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Björn Röber

# Escalation of Commitment in Internationalization Processes

The Role of Bounded Rationality  
in the Uppsala Model

 Springer

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# Foreword

Research on internationalization processes (IP research) is traditionally characterized by a close link to the field of behavioral management studies. This stream of research has been ongoing for decades and shows a particular interest in the decision-making of managers under real-world conditions. Respective studies employ the perspective of bounded rationality to describe and explain decision-making processes and outcomes. At the same time, they refrain from idealizing premises and concepts such as states of perfect rationality or the paradigm of the economic man. In the field of IP research, the respective course of action was founded by the most prominent internationalization process theory—the Uppsala Model. Yet despite its behavioral character, the Uppsala Model is built on the somewhat implicit assumption of consistently and purposefully acting decision-makers. The model thereby neglects behavioral research insights, which indicate the inaccuracy of the corresponding assumptions.

Against this background, Björn Röber's study reviews the behavioral assumptions of the Uppsala Model critically by confronting the idea of consistently and purposefully acting decision-makers with the theoretical and empirically proven concept of escalation of commitment. Based on a thorough analysis of the constructs of rationality and bounded rationality, the relation between bounded rationality and escalation of commitment serves as a blueprint for a theoretical framework for the underlying study. This framework reflects the challenges of escalation of commitment for a firm's internationalization process as it is postulated by the Uppsala Model. The empirical analysis of the framework as well as of the respective hypotheses via randomized experiments shows impressively that the Uppsala Model does not mirror basic behavioral assumptions in all elements. In fact, decision-makers do not necessarily internationalize the firm's activities in a consistent and purposeful manner as they can be heavily biased by an escalation of commitment. Additional case studies of real internationalization processes deliver further supporting arguments.

Finally, Björn Röber's study discusses possibilities of how escalation of commitment could be reduced so that the managers concerned do not necessarily follow

their inclination to “throw good money after bad” in the future. Thanks to its topics as well as to its sound conceptualization and analyses, the study is a must-read for all who are interested in internationalization processes and/or in the general hows and whys of managers’ decision-making. I sincerely hope that the study will find a lot of readers and wish the author all the best.

Stuttgart, Germany  
August 2017

Michael-Jörg Oesterle

# Preface

The aim of this study is to present a critical review of the role of bounded rationality, i.e., limited information availability and limited cognitive capabilities, of decision-makers in internationalization process (IP) research. Despite the circumstance that the internationalization processes of firms have been subjected to scientific debates for several decades now, it is questionable whether behavioral research insights are sufficiently acknowledged in this academic discipline. Respective theoretical frameworks tend to build on the assumption of consistently and purposefully acting decision-makers. In doing so, they show a certain neglect of behavioral research insights indicating the limited applicability of these assumptions. A consideration of behavioral research insights, however, would be a necessary precondition for the development of realistic and fruitful abstractions of the internationalization processes of firms.

Against this backdrop, this study questions the behavioral assumptions of the Uppsala Internationalization Process Model (U-Model). This particular theoretical approach is commonly considered to be the pivotal approach in internationalization process research, and therefore, it can be treated representatively for the research field altogether. A closer examination of the model yields the insight that it builds at least implicitly and partially on the assumption of rationally proceeding decision-makers. In this regard, it recognizes incomplete information availability, while cognitive dispositions and behavioral biases are not addressed. According to the U-Model, decision-makers are expected to possess the cognitive capacity to assess their actions purposefully and consistently under the restriction of limited information availability. Yet as mentioned above, this expectation contradicts behavioral research insights, which show that administrators act on no account on such a rational basis. Therefore, the behavioral assumptions of the U-Model can be doubted. In this context, this study aims at a demonstration of a display of escalation of commitment in internationalization process decision-making. Escalation of commitment presents a specific manifestation of the limited cognitive capabilities of decision-makers. Concerned administrators show the inclination to adhere to current decision paths despite ongoing negative results. As a consequence, they act

beyond the grounds of reason and facts, and they tend to “throw good money after bad” (in an economic context at least). Thus, escalation of commitment represents a concrete example for the cognitive dispositions that constitute the form of bounded rationality that is somewhat neglected by the U-Model. A demonstration of a respective decision-making display in internationalization processes would indicate a major shortcoming of this pivotal theoretical approach in IP research.

In order to meet the research objective empirically, this study is built on a mixed-methods approach. As a quantitative-empirical research method, a randomized experiment is conducted under the laboratory circumstances of a simulated internationalization process. In comparison to other quantitative-empirical research methods, randomized experiments possess the distinct benefit of allowing reliable statements regarding the causality of effects since dependent and independent variables are commonly kept under control. Despite this advantage, experimental research presents a relatively novel approach in the sphere of international business. As a qualitative-empirical research method, the research topic is additionally addressed with a descriptive case study as an illustration of escalation of commitment in business reality. In this regard, the merger of Daimler-Benz and Chrysler as well as the attempted production offshoring to China by the German manufacturer of plush toys Margarete Steiff GmbH is discussed. At large, this study shows in a hypothesis-confirming manner that escalation of commitment can be a critical factor for the internationalization processes of firms. Thus, it becomes clear that the bounded rationality of decision-makers, particularly their limited cognitive capability, presents an issue that internationalization process research, including the U-Model, should give greater consideration to.

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Björn Röber



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# About This Book

This book reviews the role of bounded rationality in internationalization process (IP) research. More specifically, it questions the behavioral assumptions of the most influential internationalization process theory today, the Uppsala Model. Despite its behavioral roots, this pivotal approach builds at least implicitly and partially on the assumption of rationally proceeding decision-makers. Contrary to this assumption, the author aims at a demonstration of bounded rationality in the form of escalation of commitment in IPs, i.e., an inclination of internationalization managers to “throw good money after bad.” The author builds his investigation on an empirical mixed-methods approach, put together from a randomized experiment as well as a descriptive case study. This book contributes to IP research as it shows that bounded rationality in the form of escalation of commitment can be a critical factor for the internationalization processes of firms. It is an indispensable read for specialists as well as students.

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# List of Abbreviations

ANOVA	Analysis of variance
DF	Degrees of freedom
DM	Deutsche Mark
EUT	Expected utility theory
FDI	Foreign direct investment
IB	International business
ILS	Israeli New Shekel
IP	Internationalization process
JDM	Judgment and decision-making
MNE	Multinational enterprise
PT	Prospect theory
ROI	Return on investment
SUV	Sport utility vehicle
U-Model	Uppsala internationalization process model