Dissertation

In an Era of Disruption: Multinationals’ Responses to Host Country Political Violence

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This dissertation investigates how multinational enterprises (MNEs) respond to host country political violence (specifically, terrorist attacks), and how factors influencing top management teams’ (TMTs) decision making subsequently impact MNEs’ responses. Across three essays, I found that MNEs’ divestments, their likelihood of temporary vs. permanent divestment, and their likelihood of exerting information control in response to host country terrorist attacks are contingent upon executives’ social proximity to the event host countries, CEO conservatism, and TMT gender diversity. This dissertation contributes to a more comprehensive understanding of the role of managerial interpretation in MNEs’ responses to host country political violence.

BIG QUESTION

What actions do MNEs take to respond to host country terrorist attacks? How do factors associated with MNEs top executives’ decision making – including top executives’ interpretation, value, and TMT cognitive frame diversity – subsequently influence MNEs’ responses?

INTRODUCTION

In 2015 alone, 92 countries worldwide were afflicted by terrorist attacks (Global Terrorism Index, 2016). These terrorism-afflicted countries have accumulated foreign direct investment (FDI) inflow of more than US$1.619 trillion, 74% of the world total (World Development Indicators, 2016). The world is witnessing an increase in many forms of political violence incidents, such as terrorist attacks (ACLED, 2020), which are posing widespread and imminent challenges to MNEs’ international operations. Despite the impactful relevance of host country political violence, how MNEs deal with this threat has not received sufficient attention in the international business literature. Political violence generates tremendous uncertainty not only because it is extremely difficult for MNEs to predict the occurrence of such events, but also because political violence events elicit decision makers’ fear and concern about individuals’ physical security. Such fear and concern for personal safety can substantially alter and bias decision making. Consequently, MNEs’ decisions to respond to host country political violence may well diverge from rational economic calculations. Therefore, it is critical to understand how MNEs cope with host country political violence on an ongoing basis and the related managerial decision-making processes in such contexts.

Yet the dominant body of research on the impact of host country political violence mainly focuses on macro-economic outcomes such as foreign direct investment (FDI) inflow. Research that examines how individual MNEs respond to host country political violence is still limited. The few existing studies on MNEs’ responses demonstrate that MNEs tend to divest in response to host country political violence incidents (Dai, Eden, & Beamish, 2017; Oetzel & Oh, 2014; Oh & Oetzel, 2011). These studies also show that MNEs’ likelihoods of divestment are influenced by factors such as host country governance effectiveness, MNEs’ experience with terrorist attacks, and MNEs’ at-risk resources and resilience influence.

Apart from these pioneering studies, research on MNEs’ responses to political violence remains scarce. In this dissertation, I focus on two critical gaps in our understanding of MNEs’ responses to host country political violence. First, although political violence threat in general could lead to MNEs’ losses and therefore reduce foreign investments, the threat of the same incidents may be interpreted differently by different decision makers. Therefore, when studying MNEs’ decisions to respond to host country political violence, it is critical to take into account the “human element” – how MNEs’ top executives interpret the threat of political violence and what influences their cognition. Second, previous research has only examined one type of response to host country political violence – divestment, especially in the immediate run—and stopped there. But considering that divestment is costly and often not preferred, MNEs may take other actions, besides divestment, to respond to host country political violence. They may also make sequential decisions to re-enter or re-expand in the host country they divested from in the medium or the long run. Thus, we are in need of research on MNEs’ alternative responses to host country political violence, as well as their responses beyond the immediate run.

This dissertation addresses these research gaps in three
related studies. The overarching research questions are: (1) what specific actions MNEs take to respond to host country terrorist attacks; and (2) how factors associated with MNEs' executive's decision making – including top executives' interpretation, value, and TMT cognitive frame diversity – subsequently influence MNEs' responses. I focus on one specific type of political violence – terrorist attacks – to eliminate the heterogeneity in MNEs' responses due to violence types.

SPECIFIC DISSERTATION FINDINGS

In Essay One, I examine whether and why MNE top executives interpret the same terrorist incidents differently, and how their interpretation influences the divestment decisions in response to host country terrorist incidents. Specifically, drawing on the construal level theory (Trope & Liberman, 2010), I study how executives' social distances from host countries influence their interpretation of terrorist attacks in those countries, and subsequently MNEs' divestment decisions. I define social distance as the degree to which a host country is an in-group or out-group of the executives. Based on a sample of 49 Fortune US 100 companies and their subsidiaries from 2008 to 2015, I find that MNEs are less likely to divest in response to terrorist attacks in host countries that their executives are more socially distant from. This is because when executives' social distance from a host country is large, they tend to interpret the terrorist attacks in that country as a general and abstract threat which does not pose immediate threat and does not require imminent actions to address. Conversely, MNEs are more likely to divest in response to terrorist attacks in host countries with experiences are more socially proximate to, in which case executives tend to interpret the terrorist attacks as more closely relevant to their company and will directly cause business losses. Further, I find that this effect of top executives' social distance is weaker when the MNE has more experience in dealing with terrorist attacks in a host country. It is because more experienced MNEs are more likely to rely on established routines and protocols to make divestment decisions, rather than on their executives' subjective judgments of the situation. Overall, these findings offer a key managerial implication. MNEs, especially those with less experience of terrorist attacks in host countries, should be aware of executives' subjectivity in making divestment decisions in response to host country terrorist attacks. Executives' interpretations of the threat is what ultimately underlies MNEs' decisions in the face of host country terrorist attacks, but such subjective interpretations may well diverge from the objective level of the threat.

Essay Two extends Essay One by examining the temporal horizon of MNEs' divestments in response to host country terrorist attacks, specifically, whether MNEs' divestments are only temporary or relatively permanent. At the time of making divestment decisions, MNE executives may have the intent to enter or expand again in the host country they divest from if the condition improves later. Such intent interacts with the incident condition (i.e., severity) to influence MNEs' likelihood of temporary divestment rather than permanent divestment, and how fast their investments bounce back to pre-divestment levels. I study CEOs' conservatism – a political ideology that motivates decision makers to return to the previous status-quo – and how it influences their MNEs' re-entry or re-expansion after divestment in response to terrorist attacks in a host country. Using a sample of 89 Fortune US 100 companies and their foreign subsidiaries from 2005 to 2014, I find that the negative effect of terrorism severity on MNEs' likelihood of choosing temporary divestment (as opposed to permanent divestment) is weaker for MNEs led by conservative CEOs than those led by liberal CEOs. I also find a similar weakening effect of CEO conservatism on the relationship between terrorism severity and MNEs' divestment level bounce-back speed. Practically, these findings provide further evidence on how executives' subjectivity influences MNEs' responses to host country terrorist attacks. MNEs have the tendency to choose temporary divestment and seek to return to the host country where they left, when host country conditions permit. But it is important to highlight that neither temporary divestment nor re-entry/re-expansion is necessarily economically sensible. MNEs and their CEOs should be mindful that certain decisions they make are not only driven by profitability and effectiveness considerations, but by decision makers' motivations and cognition.

Moving to Essay Three, I explore alternative actions MNEs take to respond to host country terrorist incidents, besides divestment. Specifically, building on crisis management literature and top management team (TMT) diversity literature, I examine how TMT diversity influences MNEs' likelihood of taking two series of actions – impact assessment actions and impact reduction – to respond to host country terrorism incidents. I study impact assessment actions in the form of headquarter information control, and impact reduction actions in the form of within-country geographic diversification. Based on a sample of 89 Fortune US 100 companies and their foreign subsidiaries from 2005 to 2014, I find that the severity of host country terrorist attacks is positively associated with MNEs' likelihood of increasing information control and within–country geographic diversification. Furthermore, MNEs with more female executives in their TMTs are more likely to enhance information control in response to the severity of host country terrorist attacks than MNEs with fewer female executives in their TMTs. This is because the cognitive diversity of gender-diverse TMTs tends to be higher than more homogeneous TMTs. Thus, gender-diverse TMTs may request more information when making decisions, raising the need for exerting information control over subsidiaries to obtain information. Overall, these findings highlight that besides divestment, MNEs can and do take a variety of actions in response to host country terrorist attacks. And the composition and cognitive diversity of top management team underlies MNEs' decision making. Therefore, this essay contributes to a more comprehensive understanding of how top executives' interpretations influence MNEs responses when confronted with host country terrorist attacks in reality.

CONTRIBUTIONS TO THEORY AND PRACTICE

This dissertation makes important contributions to the existing international business and strategic management literature. First, I extend previous research on MNEs' responses to political violence by probing the nuances in divestment as a type of response, including why MNEs differ in their divestment likelihood and the temporal horizon of their divestment decisions. Above and beyond studying divestment more in-depth, I investigate alternative types of responses. In addition, previous research tends to treat MNEs' responses to political violence as a problem of risk management and focuses on factors that reduce MNEs' exposure or vulnerability to the negative impact of political violence. My dissertation research views MNEs' responses...
to host country political violence as a decision-making issue with a focus on how MNEs' specific response decisions are made and factors that influence their decision making. Specifically, I highlight how factors related to the bounded-rational decision makers influence MNEs' responses to host country political violence. In so doing, I bring to the forefront the "human element" in MNEs' decisions in extreme contexts. Second, limited international business literature has explicitly modeled how managerial cognition and factors influencing executives' cognition shape various decisions in MNEs' internationalization processes. By leveraging on a unique context – political violence characterized by extreme uncertainty, I explore how and to what extent bounded-rational decision makers influence MNEs' decisions. Political violence entails fear and concern for personal safety, and therefore is far more complex and differs from decisions in regular settings. It can lead decision makers to rely on less rational systems such as their cognitive heuristics and emotional judgments to make decisions. Therefore, top executives' cognitive factors can have a profound impact on MNEs' response decision making under exogenous shocks.

This dissertation offers several managerial implications. Very similar companies may make drastically different decisions under the same or similar strategic conditions of host country terrorist attacks. For example, when discussing divestment as a response to host country political violence, Marriott's CEO Arne Sorenson said in an interview with CBS, "when a terrorist event occurs, I mean obviously they're all different in terms of magnitude and in terms of impact, what we typically see is leisure business quickly pulls away from the market." But the CEO of Paris-based AccorHotels said, "Never ever did Accor leave any country, for any specific risk" (Skift, 2016). This dissertation offers some explanations for why such heterogeneity in MNEs' response to host country terrorist attacks exists. I find that differences in executives' cognition of host country terrorist attacks underlie MNEs' heterogeneous responses. MNE responses to host country terrorist attacks are not simply based on rational economic calculations or objective risk assessment and management. Rather, managers instill their interpretations, values, motivations, and a variety of other factors into decisions to respond to terrorist attacks.

It is important for MNE executives to be aware of their various tendencies in cognition as these tendencies have material impact on their decision making under extreme uncertainties. For example, being influenced by their social distances to various host countries, it is possible that executives underestimate the threat of terrorist attacks in more distant host countries but overestimate the threat in more proximate host countries. As a result, such tendencies in executive's interpretation might result in sub-optimal decisions for MNEs. Also, motivated by conservative CEOs' strong tendency to resume their firms' initial investments in a host country after divestment, MNEs led by conservative CEOs may be better at identifying emerging opportunities and determining a proper timing to re-enter or re-expand in the host country they divested from. However, it is also possible that these MNEs are more likely to prematurely re-enter or re-expand even when the host country situation is not suitable. Similarly, while gender-diverse TMTs could potentially make more comprehensive decisions, their decision processes likely take longer as they request more comprehensive information to facilitate decisions. Thus, there is the risk that MNEs led by gender-diverse TMTs fail to take proper actions to address the threat of terrorist attacks in host countries in a timely manner.

With this dissertation, I do not make normative arguments about effective leadership under conditions of exogenous shocks and crises (i.e., political violence). Nevertheless, only by understanding how managerial cognition influences MNEs' responses in exogenous shock conditions can we can better prescribe how leadership can be more effective in such contexts, and how organizations can avoid or offset the dark side of certain leadership styles when responding to exogenous shocks.

ABOUT THE AUTHOR

Chang Liu (cliu@business.rutgers.edu, Ph.D. from Indiana University) is an Assistant Professor of International Business at Rutgers Business School, Rutgers University. Her research focuses on understanding how multinational enterprises (MNEs) respond to exogenous shocks in their international operations. She is particularly interested in MNEs' managerial decision-making under the extreme uncertainty caused by exogenous shocks.

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