual approach by gaining an abundance of knowledge and resources to remove risk as a factor. However, I found the effect explained by firm age to be diminutive. Finally, neither Uppsala's firm level view of risk management nor my findings on microfoundations' risk decisions paint the full picture – there needs to be a more integrative understanding through a multi-layered approach to see how each impacts the other.

As a second contribution, my introduction of political ideology as a proxy to IB literature provides richer representation for context of prominent discussions revolving around liability of foreignness, psychic distance, bounded rationality, and uncertainty avoidance central to the internationalization debate. Besides the individual strength of political ideology as a predictor, when it is related to other primary predictors, the effects are significantly increased. Individuals' views on risk and uncertainty are all about perception framing – moral foundations' connection to political ideology sheds important beliefs and positions on a wide range of topics that provide valuable insight on how these individuals will likely act in response based on how conservative or liberal they are. Thus, political ideology, coupled with moral foundations, clearly presents a valid means to predict the decision maker's choices regarding a wide-range of topics that would be less suggestive than firm-level analysis alone.

Third, I contribute to strategic management and finance literatures by providing empirical evidence that shows to what degree compensation incentives structures and level of managerial discretion likely affect CEO motivation for or against certain international operations locations in the context of risk. UE research has focused considerable attention in extant literature on these two predictors to explain top executives' motivation for strategic choices. Differences between conservatives and liberals, as illustrated in the results, add noteworthy contributions to cross-disciplinary research on how top executives are influenced. Yet, while I find both compensation incentives and managerial discretion are certainly factors of varying degree in this study's context, political ideology remains a much stronger motivational driver.

Limitations and Future Research

Although my study makes significant advances, it has a number of limitations. First and foremost, my inclusion of four prominent variables only predicts half of the variance in the model explaining foreign location choice risk. Of these four predictors, political ideology (micro-level) and degree of internationalization (firm-level) represent almost the entirety of the 50% account. Moreover, insertion of some of the traditional controls only adds an additional 3% to the model. Future research would benefit from investigating what other important variables at the macro, firm, and micro-levels through a bona fide multi-layer approach could be combined that would significantly increase the overall predictability of the model.

Second, while political ideology continues to gain attention across streams of research to help explain top executives' strategic choices, it remains a proxy. Transferring

the political ideology score from the politicians receiving CEO donations to the CEOs themselves is not a perfect representation of how they might agree from issue to issue. More nuanced, qualitative interpretation, not evident from archival data, would provide a richer understanding for analysis. Future research might consider incorporating a mixed method approach that includes qualitative support from case studies. In this context, not all case studies should be viewed as equal – the contextual narrative is expected to vary considerably amongst MNEs, within industries traditionally aligned to a certain political party, and with smaller/younger firms. Perhaps over time, enough variety of cases studies could lead to a metanalysis to provide the broad perspective required.

Third, this study focused exclusively on U.S. firms and attempted to interpret how they viewed risk locations for international operations. Future research which investigates firms from other countries would deepen the ability to claim generalizability or not based on the results. For example, missing from this U.S. firm study is the qualitative sense as to what equality do firms consider across the designation spectrum of high-risk countries? For instance, do U.S. firms perceive a risk level difference for Argentina, the Philippines, and say a conflict-ridden African country, even though they are all designated a high-risk location? To what degree is risk perceived differently depending on the region where the country is located? What is the cultural impact on risk perception – would studies of firms headquartered in other countries designate listing of high-risk countries differently? As MNEs have regional headquarters, what is the difference in location risk perception between the central headquarters and its regional headquarters? Perhaps, the heads of the regional headquarters need to be used in the study, if they have the managerial discretion

for location choice, instead of the CEO of the MNE. This analysis is obtained more easily through a mixed method approach.

Fourth, the process of internationalization decision-making is complex and multi-layered; as a result, endogeneity concerns from critics will likely never be fully satisfied and will endure as a limitation. Internationalization focus transcends disciplines where each has its own standards. My tests in this study are less concerned with inferring causality as it is with providing insight for greater predictability. The fact that I was unable to gain raw data associated with S&P's Country Risk Assessments hindered the ability to have a continuous DV measurement. Endogenous checks are limited when dealing with categorical outcomes. Future research would benefit by shifting the foreign choice location risk to a continuous measurement. Aside from opening up a greater menu of statistical options for hypothesis testing, addition of multiple widely accepted endogenous techniques may increase interpretation and strengthen support for findings by potential critics.

Finally, another limitation of this study is its use of a general physical presence in a foreign location without further investigation as to what type of presence that entails. Not all forms of foreign operations are created equally. Certain types of subsidiaries may be established because firms determine it limits their risks more than others. Future research could expand this study of internationalization decision making for conducting business in foreign locations of risk by including a better understanding of what types of operations are chosen. Internationalization studies historically link entry mode choice with location. This is likely to become complex quickly and difficult to disentangle, but research which is able to obtain sufficient data could provide even greater insight into

what types of operations or entry mode is most prevalent between liberals and conservatives.

Conclusion

For more than 40 years, the Uppsala model has striven to provide explanations regarding how firms deal with uncertainty and manage risk in their internationalization process. The enduring belief is that firms refrain from conducting business in locations of high-risk. One explanation for this stance is that extant research fails to adequately capture how the actual decision makers perceive risk and uncertainty of foreign operations because of a stringent firm level approach in analysis. Coviello et al., (2017) called attention to the need to incorporate both micro and macro level influences into the Uppsala model as the scope of influences on strategic choices are multi-layered. This study sought to provide missing empirical backing to Coviello et al.'s (2017) adaptation by providing a microfoundations approach that introduces the value of political ideology to IB literature as a trustworthy representation of the CEO's values, perceptions, beliefs and attitudes. Accordingly, political ideology proved to be a significant predictor for explaining the circumstances in which CEOs elect high-risk locations based on the degree of liberalism in their political ideology score. Furthermore, political ideology's interactions with other prominent predictors, such as managerial discretion (power) and compensation incentives (motivation), shed valuable insight into how these influences are perceived differently between liberals and conservatives in their perception of risk. I hope my study's contribution will spark greater research attention to the individual decision maker within the international business field and inspire other scholars to seek out

additional predictors to add to this microfoundations layer of the internationalization process.

APPENDIX. S&P Global Country Risk Assessment Update (October 2017)

Very low risk (1)	Low risk (2)	Intermediate risk (3)	Moderately high risk (4)	High risk (5)	Very high risk (6)
Australia	Austria	Abu Dhabi	The Bahamas	Albania	Angola
Canada	Belgium	Cayman islands	Botswana	Algeria	Belarus
Denmark	Finland	Chile	Brazil	Argentina	Belize
Germany	France	Czech Republic	Bulgaria	Azerbaijan	Burkina Faso
Hong Kong	Ireland	Estonia	China	Bahrain	Cambodia
Luxembourg	Japan	Iceland	Colombia	Bangladesh	Congo (Rep of)
Netherlands	New Zealand	Israel	Costa Rica	Barbados	Congo (DRC)
Norway	South Korea	Macau	Croatia	Bhutan	Egypt
Singapore	United Kingdom	Malaysia	Curacao	Bolivia	El Salvador
Sweden		Malta	Cyprus	Bosnia & Herz	Eritrea
Switzerland		Portugal	Dubai	Dominican Rep	Gabon
United States		Qatar	Hungary	Ecuador	Greece
		Slovakia	India	Ethiopia	Iraq
		Slovenia	Italy	Georgia	Laos
		Spain	Kuwait	Ghana	Mozambique
		Taiwan	Latvia	Grenada	Nigeria
		United Arab Emirates	Mauritius	Guatemala	Pakistan
			Mexico	Honduras	Papua New Guinea
			Morocco	Indonesia	Ukraine
			Oman	Jamaica	Venezuela
			Panama	Jordan	Zimbabwe
			Peru	Kazakhstan	
			Poland	Kenya	
			Romania	Lebanon	
			Saudi Arabia	Macedonia	
			Serbia	Moldova	
			South Africa	Mongolia	
			Thailand	Nicaragua	
			Trinidad & Tobago	Paraguay	
			Turks and Caicos	Philippines	
			Uruguay	Russia	
				Senegal	
				Sri Lanka	
				Suriname	
				Tanzania	
				Tunisia	

				Turkey	
				Uganda	
				Vietnam	
				Zambia	

Regional Risk Assessments

Region	Weighted-average Country Risk
Europe, the Middle East, and Africa	
Western Europe	2
Southern Europe	4
Western and Southern Europe	2
East Europe	5
Central Europe	4
Eastern Europe and Central Asia	5
Africa	5
Middle East	4
The Americas	
North America	1
Latin America	4
Central America	4
The Caribbean	5
Asia-Pacific	
Asia-Pacific	4
Central Asia	4
East Asia	3
Australia / New Zealand	1

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