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Editorial

Mental Models and Cognitive Frames in International Business

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The modern international business (IB) landscape is characterized by complexity, uncertainty, and rapid change, making effective decision-making more crucial than ever. Such decisions are made by managers who use mental models and cognitive frames to interpret and act on information. The role such cognitive tools play in shaping how managers perceive opportunities, assess risks, and navigate unfamiliar environments cannot be overstated. The four articles in this special issue of *AIB Insights* aim to address this issue by examining how mental models and cognitive frames influence decision-making in IB, offering both theoretical insights and, more importantly, practical advice for practitioners.

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THE RELEVANCE OF COGNITIVE PSYCHOLOGY TO IB

Cognitive psychology, with its focus on mental processes such as perception, memory, attention, and reasoning, provides valuable insights into how individuals and groups process information and make decisions. In the context of IB, the cognitive models that managers employ are essential to understanding how they perceive foreign markets, assess political risks, and decide on entry strategies. However, as noted by Buckley, Devinney, and Louviere (2007), IB research has traditionally drawn more heavily from disciplines like economics and sociology, neglecting the potential contributions of cognitive psychology. This special issue aims to address such oversight, offering new perspectives on how cognitive frameworks shape strategic decisions in a global context.

Mental models, or the cognitive representations that individuals use to understand and navigate the world, are particularly relevant in IB because they help managers simplify the complex environments in which multinational enterprises (MNEs) operate. Yet, as Walsh (1995) pointed out, while these mental models can help make sense of complexity, they can also blind managers to critical information, leading to flawed decisions. In IB, where the consequences of poor decision-making, such as failed market entries or misjudged political risks, can be profound, the need for accurate and adaptable cognitive frameworks is especially pertinent.

MENTAL MODELS IN ACTION: LESSONS FROM RESEARCH

The four articles included in this special issue highlight the diverse ways in which mental models and cognitive biases manifest in IB, providing valuable lessons for both scholars and practitioners. Although the articles focus on different aspects of cognitive psychology in IB, they all develop similar causal chains (see Figure 1) moving from the identification of specific cognitive frames and biases ('Cognitive Frameworks') to understanding how these frames and biases affect international business decisions ('Outcomes') to finally prescribing adaptations to such mental models ('Actions'). In Table 1 we organize the findings of the four articles using similar categories.

The first article, "The Attention Game: How External Peers Shape Headquarters' Attention to Subsidiaries", takes a cognitive perspective on how MNE headquarters allocate attention to their subsidiaries. The authors, Mayank Sewak (Newcastle University, UK) and Anna Lamin (Northeastern University, USA), argue that not only subsidiary actions themselves but also external peers significantly influence where headquarters attention is directed. In particular, the authors suggest that same-industry peer information, an often-overlooked influence of external actors on decision-making processes within MNEs, should be integrated in decision-making. Integrating industry peer information is an important mechanism that would benefit both the headquarters by reducing the impact of internal biases and en-

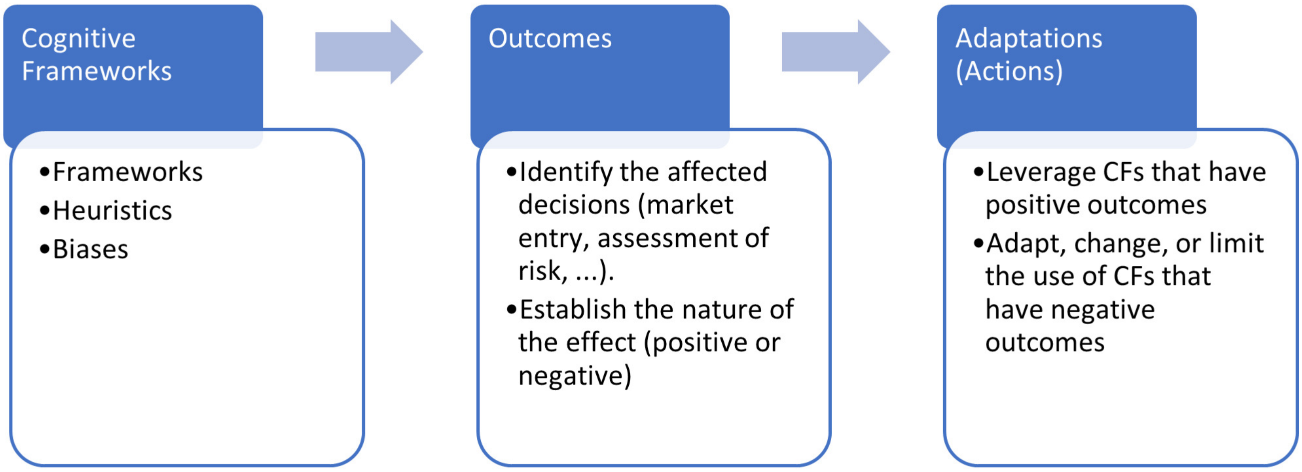

Figure 1. Causal Chains of Cognitive Frameworks

abling a more holistic evaluation of subsidiary importance, and subsidiaries by lending more credence to their demands for internal attention.

Christopher Hartwell (ZHAW Zurich University of Applied Sciences, Switzerland and Kozminski University, Poland) and Anna Lupina-Wegener (ZHAW Zurich University of Applied Sciences, Switzerland) author the second article, "Intergroup Biases in Assessing Political Risk: The Role of National Identity", which takes a social identity theory (SIT) approach to explore how intergroup biases can distort the assessment of political risk, a growing concern in the current geopolitical climate with ties to a 2023 *AIB Insights* special issue on geopolitics (Ciravegna, Hartwell, Jandhyala, Tingbani, & Newburry, 2023). In this article, intergroup biases occur when individuals act as members of nationality-based pre-defined groups rather than on the basis of their individual characteristics. Political risk assessments are vital for firms operating in foreign markets, yet managers often filter information through their national identity, or a sense of belonging to a community with shared nationalistic roots. More specifically, the authors focus on *in-group/out-group derogation*, that is, the tendency for members of an in-group to exhibit a sense of shared identity, while negatively perceiving out-group members, as well as *intergroup sensitivity effect*, namely being more receptive to criticism coming from in-group members but reacting more strongly to negative evaluations from out-group members. The authors propose several ways to mitigate the risks associated with such intergroup biases.

In the issue's third article, "How Do Managerial Biases Affect Foreign Market Entry Decisions?", Ipek Kocoglu (Kean University, USA) and Murad Muthani (Rutgers University – Camden, USA) delve into the cognitive biases that undermine the accurate assessment of various factors that are associated with foreign market entry decisions. More specifically, the estimation of entry costs is negatively affected by the overconfidence bias and the sunk cost fallacy, the assessment of the appropriate level of control is undermined by anchoring and confirmation biases, whereas representativeness and availability biases limit the comprehension of environmental uncertainty. The authors recommend practical strategies for mitigating these biases, such as the use of independent reviews, decision frameworks, and devil's advocacy.

Aleksi Niittymies (Aalto University, Finland), Charlotte Walker (Stockholm School of Economics, Sweden) and Anna-Riikka Smolander (Aalto University, Finland) author this issue's final paper, "Three Lessons for Adapting Mental Models for Unfamiliar Foreign Environments". The authors argue that managers often rely on mental models calibrated to familiar environments, which can lead to misalignment between mental models and the actual demands of international markets and strategic errors when adopted to foreign and unfamiliar contexts. To address this issue, the authors propose a roadmap for managers to avoid the pitfalls of such cognitive inertia in the form of three practical lessons that would proactively trigger the adaptation of managers' mental models: "Experience it!" by engaging directly with the new environment, "Feel it!" by developing emotional and cognitive empathy for local conditions, and "Repeat it!" by continuously refining mental models through repeated (and spaced) exposure to foreign markets.

CONCLUSION: TOWARD BETTER DECISION-MAKING IN INTERNATIONAL BUSINESS

A common theme across all four papers is the recognition that cognitive biases, while sometimes useful in simplifying complex decision-making, can often lead to flawed strategic choices. In the high-stakes realm of international business, these biases can have significant consequences, influencing everything from the success of market entry to the management of political risks. Whether it is overconfidence, anchoring, national identity, or entrenched mental models, managers are constantly at risk of making deci-

Table 1. Summary of Cognitive Chains of Issue Articles

Article	Cognitive frameworks, Biases	Outcomes	Adaptations (Actions)
Sewak & Lamin	Cognitive frameworks as filters enabling the categorization of external cues	Distribution of MNE's attention to its subsidiaries	• Integrate same-industry peer information in decision-making ◦ HQs: minimization of the impact of internal biases; better evaluation of subsidiary importance ◦ Subsidiaries: more credible demands for HQ; more negotiation power for investments from HQ; learning from peers.
Hartwell & Lupina-Wegener	Intergroup Biases: • in-group/out-group derogation; • intergroup sensitivity effect	Inaccurate assessments of political risk and other international business areas such as firm entry/exit, modes of entry, and internationalization	• Promote cultural and national diversity in top management and risk management teams • Highlight "atypical" out-group members in risk assessments • Involve interdisciplinary and intergenerational teams • Constructive criticism from an out-group viewpoint
Kocoglu & Muthani	• Overconfidence bias and the sunk cost fallacy • Anchoring and confirmation biases • Representativeness and availability biases	Inaccurate assessment of the cost, degree of control, and environmental uncertainty when evaluating foreign markets.	• Build strong governance structure and conduct independent reviews • Systematically use decision frameworks and decision extension tools • Challenge internal assumptions and play devil's advocate
Niittymies, Walker & Smolander	Established, inflexible mental models for decision-making.	Not updated mental models lead to misinterpretations and costly mistakes	• Acquire experience of the target market • Artificially trigger the update of mental models (confronting disruptive stimuli, use of AI-based business simulations) • Continuous and repeated change (e.g., 'spaced repetition')

sions based on incomplete or distorted information due to reality-skewing filters. These filters, though, are essential for reducing the flood of incoming information, and some, like the influence of external peers, can be beneficial. Therefore, it is crucial to develop strategies that mitigate the effects of harmful cognitive biases while allowing the positive ones to operate.

This special issue of *AIB Insights* seeks to deepen our understanding of how mental models and cognitive frames influence decision-making in international business. By incorporating insights from cognitive psychology into IB research, we can craft more refined and effective strategies for navigating the complexities of global markets. The articles featured in this issue offer diverse perspectives on the cognitive processes that drive international business decisions, contributing both theoretical developments and practical recommendations. As international business continues to evolve, the need for accurate, flexible, and context-sensitive mental models will only grow, making this research more relevant than ever for scholars and practitioners alike.

We also wish to pay tribute to our good friend and colleague James Nebus (Suffolk University, USA) who was part of the original editorial team for this special issue, but unfortunately, passed away early in the issue development process. James was a dedicated and long-time member of the Academy of International Business, a strong supporter for *AIB Insights* as a member of our Editorial Review Board and one of our top reviewers, and an accomplished faculty member at Suffolk University. He is missed.

We hope that you enjoy this issue of *AIB Insights*. Please continue to submit your applied international business research to the journal!

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