STUDYING COGNITION THROUGH DECISION-MAKERS' CHARACTERISTICS: INSIGHTS FROM INTERNATIONAL BUSINESS RESEARCH

ABSTRACT

In the managerial and organizational cognition literature, cognition is often studied by considering the observable characteristics of decision-makers. However, these studies have largely neglected cognitive differences stemming from the cultural, national, ethnical, and geographical (CNEG) characteristics of decision-makers—ones that are commonly studied in the field of international business research. Despite the contributions of international business research within the domain, the advancements have not found their way to the broader literature on managerial and organizational cognition. In order to remedy this deficiency, this chapter seeks to introduce the work conducted within the international business field on the cognitive differences and the resultant cognitive distance stemming from decision-makers' CNEG characteristics. This work has generated original insights on (1) cognitive distances, (2) cognitive structures, (3) the legacy of the home country, and (4) tolerance to cognitive differences. As a result, the chapter strengthens the foundations for cumulative knowledge building by providing an integrative understanding of cognitive research based on the characteristics of managers.

Keywords: managerial and organizational cognition; upper echelons theory; cognitive differences; cognitive distance; international business

INTRODUCTION

In managerial and organizational cognition (MOC) research, the cognition of an individual is commonly conceptualized as a mental activity or a mental structure that is used to make sense of the surrounding world; this understanding then serves as a base for decision-making (e.g., Simon, 1947; Walsh, 1995; Finkelstein & Hambrick, 1996; Kaplan, 2011; Levinthal, 2011). These cognitive structures are constructed from prior experience under the influence of the environments in which the learning occurs; thus, individuals have very distinct cognitive constructs that they use to see, perceive, and understand their respective environments (e.g., Maitland & Sammartino, 2015). Despite this variance, a certain systematism has been noted in the emergence of cognitive structures. The characteristics of decision-makers have been shown to greatly influence how cognitive structures emerge and what kinds of behaviors can be expected (Hambrick & Mason, 1984; Hambrick, 2007).

Therefore, characteristics leading to diverse cognitive structures have a foundational role in explaining managerial behavior. For instance, Maitland and Sammartino (2015) explored the influence of prior experience on the interpretations of the surrounding environment through managers' work histories. Eisenhardt and Bourgeois (1988) inspected managers' strategic decision-making processes through demographic characteristics, such as age. Carpenter and Fredrickson (2001), in turn, looked at the relationship between international experience, education, and tenure and a firm's global strategic posture.

However, the varying cognitive settings emerging from differing cultural, national, ethnical, and geographical (CNEG) characteristics and their interactions are studied relatively little in general MOC research. The foundational review studies providing an overview of MOC-oriented research in the general management literature do not recognize these cognitive differences and the consequent cognitive distances as studied themes (see, e.g., Walsh, 1995; Hodgkinson & Healey, 2008; Kaplan, 2011; Narayanan, Zane & Kemmerer, 2011). This means that, while the literature acknowledges that background-related differences in cognitions influence the behavior of organizations and individuals, a rather narrow set of characteristics is utilized to inspect this influence. However, in the field of international business (IB) research, scholars have investigated the cognitive settings, their differences, and the consequent cognitive distances through CNEG characteristics (see, e.g., Niittymies & Pajunen, 2020). In particular, scholars inspecting the cognitive foundations of internationalization have conducted unique research on CNEG background-related cognitive differences. Yet, these contributions largely remain concealed within the boundaries of the IB research stream (see, e.g., Buckley, 2002). This is regrettable, as CNEG-related cognitive differences not only influence managerial and organizational activities during IB activities but are also present in the everyday life of numerous organizations in the globalizing world. This partial understanding of the matter generates challenges for understanding multinational organizations, in particular, and the cumulative knowledge building on the topic, in general.

In this chapter, I argue that it is time to bring the advancements of IB research regarding CNEG background-related cognitive differences to the broader discourse on MOC (e.g., Walsh, 1995; Hodgkinson & Healey, 2008; Kaplan, 2011; Narayanan et al., 2011). To materialize this endeavor, I will describe the advancements achieved by IB scholars on the cognitive differences stemming from

CNEG characteristics.[1] These advancements relate to four topics: (1) cognitive distances, (2) cognitive structures, (3) the legacy of the home country, and (4) tolerance to the cognitive differences. As a result, the chapter advances MOC research by providing an integrative understanding of cognitive research based on the characteristics of managers, thus fortifying the foundations for cumulative knowledge building in the future.

Next, I will outline the theoretical understanding of managerial cognition and its relationship with the characteristics of decision-makers. Thereafter, I proceed to explain the insights of the four topics and finally conclude by discussing the insights and integrating them into the broader discourse on MOC.

THEORETICAL BACKGROUND

Cognition and mental activity

Cognition has a foundational role in explaining managerial behavior and its impact on organizational activity, because all decisions are considered to stem from cognitive activity (e.g., Finkelstein & Hambrick, 1996; Helfat & Peteraf, 2015; Levinthal, 2011). Cognition is commonly conceptualized as a mental activity or a mental model or structure that is used to make sense of the surrounding world (Walsh, 1995). This includes processes of knowing, remembering, information processing, and reasoning (Helfat & Peteraf, 2015). The term "cognition" encompasses two meanings: (1) knowledge structures and (2) cognitive processes.

First, knowledge structures are static compilations of information that are used to make sense of the environment. The environment is too complex for managers to understand and too uncertain to be considered predictable; thus, managers rely on simplified cognitive representations of the environment, which emerge from the knowledge structures residing in their minds (e.g., Simon, 1991; Gavetti & Levinthal, 2000; Gavetti, Greve, & Levinthal, 2012). While such knowledge structures can turn the complex environment into an understandable form, they are also prone to errors that can systematically mislead managers (e.g., Twersky & Kahneman, 1974; Kahneman & Twersky, 1979).

[1] In explaining these advancements, I draw from a systematic review that focuses on the cognitive differences stemming from CNEG characteristics. The articles for this review were located with a keyword search from the Web of Science database. The search protocol contained 46 cognitive keywords adopted from the works of Walsh (1995) and Kaplan (2011). After limiting the search to "business" and "management" categories and 14 IB and management journals representing scholarly rigor and high quality, 189 articles dealing with cognition and internationalization were found. From these, 40 articles that explicitly focused on cognitive differences related to CNEG characteristics were identified. The selected articles were then read in full, and a qualitative content analysis was conducted to assess how the sample articles address cognitive differences.

Knowledge structures evolve through practice and experience (e.g., Bingham & Eisenhardt, 2011; Helfat & Peteraf, 2015; Maitland & Sammartino, 2015). For example, Maitland and Sammartino (2015) pointed out that more experienced managers possessed better abilities to create a cognitive representation of the problem at hand. Consequently, much of the cognitive literature focuses on the link between cognition and experience, or in other words, what comprises cognition (e.g., Maitland & Sammartino, 2015).

Second, cognitive processes are used to generate, modify, and utilize knowledge structures; thus, the former are highly intertwined with the latter, albeit their relationship remains rather vague and subjective (e.g., Helfat & Peteraf, 2015). These processes are responsible for encoding new experiences into knowledge structures and for identifying the characteristics of the encountered situations and searching and retrieving a suitable knowledge structure from memory, which can then be used to make sense of a situation (Maitland & Sammartino, 2015). However, according to Helfat and Peteraf (2015), cognition, especially cognitive processes, is an underdeveloped area that remains only modestly understood.

Cognition and the characteristics of decision-makers

The roots of managerial cognition can be traced to the behavioral scholars of the "Carnegie school," especially to Simon (1947), March and Simon (1958), and Cyert and March (1963), who developed behavioral decision theory and the concept of bounded rationality. This later became the core concept in managerial cognition literature. The concept of bounded rationality assumes that managers are unable to comprehend their environment to the full extent; thus, they tend to make decisions based on a partial understanding of a situation (March & Simon, 1958). In addition, the decision is shaped by the decision-makers' tendency to optimize their decision-making process instead of the decision per se. That is, managers do not seek to make optimal decisions, but rather they settle for decisions that satisfy the predefined criteria, thus making the process more efficient (Simon, 1947). Altogether, the individual managers make decisions based on a complex system of cognitive activity, including interpreting, understanding, considering the goals and options, predicting possible outcomes, and finally making the decision (e.g., Simon, 1947; March & Simon, 1958).

During the 1980s, organizational scholars started to adopt the Carnegie school's behavioral decision theory and to pay increasing attention to the cognitive aspect instead of the rational and analytical approaches (e.g., Hambrick & Mason, 1984; Porac, Thomas, & Baden-Fuller, 1989; cf. Narayan et al., 2011). Scholars realized that organizational activity emerges through the choices of managers; thus, they started to investigate the managers and their activities instead of the structural features of organizations (e.g., Simon, 1947; Porac et al., 1989). In these early days of MOC scholarship,

researchers observed that the cognition of an individual can be inspected through the traits and characteristics of decision-makers, given that they act as proxies for the underlying cognition driving the strategic choices in organizations (e.g., Hambrick & Mason, 1984). This approach is known as upper echelons theory (see Hambrick & Mason, 1984).

Upper echelons theory is based on the premise that decision-makers' experiences, personalities, and values influence their construction of the subjective interpretation of a given situation and, consequently, their decisions. While the proxies provided by the observable characteristics are, admittedly, incomplete and imprecise—mostly unable to explicate the real psychological processes driving the behavior of the decision-maker—they are still found to provide relatively reliable proxies that can be used to predict behavior (Hambrick, 2007). In other words, external observable characteristics are not the same as psychological characteristics, but they are connected. Observable characteristics can provide insights into how the cognitive structure of an individual is built, which in turn, can explain the actions and choices. Individuals with similar experiences and backgrounds tend to make similar choices (see, e.g., Hambrick, 2007). In many cases, they are also the best options because of the difficulty of accessing the actual psychometric data of the decision-makers of major companies.

In the 1990s, Huff's (1990) *Mapping Strategic Thought* and Walsh's (1995) landmark review of managerial cognition provided more direct ways of addressing cognition through cognitive structures and mental maps instead of personal characteristics (cf. Hodgkinson and Healey, 2008; Narayanan et al., 2011; Kaplan, 2011). Nevertheless, the use of the observable characteristics of decision-makers (i.e., upper echelons theory) in studying cognition has remained a highly influential approach.

INSIGHTS FROM INTERNATIONAL BUSINESS RESEARCH

In the field of IB, scholars have found that CNEG-related characteristics can be used to predict behavior, because they systematically influence what kind of experiences an individual faces and what kind of personality will emerge (see, e.g., Williams & Gregoire, 2015; Mohr & Batsakis, 2018). Consequently, prior IB research has explored how the cognitive differences stemming from CNEG characteristics influence organizational activity. On the contrary, general MOC research has focused on different observable background factors instead of utilizing CNEG characteristics as proxies. In particular, general MOC research has mostly focused on how the organization's responses vary based on executives' education, experience, tenure (see Hambrick, 2007) and on the differences in capabilities, organizational identity, individual experience, education, and knowledge (e.g., Kaplan, 2011; Narayanan et al., 2011).

This inclination to utilize different observable characteristics to study cognition has led to a situation wherein IB research investigates aspects of cognition that are different from those inspected in general MOC research. These topics, which are original to upper echelons-oriented IB research, include (1) cognitive distances, (2) cognitive structures, (3) the legacy of the home country, and (4) tolerance to cognitive differences.

Cognitive distances

Cognitive distance is considered in IB research as one of the key factors influencing business activities (e.g., Williams & Gregoire, 2015). It is an umbrella term for distances stemming from different factors. The most commonly studied distances are cultural distance (e.g., Mohr & Batsakis, 2018), geographic distance (e.g., Boeh & Beamish, 2012), institutional distance (e.g., Van den Waeyenberg & Hens, 2012), and psychic distance (e.g., Håkanson et al., 2016). This stream of research has inspected cognitive differences and the consequent cognitive distances stemming from CNEG characteristics and how these influence the international operations of firms (e.g., Johanson & Vahlne, 1977; Brouthers, 2002). CNEG characteristics have a notable and systematic influence on the development of cognitive structures, thus creating cognitive distance between individuals with different CNEG characteristics (e.g., Håkanson et al., 2016; Mohr & Batsakis, 2018). This cognitive distance has been argued to influence learning processes (e.g., Zeng, Shenkar, Lee, & Song, 2013), innovation ability (Azar & Drogendijk, 2014), and market selection (Magnani, Zucchella, & Floriani, 2018; Mohr & Batsakis, 2018), to name a few.

The core assumption of cognitive distance is that it can cause problems in cross-border interaction, because differences in cognitive structures lead to varying interpretations of the surrounding world, which can then hamper mutual understanding. In relation to this, Zeng et al. (2013) found that cognitive distance may lead firms to participate in erroneous learning in the new foreign culture if they do not have prior experience from different cultures that could reduce the perceived distance.

Instead of being objective, cognitive distance is always subjective and perceived. For example, Williams and Gregoire (2015) showed that the influence of distance is dependent on the question at hand and on the factors augmenting or reducing the distance. They found that location and timing choices are influenced by perceived commonalities, while mode choices are influenced by perceived differences. Therefore, the cognitive distance stemming from the CNEG-related characteristics can be reduced or augmented. The magnitude of the distance is often linked to familiarity, proximity, and similarity between the countries and their CNEG orientations (see, e.g., Kogut & Singh, 1988). The most dominant model of firm internationalization, the Uppsala model, incorporates this idea, as it

assumes that firms can reduce the perceived uncertainty through experiential learning within the unfamiliar market (see Johanson & Vahlne, 1977).

Altogether, cognitive distance influences many organizational decisions. Moreover, it is relevant for all major organizations beyond the field of IB research, as most of them operate in multiple, dissimilar areas and experience cognitive distances within and outside the organization.

Cognitive structures

While plenty of MOC studies have inspected cognitive structures (see, e.g., Walsh, 1995), these works have focused on knowledge structures stemming from characteristics, such as education, experience, and industry (e.g., Carpenter & Fredrickson, 2001). In addition, IB scholars have studied knowledge structures that can be linked to CNEG characteristics. IB research on cognitive structures often inspects the influence of a particular area, along with its CNEG-related characteristics, on the development of cognitive structures and the consequent influence of these structures on organizational activity. Therefore, IB research has inspected cognitive structures that are not universal but are rather linked to particular environments and their specific characteristics. This research has produced unique insights into specific forms of cognitive structures, including (1) domestic and (2) global mindsets, which are, according to Nadkarni, Hermann, and Perez (2011, p. 510), a "lens through which top managers view the environment and make decisions."

While mindset is a prerequisite for interpreting the world in a specific way (e.g., Jiang, Ananthram, & Li, 2018), it is not a synonym for a cognitive structure; rather, it is a particular form of cognitive structure that is distinct from cognitive decision-making styles and prior experience. For instance, Jiang et al. (2018, p. 413) demonstrated this difference by investigating "how their [managers'] cognitive decision-making style and managerial experience interact with their global mindset and thereby affect their decisions."

"Domestic mindset" refers to a cognitive structure that has developed from domestic experience only. It has been found to misguide decision-makers' sense-making processes, thus leading to a poor or biased understanding of their situation in international environments (Nadkarni et al., 2011). However, domestic mindset can also turn out to be beneficial in foreign environments, especially if the underlying domestic knowledge is suitable (Nadkarni & Perez, 2007). This is because the underlying assumption is that cognitive structures are environment-specific; that is, the structure developed in one place might be able to make sense of similar environments but not dissimilar (e.g., Niittymies, 2020). Without international experience, domestic knowledge is used as a reference point in decision-making (Jeannet, 1999). The ability of a mindset to facilitate sense-making is related to

the breadth of such a mindset, and in turn, this is related to the complexity, diversity, and expertise in various domains and depth of the mindset, which describe the details, specificity, and expertise within one domain (Zahra, Ireland, & Hitt, 2000; Nadkarni et al., 2011). In particular, broad mindsets are less dependent on existing knowledge and support the creation of new knowledge and creative behaviors, whereas depth-oriented mindsets are found to lead to more path-dependent behaviors (Vermeulen & Barkema, 2001; Nadkarni et al., 2011). In addition to influencing interpretations of the environment, a domestic mindset can make some environmental stimuli more observable than others, thus influencing which environmental factors the decision-makers notice, react to, and ignore (Nadkarni et al., 2011). When decision-makers encounter different cultures and countries, they experientially learn from these as a result of which their mindset evolves into a global mindset.

"Global mindset" refers to a cognitive structure built on international experience and incorporates abilities that enable the decision-maker to operate in different CNEG contexts. This kind of mindset acknowledges the paradoxical and competing forces of the international environment and adapts to these by rethinking boundaries and adjusting behaviors (Jiang et al., 2018). This means that decision-makers must learn to interact with different CNEG realities, which require adaptation capabilities, cultural awareness, flexibility, tolerance, and variation in the developed mindset (e.g., Augusto-Felicio, Meidute, & Kyvik, 2016; Jiang et al., 2018). Levy et al. (2007, p. 244) suggested that a global mindset is "a highly complex cognitive structure characterized by an openness to and articulation of multiple cultural and strategic realities on both global and local levels, and the cognitive ability to mediate and integrate across this multiplicity."

While global mindset has been found to influence SME internationalization (Augusto-Felicio et al., 2016), entry-mode choices (Jiang et al., 2018), and offshoring performance (Raman, Chadee, Roxas, & Michailova, 2013), studies on global mindset present conflicting and diverse conclusions. For instance, prior studies suggest that global mindset and international strategies have no direct relationship (Bouquet, 2005), a global mindset can drive internationalization strategies (Levy, 2005), and global mindsets are developed by the internationalization process (e.g., Nummela, Saarenketo, & Puumalainen, 2004). Altogether, while IB research has generated important insights into global mindsets, the holistic picture remains hazy.

The legacy of the home country

One very particular form of studying cognition through observable characteristics—and the special traits of IB research—is inspecting the influence of an organization's home country on organizational activity. This builds on the assumption that there are areas that differ in their attributes (e.g., CNEG

characteristics), which are much less utilized in general MOC research. The studies investigating the legacy of the home country have mainly inspected this influence from two angles.

First, the legacy of the home country is studied in terms of how an organization from a particular country is seen in other places. This culminates in reputational factors and ethnic ties that the country or its population might have. Studies inspecting reputation have pointed out that the home country of a firm influences how it is perceived in other countries. Such an influence can be positive or negative. For instance, firms from Latin America experience reputation benefits in other Latin American countries compared to domestic firms or those coming from outside the region (Borda et al., 2017). Meanwhile, in China, domestic firms are favored in economically less advanced areas, whereas foreign firms are preferred in economically advanced areas (Chaney & Gamble, 2008). Ethnic ties also influence decision-making in firms, especially if they are shared between different areas. For example, they can guide location choices relating to international expansion, but performance benefits are unlikely to be achieved through ethnic ties (Jean, Tan, & Sinkovics, 2011).

Second, the home country's legacy shapes the organization itself; that is, the home country's conditions and institutions can influence the organization's behavior and capabilities. For instance, existing studies have shown that the institutional diversity of an organization's home country supports the local firm's international expansion abilities (Pisani, Muller, & Bogatan, 2018) and that the institutional void increased the use of CSR reporting in the case of firms from emerging markets (Marano, Tashman, & Kostova, 2017). In addition, the home country is found to influence identity and the behaviors emerging from this identity. This home country-related identity of an organization influences the work preferences within the firm (Schotter & Abdelzaher, 2013). Furthermore, strong sales success in the home country can shape identity in a way that leads to decreased tolerance of uncertainty (Hendriks, Slangen, & Heugens, 2018).

Tolerance of cognitive differences

The final category describes insights on tolerating and coping with the cognitive differences and the cognitive distance that emerge from diversity in CNEG characteristics. While this body of literature remains small, it provides valuable and much-needed knowledge on what kinds of factors influence tolerance of these cognitive differences. The existing research has shown, for instance, that cognitive differences stemming from institutional factors are much more difficult to cope with than differences stemming from cultural factors (Puthusserry, Child, & Rodrigues, 2014) and that the tolerance to these cognitive differences in firms is influenced by the prevailing national attitudinal environment towards immigrants and foreigners (e.g., Thams, Kelley, & Von Glinow, 2018).

This stream of research has also shown that we do not need to accept the harmful effects of cognitive differences stemming from CNEG characteristics, because the tolerance for cognitive differences can be influenced by deliberate actions. For instance, using English as the management language has a significant positive influence on the tolerability and diversity climate of an organization (e.g., Lauring & Selmer, 2012). While we have merely scratched the surface of this topic, further research on the topic is important, because it can provide the means to help practitioners improve organizational performance in a globalized world.

DISCUSSION AND CONCLUSIONS

While the differences in decision-makers' cognition and their consequent impacts are critical for understanding how an organization operates within its environment (e.g., Porac et al., 1989; Kaplan, 2011; Maitland & Sammartino, 2015), general MOC research has overlooked some fundamental aspects of these cognitive differences. Indeed, the cognitive differences of the decision-makers have been studied only from selected perspectives, while overlooking others. In particular, a closer inspection of recent reviews on MOC research within the general management literature (e.g., Hodgkinson & Healey, 2008; Kaplan, 2011; Narayanan et al., 2011) and internationalization literature (see, e.g., Williams & Gregoire, 2015; Niittymies & Pajunen, 2020) reveals that while IB research has examined cognition through CNEG-related characteristics, these insights have not yet found their way to general MOC research. This fragmentation is an obstacle to understanding how organizations reach decisions in multinational environments. It also hinders cumulative knowledge building on the topic. The purpose of this chapter is to remedy this deficiency.

First, the primary contribution of this chapter is to advance theory by providing a more coherent picture of what we know about the cognitive differences of decision-makers stemming from CNEG characteristics. As the general MOC literature does not address cognitive differences and the consequent cognitive distances based on CNEG characteristics (see, e.g., Walsh, 1995; Hodgkinson & Healey, 2008; Kaplan, 2011; Narayanan et al., 2011), the insights presented regarding the (1) cognitive distances, (2) cognitive structures, (3) the legacy of the home country, and (4) tolerance to cognitive differences are novel additions to the literature. These CNEG-related insights of cognitive differences enable traditional MOC research to better understand organizational heterogeneousness by introducing approaches about which we already have a great deal of scholarly knowledge (see, e.g., Williams & Gregoire, 2015), which has not yet found its way to the literature (see, e.g., Walsh, 1995; Hodgkinson & Healey, 2008; Kaplan, 2011). In other words, given that global organizations are melting pots of different CNEG-related orientations, understanding them entails understanding

this plurality as much as possible. This integration also supports cumulative knowledge building by providing a new platform for future research.

Second, IB research has generated insights into knowledge structures and mindsets that, when integrated into the general discourse on MOC research, can advance our understanding of managerial cognition underlying organizational behavior. The conclusions of the current study contribute to the work on the role of knowledge structures in organizations (see, e.g., Walsh, 1995), mainly by showing that some rather fixed knowledge structures emerge from CNEG-related characteristics (see, e.g., Nadkarni et al., 2011; Augusto-Felicio et al., 2016). While these are central topics in IB research, they are novel insights to the MOC literature, which has traditionally focused on other aspects of cognition (see, e.g., Walsh, 1995; Kaplan, 2011). For instance, Kaplan (2011) identifies domestic mindset as one of the topics studied under the umbrella of MOC research. Yet, the domestic mindset is not the only mindset that has been studied. In fact, IB research has produced substantial knowledge on other orientations and mindsets, such as international orientation and global mindset (e.g., Nguyen, Barrett, & Fletcher, 2006; Jiang et al., 2018). Integrating these insights across multiple and varied knowledge structures, orientations, and mindsets contributes to the enrichment of the MOC literature.

Finally, this chapter advances the MOC literature by identifying the need for future research on CNEG-related cognitive differences. The most obvious gap in our knowledge is the lack of intersections between MOC-oriented research in the research fields of IB and management. This type of work provides interesting opportunities and, therefore, should be emphasized in future research. Furthermore, even though this is arguably an everyday challenge in global companies, tolerance to CNEG-related cognitive differences has not been extensively studied—even in IB. Indeed, while we know—to a certain extent—how the CNEG-related cognitive differences and the consequent cognitive distance influence organizational activity, the general understanding of coping mechanisms that are used to counter the ill-natured consequences of these differences and subsequent distances remains relatively modest. In relation to this, explicating how companies can cope with cognitive differences provides intriguing opportunities for future research.

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