

**HEC MONTRÉAL**

**Gender difference of risk assessment in FDI**  
**By**  
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**Master of Science in Administration**  
**(International Business)**

*A thesis submitted in partial fulfillment*  
*For the degree of Master of Science*  
*(M.Sc.)*

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# HEC MONTRÉAL

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October 10, 2019

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**Project No.:** 2020-3719

**Title of research project:** Gender difference of risk assessment in FDI

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**Projet # :** 2020-3719

**Titre du projet de recherche :** Gender difference of risk assessment in FDI

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Maurice Lemelin

Président

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**Projet # :** 2020-3719 - Gender difference of risk assessment in FDI

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## **Abstract**

This research paper focuses on gender differences in FDI risk assessment. Data was collected from eight in-depth, individual interviews with an equal number of male and female participants (i.e., four each) who are from two different industries. All participants were analyzed in two groups of four (i.e., Group 1 and Group 2), and the variables between the two groups vary. For instance, there are more common variables in Group 1, who all worked at the same company, while the participants from Group 2 worked at different companies but the same industry. Cognitive mapping, a qualitative method, was used to visually analyze participants' answers to the semi-structured interview questions using maps. There were two parts to the interviews; the first included 25 real-life questions, while the second consisted of two game questions, each based on different gambling scenarios. The first game was designed to test risk preference when influencing factors are certain (i.e., known), while the second game was designed to test risk preference when the factors are uncertain (i.e., unknown). The findings indicate that people usually assess FDI risk from commercial, financial, and legal perspectives, with no significant gender differences. However, there were gendered differences in how participants prioritized controllable versus uncontrollable risks. Indeed, men concentrated on uncontrollable risks, while women focused more on controllable risks. Thus, gender difference does influence in risk assessment of FDI in my research., but it depends on entry mode and industry.

Keywords: gender difference, risk assessment, FDI, commercial risks, financial risks, legal risks, controllable risks, uncontrollable risks

# **1 Introduction**

## **1.1 Research Background**

Globalization is a movement to diminish restrictions between countries, and to open economies worldwide. Moreover, Sharan (2011) posited that “globalization is a process through which different economies get inter-woven by way of international trade and investment. They become an integral part of the world economy.” Thus, technologies, capital, services, and labor flow between countries as a result of international business (Sharan, 2011).

International business typically includes a cross-border transaction of capital, production of goods, and services allocation. Therefore, the categories of international business are trade, investment, and technology transfer (Sharan, 2011), and so, there is significant micro- and macro-economic growth. However, different from domestic business that is limited to national boundaries, international business follows multinational frontiers. Risks and restrictions can have positive impacts on economics since international companies deal with more complicated situations than smaller businesses. Some examples of complicating factors include political and legal regulations of unfamiliar host countries, cultural fit, ethics, human resources, marketing, and management function (Sharan, 2011). Therefore, MNCs must choose the right entry mode for their company based on its risk-taking capabilities.

I provided the mathematical expectations for the gambling games (i.e., likelihood of winning or losing), and the findings demonstrate that people tend to make risk-decisions with the highest return of investment (Hacking, 1975). However, the current study also reveals that gender is one of many important variables that can affect people’s decisions. This finding supports research showing that human preferences (i.e., risk and social) often vary by gender (Andreoni & Miller, 2002; Eckel & Grossman, 2008). Therefore, the current research paper will focus on the gender differences in risk assessment.

Indeed, scholars of many fields and perspectives have researched risk and gender disparity. Stereotypically, men are expected to work and support their families financially, and women

are expected to be more involved in the family, home, and community. While women are traditionally required to spend more time on housework, men should prefer outdoor activities and physical labor (Ellemers, 2017); One explanation for such gendered differences is that men are taught to focus on individual tasks, while women are trained to focus on group performance (Kite, Deaux & Haines, 2008) Furthermore, men spend more time working, while women focus more on family and community. Furthermore, while men are stereotypically characterized as competitive leaders, women are often represented as nurturing followers. Indeed, Ragins and Winkel (2011) demonstrated differences in display-rules between men and women. Examples of positive emotions that men are allowed to express typically include confidence and pride, compared to admiration and happiness from women. Conversely, examples of negative emotions that men are typically allowed to exhibit include anger and stubbornness, relative to fear and insecurity for women. Alternatively, men are allowed to neglect their needs for interpersonal connections while women can neglect professional achievements (Ellemers, 2017) Moreover, it is widely believed that men have more logical capacity than do woman, and, therefore, are more able in fields requiring higher levels of logical thought, such as mathematics and science (Leslie, Cimpian, Meyer & Freeland, 2015). As a result of traditional Western culture's patriarchal nature, men benefit from more opportunities for promotions in their careers (Ellemers, 2017).

## **1.2 Research Focus**

This research paper mainly focuses on two terms, which are “gender difference” and “risk assessment.” Moreover, I conducted and developed this exploratory study around three major research questions: 1) what are the general criteria for FDI risk assessment; 2) why are there gender differences in FDI risk assessment; and 3) what are the influencing factors? To answer these questions, I divided this paper into six chapters. The second chapter is the literature review of the extant works on FDI risk, risk evaluation models, and entry modes. I also review different types of risk, including risk decisions, risk preferences, and risk assessments. Next, I assess the literature on gender disparities from various perspectives, such as biological,

psychological, and sociological. I also provide definitions for some of the keywords in this text, followed by a description of their etymology. In this way, readers can first understand gender differences in FDI-risk. Then I develop a chapter for conceptual framework. In the fourth chapter, I explain the qualitative research methodologies that I used for this study. Specifically, I used cognitive mapping to analyze the data. Moreover, I discuss sampling, the participants, the data collection process, units of analyses, and quality control measures. The fifth chapter (refer to P38) presents diagrams for each participant's interview responses that I created using cognitive mapping. I also provide support for each map using quotations from the interviews. The last chapter describes the current study's findings in context with the literature review that follows this section. Finally, I explain the study's limitations and recommend gaps for future research.

## **2 Literature Review**

### **2.1 Introduction**

International business has played an essential role in global economics, which is defined as “carrying business activities beyond national boundaries” (Sharan, 2011). International business typically entails the transfer of resources, such as goods, capital, and services (e.g., technology and skilled labour), as well as international production. Production may either involve the fabrication of physical goods such as food, homes, and cleaning products, or the provision of services, such as banking, finance, insurance, construction, and trading (Sharan, 2011).

As mentioned above, FDI is the primary expression of international business. Indeed, OECD (2008) defines FDI as a strategy for investors to acquire interest and resources from other economic bodies by making foreign investments. Investors are available to decrease communication costs, achieve technology transfers, promote international business, and diversify partners. However, as there are many opportunities and growths that come with FDIs,

lots of risks are also associated with FDI, too, such as financial states of the company, politics, knowledge transfers, regulation of home country and the host country, industry differences, and cultural fit. In this paper, therefore, FDI risks will be evaluated on three levels, including; (1) company level, (2) industry level, and (3) country level. Moreover, there are diverse entry modes under FDI, such as merger and acquisition (M&A), greenfield, joint-venture, exporting, importing, and franchising, each of which must be categorized based on their risk level. Generally, FDI risk assessment is achieved via Dunning's OLI theory, the resource based-view, transaction costs, or the Uppsala model.

This chapter first defines IB and then reviews the leading risk evaluation models, the Uppsala model and OLI theory in particular. To explore the research, I first identified search topics based on my research questions relating to FDI, risk, and gender disparity, and identified a marked gap in the literature investigating gender differences in risk assessments of FDI's. Therefore, this research paper explores whether, how, and why there are gendered differences in FDI risk assessment. Finally, I list some prospective ways to address these disparities, and then recommend avenues for future study.

## **2.2 FDI**

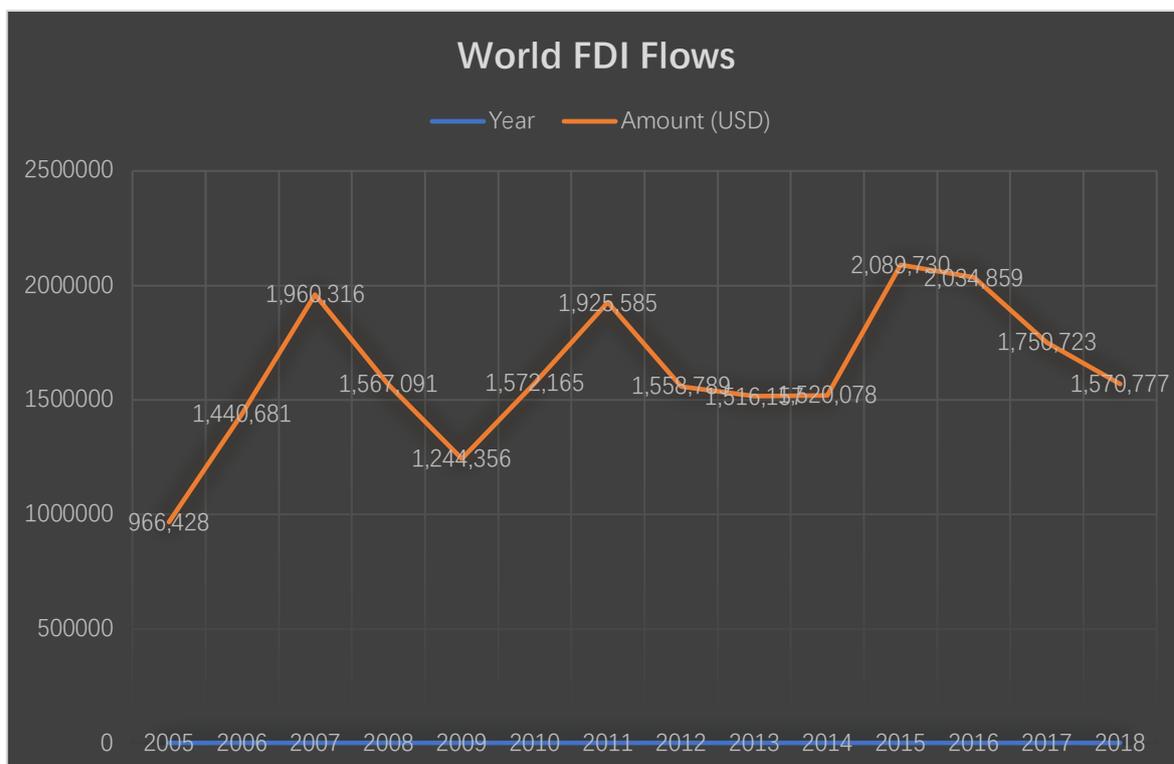
### **2.2.1 Global FDI trend**

Going global is an irreversible trend, and so MNEs must gain competitiveness globally very early in their development. Hence, FDI has long been a strategy for MNEs to attain globalization (OECD, 2008) For example, Blomström and Kokko (1998) explain that FDI is a means of overseas investment for many MNEs. It is also usually regarded as a tool for companies to obtain technology, global positioning, and economic scale of enterprise (Blomström & Kokko).

According to the WTO (1996), FDI occurs when investors in one country invests in a cross-border economic body and obtains control and influence. The management dimension is what distinguishes FDI from portfolio investments in foreign stocks, bonds, and other financial instruments. In most instances, both the investor and the asset they manage abroad are business

firms. In such cases, the investor is typically referred to as the “parent firm,” and the asset is known as the “affiliate” or “subsidiary.” Moreover, IMF (2003) defines FDI as a category of transnational investment that reflects the objectives of an individual or business that attains the benefits of an enterprise located or operating in another country.

With the ever-evolving technological advancements of the last few decades, there has been significant growth in FDI (see Figure1). There is also a large amount of resource transferring being done by FDI, especially for multinational companies (MNCs). For example, MNCs typically obtain technology resources required to enter a new market via M&As. Figure 1 shows the amount of FDI flows around the world from 2005 to 2018, which is based on data from the OECD official website. From 2005 until 2007, FDI flows dramatically increased and then, during the 2008 economic crisis, rapidly dropped over the next two years since. From 2009 to 2017, FDI flows often went up and down, and then after 2017, there has been a significant decline. Moreover, the report from the UNCTAD indicates that tax reforms in the United States are the most significant factor affecting global investment patterns that decrease the rate of return.



Source: Author's arrangement based on data retrieved from OECD.

Figure 1: World FDI Flows 2005-2018

## **2.2.2 FDI challenges**

### **2.2.2.1 Company Level**

On the company level, the influencing factors include elements such as company size, previous cross-border investment experience, and financial status. Smaller companies have relatively fewer resources to deploy (e.g., technological, human, and financial), and, unfortunately, having less resources can increase FDI risks and, as a result, also increase the possibility of failure in overseas markets. Thus, companies must be more cautious when selecting their combination of entry mode and risk assessment type, since they must address all influencing factors for their case (Chen & Chang, 2011; Asiedu, & Esfahani, 2001). In contrast, large companies have more mature global networks and global strategies with more robust economic capabilities, meaning that they are more well-suited to risk-taking (Gomes-Casseres, 1989).

Proprietary assets are also an essential factor for companies to consider when making cross-border investments. Since the costs of transferring proprietary knowledge is high, there are a few difficulties with patent protection due to some internal and external uncertainties (Hennart, 1988; Anderson & Gatignon, 1986). For example, most developed countries' intellectual property laws are thorough compared to those of developing countries. Therefore, there are potential risks when knowledge-transfers are involved in FDIs since the company must typically adhere to local laws.

Moreover, international experience plays a vital role in FDI decision-making since companies with less international experience lack knowledge about the host country, which can result in higher risks and transaction costs (Mutinelli & Piscitello, 1998; Chen & Chang, 2011). Also, company strategies influence FDIs, such as upstream or downstream industries. For example, device manufacturers are usually an upstream industry, and the platform for connecting the consumers with the products is downstream in the online gaming industry. Technology barriers differ based on a firm's value-chain positioning, in that positioning

upstream has the highest technology constraints compared to downstream. Therefore, a company's entry mode selection depends on various factors that I describe in this section. Except for risks raised from the company level, there are risks from the industry level.

#### **2.2.2.2 Industry Level**

On the industry level, the influencing factors include; industry type, technology intensity, percentage of industry growth, and industrial diversification. Every industry has different characteristics, and therefore, it is essential to select the most relevant entry mode strategy for each FDI. For instance, the service industry tends to have a high control entry mode (e.g., M&A), while the manufacturing industry is often best suited for joint ventures. Compared to the manufacturing industry, the service industry has higher labour needs, lower switching costs, and lower technological barriers (Erramilli & Rao, 1993). When the parent company diversifies its business by investing in different industries, M&As or joint ventures are preferred (Asiedu & Esfahani, 2001). Because knowledge of products and sales channels in the target market(s) are difficult to obtain in a short time when entering a new market, high financial input is also a consideration (Chang & Rosenzweig, 2001).

Companies with more industrial technologies usually choose to enter into sole proprietorships or greenfields, since two of these strategies' strengths are in labour and technology. However, there is a risk of divulging know-how to third parties by corporating. Therefore, wholly-owned subsidiaries are an excellent way to avoid risk (Asiedu & Esfahani, 2001). Moreover, enterprises are more inclined to enter the high growth rate industry via greenfield since there are high financial inputs and resource transfers to a new country. However, the comparative advantage of greenfield is reliant on the technology density of the parent company or the origin country. However, financial risks and competitiveness will increase in a high growth industry (Oster, 1999). Conversely, when the industrial growth-rate is low, companies are more inclined to enter by M&As due to lower merger prices(Dow & Ferencikova, 2010). These lower merger prices reflect the relatively smaller inputs needed, which results in lower risks.

### **2.2.2.3 Country Level**

At the country level, influencing factors include politics and macroeconomics. National risk and political environment are important considerations for companies when making foreign investments. Usually, higher national risks require a lower level of control over the entry mode since national risks are unpredictable (Ahmed, Mohamad, Tan, & Johnson, 2002). Similarly, political factors such as civil instability, government intervention, incomplete laws and regulations, and equity restrictions, are also important influencing factors. Moreover, the higher the political and legal restraints on a new business, the more likely it is to enter by joint-venture (Demirbag, Tatoglu, & Glaister, 2009; Gomes-Casseres 1989; Asiedu & Esfahani, 2001).

Furthermore, the host country's economy, such as market size, market potential, and domestic economic risks, are relevant for consideration. GDP is generally used to measure market size, while market potential can be measured by growth rate (Mutinelli & Piscitello, 1998; Porter, 1980). Economic risk factors can be identified in three domains, which include; market complexity, transfer risks, and operating risks. Enterprises prefer low control modes when there is an unstable market (Ahmed et al., 2002). Finally, the exchange rates of currency (Shieh & Wu, 2012) and diplomatic ties are also considered (Tse, Pan, & Au, 1997).

### **2.2.3 Type of Entry Mode**

Entry mode refers to the type of FDI, and each type has its potential risks and returns. Anderson and Gatignon (1986) categorized the extant entry modes based on levels of control, including; high control, moderate control, and low control. Risk and return are the key factors to consider when choosing an entry mode. Table 1 shows the different types of entry mode, including those that are international, intermediate, and external, with their respective characteristics (i.e., type, risk level, return level, control level, and flexibility level).

	<b>Type</b>	<b>Risk</b>	<b>Return</b>	<b>Control</b>	<b>Flexibility</b>
<b>International</b>	Greenfield	High	High	High	Low
	M&A	High	High	High	Low
<b>Intermediate</b>	Joint-Venture	Medium	Medium	Medium	Medium
	Franchise	Medium	Low	Medium	Medium
	Licensing	Low	Low	Low	High
<b>External</b>	Direct export	Low	Low	Low	High
	Indirect export	Low	Low	Low	High

Source: Author's arrangement

Table 1: Type and Characteristics of Entry Mode

### 2.2.3.1 Greenfield

Greenfield is one of the three methods of FDI discussed in the current work that a corporation could use for a new facility or entity in its host country (Wang & Wong, 2009). Greenfield investments are typically chosen by companies seeking to explore a new market under the brand of a bigger, more successful parent company. One of the benefits of greenfield investments is that the parent company wholly owns any subsidiaries (Wang & Wong, 2009).

Moreover, greenfield investment is the riskiest of the three entry modes discussed in the present work. However, there are no gains without risks, and indeed, with higher risk comes increased potential for returns. For instance, based on data from 78 developing countries (Davies, Desbordes, & Ray, 2018; Harms & Méon, 2014), substantial GDP growth always results from greenfield investments. Moreover, the government usually provides tax cuts to businesses that use FDI to increase buy-in, especially when in developing countries (Davies, Desbordes, & Ray, 2018).

Companies usually get competitive advantages by making greenfield investments compared to other entry modes because greenfield adds new supply to the target market, and weakens competition associated with a market-oriented environment. Moreover, the company is more likely to gain financial and increased entry mode advantages from their home country, since the company seeks the market alone instead of by acquiring a local company or starting a joint venture with a residential company. Also, greenfield investments typically come with high-finance inputs because the parent company is responsible for natural greenfield characteristics

such as vacant lots, construction, operations, equipment, and labor. Therefore, although the switch-cost for parent companies in greenfield investments is high, the investment analysis is, most of the time, focused on net-value and internal rate of return (Wang, 2009).

### **2.2.3.2 M&A**

Different from greenfield, mergers and acquisitions refer to situations where a corporation buys another company to obtain either partial or full ownership. There is a lower risk with M&As compared to greenfield investments for two reasons (Davies, Desbordes, & Ray, 2018). Firstly, investors are expected to be compliant with the regulations of host countries, which can be achieved by maintaining existing management teams and administrative level processes after acquisition to reduce training and employment costs (Davies & Wei, 2004). Furthermore, a company typically acquires another company with its required technologies, or a company that already has a portion of market shares in their target country (Kim, 2009). For example, if a traditional cigarette company wants to invest in electronic cigarettes, the company will typically purchase an e-cigarette company that has some market shares and a customer base in the chosen country. (eg., Altria acquired Juul). However, there are still obstacles for M&As between host and home countries, such as cultural fit and geological disparities (Davies, Desbordes, & Ray, 2018). Another challenge for M&As is whether financial statements and management teams can be absorbed into parent companies.

### **2.2.3.3 Exporting**

The Cambridge Dictionary (n.d.) defines direct exporting as a corporation that “a situation in which company sells its products directly to customers in another country without using another person or organization to make arrangements for them, or a product that is sold in this way:1) The direct export of goods involves certain procedures, which must be adhered to. 2) Direct exports of coffee can help farmers benefit from the full potential of product sales.” Export is a popular entry mode because, for example, compared with greenfields and M&As,

export presents much lower risks. This reduced risk-factor is a result of low financial input requirements at the beginning, and the benefit of fewer barriers between entities and countries.

However, as mentioned before, there are typically lower financial returns with lower risks. Moreover, exporters usually have less control over their investments since there is no ownership transfer in such transactions. Finally, the switch-cost is low for all parties, which means there is high flexibility and low royalty costs (Anderson and Gatignon, 1986). Since there are several types of entry modes available that have various natural characteristics needing long-term monitoring and assessment, a company typically conducts a risk assessment before deciding on an entry mode. Thus, in the next sub-section, I explain two frameworks firms use for risk assessment, including the *Uppsala model* and *Dunning's eclectic model*.

## **2.2.4 Risk assessment**

As previously explained, there are several types of entry modes for FDIs, such as greenfields, exporting, and M&As. To better understand company choices for entry mode, scholars created risk evaluation models. In particular, this section explains both the Uppsala model and Dunning's eclectic model.

### **2.2.4.1 Dunning's eclectic model**

Dunning's *internalization theory* (1977) informed the creation of the OLI framework (a.k.a., the eclectic model), which is an economic theory to explain the advantages of ownership, location, and internalization of individual enterprises (see Brouthers, Mukhopadhyay, Wilkinson, & Brouthers, 2009). Ownership advantages, which are also known as competitive or monopolistic advantages, refer to ownership of elements such as intangible assets, trademarks, economy of scale, resources, and management skills.

Indeed, most ownership advantages are intangible. In FDIs, companies do not only have substantial monetary investments, but also face pressure from competitors. For example, whether the company possesses patents, trademark, or technology that competitors do not, whether the company has a higher international reputation than competitors, and whether the

company has a unique management or operation model to succeed in the foreign market. All risks mentioned above must be considered in FDI entry mode selection.

According to Brouthers et al. (2009), there are two important factors for how ownership advantages influence international markets. The first factor is that firms that possess mobile ownership advantages are more likely to enter markets where their particular market advantages can be most effectively exploited. The second factor is that firms desiring additional ownership advantages can seek out markets that best exploit the other types of advantages (i.e., location and firm-specific) to maximize their earning potential. Therefore, if the market and cost advantages can help mediate the risks coming mainly from the country, industry, and company levels, FDI is viable.

Internalization advantages differ from market to market, as there are different costs and benefits to being either foreign or local in each market. Brouthers et al., (2009) provide an example from Japan, where “little incentive exists for firms to internalize markets in order to avoid the costs of broken contracts or to ensure the quality of products/services (Dunning, 1995)” (p.264). Due to imperfections in the market, such as competition barriers, government intervention, asymmetric market information, and high transaction costs, a company may lose all advantages. Only when a company can leverage and allocate resources by internalizing instead of relying on the market, the company can finally maximize the monopoly advantage. The internalization advantage is the prerequisite when making a risk assessment in FDIs. Thus, ownership decisions rely on internalization advantages, in that they must be greater than the disadvantages of remaining in competition.

Finally, location advantages are related to a firm’s choice of which international market(s) to enter, and there are numerous factors to consider. Indeed, it is essential that companies select locations that add value to their portfolios, and that can make good use of the company’s core competencies. According to the OLI framework, the factors influencing location advantages include (but are not limited to) market and growth potentials, and also risk-factors regarding economic, social, and political contexts (Brouthers et al., 2009). For example, companies must evaluate whether the target country has a cheap labor force, especially in the manufacturing

industry; whether the location chosen is close to the client(s) (especially for the service industry); target country's infrastructure; market size; and economic growth rates. Thus, OLI is a basic but important evaluation model for MNEs to decide where to go and how to enter the market.

However, the classic OLI framework is not without criticism, as Vahlne and Johanson (2013) assert that, due to its neo-classical economics perspective, it is unable to cope with uncertainties. Another limitation is that it can only be used in macroeconomic studies and, thus, is not applicable to studies of individual multinational firms. Also, the researchers argued that the internalization advantage "has lost its *raison d'être*" (p. 192), since,

[...] performance is related to the network and the ability of the firm to control and coordinate development of the network. MNEs have in many cases developed an ability 'to expand their value-adding activities through contractual means' (lundan, 2010, p. 53; Augier and Teece, 2007). (p. 192)

#### **2.2.4.2 Uppsala model**

Vahlne and Johanson (2013) further explained that, with enough profitability, working with a network of contracts can also enable a firm to still successfully "affect the future, save on capital and keep the level of uncertainty, such as cultural distance, political risk, transportation cost and monetary input at an acceptable level" (p. 192). Thus, the researchers designed an alternative, more dynamic, and general framework based on the Uppsala model that can analyze the MNE from an evolutionary, market network perspective as it develops, with attention to the firm level, and ability to manage extreme uncertainty. To do this, they developed a new definition of MNE as a "medium business enterprise (MBE), [which is] a firm that has the capability to build, develop and coordinate value-creating multinational business network structures, involving both internal and external actors" (p. 205). Furthermore, similar to the OLI framework and the original Uppsala model, they identified three types of "dynamic capabilities" (p. 202) that are essential to a firm's international development.

The first capability posited by Vahlne and Johanson (2013) is opportunity development, which refers to the ability to identify opportunities and deploy the correct resources from both inside and outside the firms. The second capability is internationalization, which is a company's ability to exploit different markets and locations in multiple contexts, concurrently. Finally, the third capability is networking, which refers to the company's ability to "build, sustain and coordinate relationships in a network type [sic] context" (Ritter, 1999). In other words, a strong business network results in higher market power, which enables MBEs to impact their environments in personally beneficial ways, resulting in fewer uncertainties.

Moreover, Vahlne and Johanson (2013) asserted that their alternative Uppsala model results in the reduced importance of mode choice, since various modes can have similar results. Their new model also reduces the value of the internalization advantages and increases the importance of operating capabilities and networking. Finally, of the highest importance, then, is the firm's dynamic capability to develop all of the previously mentioned skills, since the market is forever evolving, and firms must develop with it to maintain sustainability.

## **2.3 Risk**

### **2.3.1 Risk decisions**

The concept of "risk decisions," which is also known as "rational choice" (see Hacking, 1975), was originally introduced by studies using mathematical expectations and gambling scenarios. Studies found that people usually choose investments with the highest return potential.

Then, in 1738, Daniel Bernoulli introduced the *expected utility model* (a.k.a.  $E(x) = P_1X_1 + P_2X_2 + P_3X_3 + \dots + P_nX_n$ ) by considering the players' preferences and uncertainties when gambling. Importantly, players' expected values can differ from the actual average dollar value of a game's outcome, and also, the expected value sometimes even declines when there is increased investment, which is known as "diminishing marginal utility" (Chateauneuf & Cohen, 1994). According to the expected utility model, the risk decision code of conduct must enable

the maximum expected utility instead of the maximum dollar (Gigerenzer, Swijtink, Porter et al, 1989).

However, critics argue that people do not usually choose the game or investment with the highest expected utility (Allais, 1979), especially in uncertain situations where not all the necessary information is known (Ellsberg, 1961). This poor decision-making potential in uncertain business contexts is why, in 1995, Simon (1955) developed the concept of *bounded rationality theory* in risk-based decision-making. This theory indicates that people do not typically consider all relevant factors when making a decision, and will instead make decisions motivated by the desire to feel “satisfaction” instead of value optimization.

However, it is essential to note that risks cannot be identified and understood singularly by numbers, because some risks can be calculated (e.g., accounting issues, labor costs, and time input), whereas other risks cannot be measured (e.g., market reactions, politics, and culture shock). Additionally, there are many factors other than numbers to consider when making decisions, such as self-satisfaction, risk tolerance and etc.

Ellsberg (1961) designed a game study to address the contradiction of the expected utility model. For this game study, there are two boxes, “A” and “R,” each containing 100 balls. However, in box R, the participant knows that there are 50 black balls and 50 white balls (i.e., calculable risks), but does not know box A’s distribution of black and white balls (i.e., incalculable risks). I asked the participants to pull one ball from either box A or R, and told them that white balls represent a win and black balls represent a loss.

Most participants decided to retrieve a ball from box R rather than box A, as they believed they were more likely to pick a white ball (i.e., winning) from box R than from box A, since box A’s color distribution is unknown. This experiment indicates that people make decisions according to subjective probabilities in uncertain scenarios.

Moreover, researchers often use heuristics to explain the decision-making processes in different situations. For instance, Gigerenzer and Goldstein (1996) proposed the *take-the-best model*, in which people choose the higher values between two alternatives. Indeed, those alternatives are based on the top cue by discriminating it from the lower-value alternatives. The

cues are ordered according to cue validity, which are ranked from highest to lowest. This is a one-decision rule where the judgement is made on the best cue by ignoring the others.

Goldstein and Gigerenzer (2002) also proposed the *recognition heuristic model* that compares the mind and environment to identify efficient decisions. Then, DeMiguel, Garlappi, and Uppal (2009) asserted the equality heuristic in which the average resource allocation for N options to see how people make decisions in this situation. These options can be categorized as either a social entity (eg., time spent with friends or family) and a nonsocial entity (e.g., money, goods, or natural resource). Importantly, however, in addition to analyzing the risk-decisions research above, I also analyze how the investigation of *risk preferences* assists companies in making and explaining their risk decisions as a product of different risk preferences.

### **2.3.2 Risk Preference**

Risk preferences inform risk decisions when an individual or firm is facing uncertainty. There are two ways to demonstrate the relationship between risk preference and decision-maker. The first method is to explain the risk preferences of the decision-maker, whilst the other is to generate a forecasted risk preference based on past behavior. There are generally three types of preferences that include; risk-averse, risk-neutral, and risk-seeking. Moreover, many factors impact risk preference, such as the executive's background, age, and wealth capacity.

As previously mentioned, management's background plays an important role in decision-making. Slovic and Lichtenstein (1971) demonstrated that risk-averse executives tend to choose investments with lower long-term loss-potential when they all have similar expected returns. By conducting a study of USA public law firms, Parrino, Poteshman, and Weisbach (2005) concluded that the level of an executive's risk appetite is directly related to the company's risk decisions. Thus, a company is more likely to avoid high-risk projects when the CEO is more risk-averse.

Abdel-khalik and Peek (2007) have tested the relationship of CEO level of risk-aversion to their company's performance volatility. By controlling the variables of CEO's wealth and other compensations, the results showed that there is significant volatility of company earnings when the CEO is more risk-seeking. Therefore, the background of management has a significant influence on risk decision-making.

Also, CEO wealth capacity is positively correlated to risk preference. Indeed, Friends and Blume (1975) tested the relationship between household asset holdings and utility functions and found that households that have more assets are more risk-averse, and the percentage of risk assets decreases with age.

Furthermore, identity change also influences risk preference. Each individual identifies with, and is influenced by, particular social categories (i.e., CEO, manager, and PA). In other words, there is a set of 'norms' associated with each social category, and people's behavior will change to satisfy the social expectations of their identity (Akerlof & Kranton, 2000).

The current study, however, seeks to identify how the social categories of gender influence risk assessment in FDIs. Most of the extant research on gender differences in risk-taking demonstrate that women are generally more risk-averse than men (Byrnes, Miller, & Shafir, 1999; Holt & Laury, 2002). For example, men are often involved in serious car accidents in the USA because they are less likely to use seatbelts when driving cars (Waldron, McCloskey, & Earle, 2005), and to wear helmets when riding motorcycles (Harris, Jenkins, & Glaser, 2006).

In another related study, Gravotta (2013) used the "Iowa Gambling Task" as their experimental design. In this task, there are four cards on top of four decks stacked side-by-side, which means one face-up card on top of each deck. Each deck indicates the amount of loss or gain, and each card has its own unique revenue model. Two of the four cards have more benefits and come with higher losses than the other two, but statistical analysis reveals that frequent selection of these two groups will reduce long-term gains. The other two cards have fewer benefits but also have less loss-potential, so frequent selection of these two cards will benefit long-term gain.

Participants are only allowed to pick one card at a time, and so, interestingly, men pay more attention than women to the overall situation and total income. Therefore, men's card choices are based on the desire for long-term gains while women are more focused on details (e.g., frequency of wins and losses on a particular card, thus ignoring the overall balance of payments). Women are more sensitive to losses than men because women will immediately switch to the deck with less opportunity to lose money at the first loss. Thus, women tend to miss opportunities for big picture assessments. To explain some of these gender differences, I will now turn to a discussion of gender disparity from three levels; biological, psychological, and sociological.

## **2.4 Gender Disparities**

### **2.4.1 The Biological Level**

In this sub-section, I investigate the literature on biological gender differences, including physical features (e.g., hypothalamus difference) and hormonal effects (e.g., via testosterone and progesterone), on human behavior and psychology (Chew, Ebstein, & Zhong, 2013). For instance, testosterone affects individual risk preferences. Sapienza et al (2009) conducted a study from the biological level on over 500 MBA students (because students in business major) are more likely to engage in the risk industry) to examine whether females are more risk-averse than males and whether testosterone levels influence future career choices.

To test this theory regarding testosterone, Sapienza et al (2009) collected students' saliva twice during the game, once at the beginning and once again at the end. The results showed that males have higher levels of testosterone and are more willing to take risks in games. Also, only 36% of the female participants would like to work on risk-based careers (eg., stock and fund markets with higher financial risks) compared to 57% of the male participants. Thus, higher testosterone and being male is associated with higher risk-taking behaviour such as danger-seeking, competitiveness, ventures, and higher ambition. In other words, males are willing to take more risks than females.

Moreover, many studies demonstrate that women are better than men at performing emotional tasks. This difference may be because, as mentioned previously, women have higher empathy scores. Schulte-Rüther et al., (2008) explain that the reason for women's higher capacity for emotional tasks is due to neural mechanisms and, thus, are biological. The emotions are controlled by the lateral, prefrontal, temporal, and parietal brain regions, but women typically have stronger reactions than men in their right inferior frontal cortexes. Also, females score higher on mirror neurons when involved in self-emotional processing. Therefore, females usually have a higher degree of empathy than men because of different neural mechanisms in the brain. However, there are also psychological explanations for these gender differences, as I explain in the next sub-section.

#### **2.4.2 The Psychological Level**

In this part of my thesis, I review the psychological-level variables associated with gender disparities in risk assessment for FDI. Specifically, I explain; self-esteem, emotions, competitive cognition, and the "Big Five" personality characteristics.

##### **Self-Esteem**

Many scholars have demonstrated that self-esteem varies for each individual, and can influence risk decision-making (e.g., Wray & Stone, 2005). Rosenberg (1965), meanwhile, demonstrated the relationship between self-esteem and a person's sense of value. He found that high self-esteem means higher self-value and better behaviour, while lower self-esteem correlates with lower self-value and bad behaviour. For example, decision-makers may be unwilling to admit their mistakes because of low self-esteem, and thus, continue to invest in money-losing projects, resulting in greater losses (Bazerman, Giuliano, & Appelman, 1984; Staw, 1976). Moreover, people tend to stop negotiating or cooperating in business when they feel offended (Thaler, 1988).

James (1890) first introduced the idea that "self-esteem = successes/prentensions" (p. 310), and explained that self-esteem is dependent upon both a person's image of success and their

ability to attain or reach this image. Thus, according to this theory, increased self-esteem can be obtained by increasing success while decreasing ambition

Later, White (1963) indicated that self-esteem reflects conflicts between individual intuition, the ego state, and the ideal ego state. Branden (1969) later indicated that self-esteem is equal to self-value, and one's ability to deal with life challenges. Joseph (1992) explained that people with low self-esteem are less willing to take risks since they tend to self-protect more than people with high self-esteem. As a result, they are more affected by negative feedback than their counterparts, and are therefore more likely to be risk-averse.

Adding to Joseph's work, Ostrowsky (2010) reviewed people's behaviour at different levels of self-esteem. Of greatest significance to the current study is the finding that there are gender differences in self-esteem, since the self-concepts differ between men and women. For instance, men are more likely to compete for self-esteem, whereas women usually compete for an object (Meier, Orth, Denissen, & Kühnel, 2011).

## **Emotions**

In addition to self-esteem, emotions are significant factors in risk preferences. Emotions are subjective feelings to external and internal experiences, including physiological and expressive (Gross, 1998). Emotions not only help people adapt to their external environments, they also influence individual thinking, physiology, and behaviour (Gross & John, 2003). Therefore, emotions play an important role in decision-making (Cooper, Shaver, & Collins, 1998).

In general, there are two types of emotions; positive and negative. Positive emotions include joy, passion, love, and others. People with more positive emotions are more likely to take risks compared with people with more negative emotions. This difference is because positive emotions enhance people's initiative to take effective action, whereas negative emotions usually result in individuals acting out passively-aggressively (Waston & Tellegen, 1985; Snyder & White, 1982).

Johnson and Tversky (1983) introduced the *affective generalization hypothesis*, which says that positive emotions will reduce the frequency of risky events. Conversely, Isen and Patrick (1983) introduced the *mood maintenance hypothesis*, which states that positive individuals may

avoid risks to maintain positive emotions, whereas negative individuals hope to change their emotions by taking risks they believe could lead to positive outcomes.

Mayer et al., (1992) introduced the theory of *emotional consistency*, in which individuals are theorized to be more likely to recall positive information under positive emotions, while it is easier to recall negative information under negative emotions. Dijk (1999) later conducted a study about the influence of disappointment on decision-making and found that individuals are less willing to make decisions after experiencing disappointment. Ratner and Herbst (2005) found that, if a good decision leads to bad results, people will later regret that decision, which then affects their next decisions. Moreover, Ratner and Herbst showed that women are generally more emotionally expressive than men. This finding may be in part because women are culturally trained to express and deal with their emotions, while men are taught to suppress their emotions, especially negative ones, in favour of being more rational (Belk & Snell, 1989; Barrett & Bliss-Moreau, 2009)

Regarding intuitive emotions (i.e., empathy), women are more sensitive to others' negative emotions (Montagne et al., 2005), while men are more sensitive to others' positive emotions (Campbell, Shirley, & Candy 2004; Thayer & Johnsen, 2001). Moreover, compared to men, women are also more inclined to show and describe their emotional experiences, especially negative ones (Brebner, 2003; Grossman & Wood, 1993). Research also demonstrates that more women express sadness by crying than men (Brody, 1993), who are better at redirecting undesired emotions (Wester, Vogel, Pressly, & Heesacker, 2002) through physical and mental distractions. For example, culturally, men are more encouraged to participate in activities such as sports, drinking, and even sometimes, violence, to suppress and conceal undesired emotions (Brody, 1993). Therefore, women are more susceptible to depression and anxiety than men (Kessler, Akiskal, & Ames, 2007; Mennin et al., 2007), while men are more susceptible to alcohol-related mental disorders than women (Keyes, Grant, & Hasin, 2008). Finally, people with more negative emotions tend to be more risk-averse compared to people with more neutral and positive emotions (Yuen & Lee, 2003)

## **Competitive Cognition**

Furthermore, competition is another factor influencing risk preference. Many scholars have conducted research to show that men are more willing to compete than women. Gneezy, Niederle, and Rustichini (2003) found that there is no significant difference between genders in non-competitive environments, but men are more efficient than women in competitive environments. Moreover, Balafoutas et al., (2012) showed there are gender differences in tournament-based competition, in which 59% of the male participants chose to compete compared to 31% of the female participants. Likewise, Gneezy, Niederle, and Rustichini (2003) compared men and women's tournament performance and found that females are less effective than males in more competitive environments. Wozniak (2012) later demonstrated that high-intensity competition has a stronger negative influence on women by analyzing the International Tennis Federation's (ITF) data. Niederle and Vesterlund (2007), on the other hand, tested men and women's choices in competitive and non-competitive salary conditions, and the results show that the number of men who choose competitive salary jobs is high than the number of women.

Overconfidence and social preferences are widely believed to be the reason for many of the gendered differences of competition. Overconfidence refers to the overestimation of personal ability, and research shows that women have lower levels of overconfidence than men. For example, men are more overconfident than women in exams (Bengtsson, Persson, & Willenhag, 2005), in situations of uncertainty (Healy & Pate, 2011), and also in business investment (Soll & Klayman, 2004).

Competitive cognition also reflects social preference differences between genders; wherein, individuals pay attention to not only self-benefits, but also relative benefits. In general, social preferences include concepts such as altruism, inequality, and reciprocity. For example, females tend to act more altruistically than men (Rigdon et al, 2009) and are also more tolerant of inequality than men (Eckel & Grossman, 2001).

## **The Big Five Personality Traits**

The Big Five personality traits are the motivational reactions and patterns brought on by ideologies, behaviours, psychology, and emotions (McCrae & Costa, 2008; Denissen & Penke's, 2008a). The Big Five personality traits include: openness, conscientiousness, extroversion, agreeableness, and neuroticism. Openness is usually characterized as imaginative, aesthetic, emotional, creative, and intelligent. It also reflects personal abilities to deal with complex issues (Weisberg, DeYoung, & Hirsh, 2011).

Conscientiousness, by contrast, can be characterized as competence, justice, organization, due diligence, achievement, self-discipline, caution, and restraint (Feingold, 1994; Weisberg, DeYoung, & Hirsh, 2011). However, there is no significant difference between genders in this trait since there are no consistent cultural norms to enforce them (Costa, Terracciano, & McCrae, 2001).

Meanwhile, extroversion is characterized by enthusiasm, socialism, decisiveness, activity, adventure, and optimism (Weisberg, DeYoung, & Hirsh, 2011; DeYoung & Gray, 2009). Research shows that women have higher scores in warmth and gregariousness, while men have higher scores in decisiveness (Costa, Terracciano, & McCrae, 2001; Helgeson & Fritz, 1999).

Next, agreeableness is characterized as trust, altruism, kindness, compliance, modesty, and empathy. Women usually score higher than men in this domain (Costa, Terracciano, & McCrae, 2001). Conversely, neuroticism means not having the ability to balance anxiety, hostility, depression, self-awareness, impulsivity, vulnerability, and other negative emotions. Men usually have lower scores than women under these criteria (Costa, Terracciano, & McCrae, 2001).

Vecchione et al., (2012) argue that the Big Five personalities are the most dynamic during ages 16 to 20. Men have lower scores on traits of openness, conscientiousness, and agreeableness, whereas women have lower scores in emotional adjustment at the age of 16. However, the score of agreeableness and emotional stability increase in males as they age, whereas it is relatively stable in females. Conscientiousness and openness increase both in males and females after age 20.

## 2.5 The Sociological level

Environment and cultural background influence risk preference. Gneezy, Niederle, and Rustichini (2003) indicate that competitive experiences between genders differ depending on the situation. Both Gneezy et al., (2003) and Booth and Nolen (2012a) analyzed whether girls in single-sex schools compared to girls in mixed-sex schools have different attitudes about risk preference and competition. The results showed that girls' performance is higher in environments without gender competitiveness. Indeed, there is a significant difference in risk preference between genders at mixed schools, in that girls' performance decreases in gender-competitive environments.

Gong and Yang (2012) conducted an experiment between the Mosuo and the Yi, who are two minority groups in China. The Mosuo are matrilineal and while the Yi are patriarchal. By playing card games with men and women between the two groups, they found that 32.5% of Mosuo women and 37.3% of Yi men were willing to invest in gambling, compared to 4.3% of Yi women. Thus, women in matrilineal societies are more risk-averse than women in patriarchal societies. Also, the researchers found that attitudes to risk are influenced by family size, family role (e.g., mother, father, son, and daughter), educational background, age, and income. This is because Mosuo women are more educated than Yi women, and the Mosuo women have much higher social and family positions than Yi women. These differences are reinforced by the fact that Yi women do not have inheritance rights, and are mostly defined as labourers, while Yi men take on the role of decision-maker and head of the family. In contrast, the Mosuo women and men have more equal social status and relationships, and the couples even live at the house of the maternal mother-in-law after marriage. Therefore, because their gender gap is smaller, Mosuo women tend to feel more secure and confident than Yi women.

Similarly, Gneezy, Leonard, and List (2009) investigated the gender differences of the Khasi people of India, who have a matrilineal society, compared to the patriarchal society of Tanzania's Maasai people. The findings indicate that the Khasi women are more likely to compete than their men, while Maasai men are more willing to compete than their women. Thus, it is clear that family and social positioning play an essential role in risk preference.

Indeed, risk decisions and risk preference between individuals is different depending on circumstances such as family size, socio-economic positioning, and gender.

There are many extant studies on gender disparities from the biological, psychological, and sociological levels. As mentioned previously, men make more rational, risk-based decisions than women, who are comparatively less willing to take risks when facing uncertainty. This finding could be due to men's higher levels of testosterone compared to women, which is a hormone linked with increased risky behaviour.(refer to P18) Conversely, women from matriarchies tend to take more risks than those from patriarchies, since women from matriarchies have higher social positions and, as a result, more influence, power, and responsibilities (especially regarding high-risk decisions). Thus, it is likely that men and women are just as capable of making similarly rational, risk-based decisions, but the gendered experiences and contexts of their upbringing (e.g., being marginalized or privileged based on perceived gender) affects their risk-taking habits in FDI in a way that is also gendered. However, more research is necessary to test the validity of this finding.

### 3 Conceptual Framework

In this section, I develop the conceptual framework needed to explain the connections between gender and risk risk assessment in FDIs.

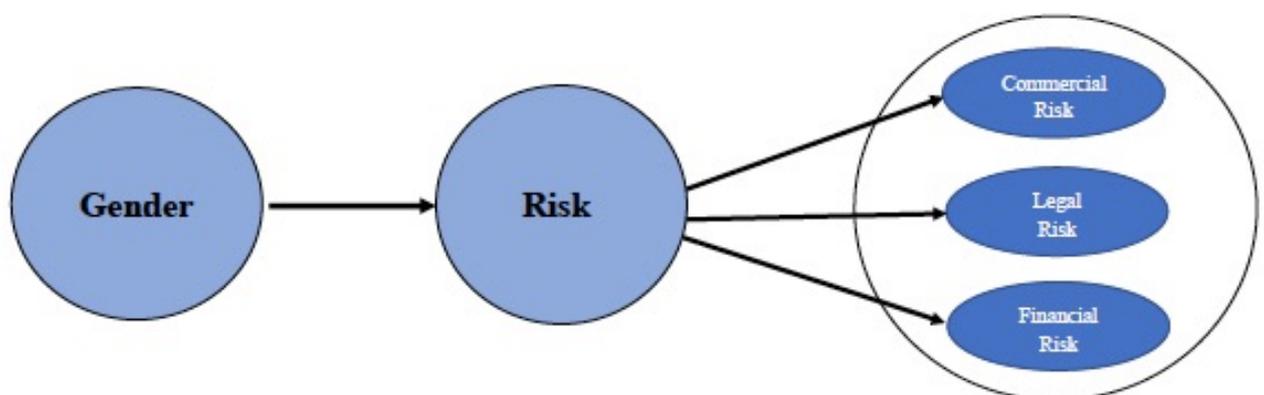


Figure 2: Conceptual Framework

Figure 2 presents the conceptual framework that includes three parts: gender, risk, and type of risks. The arrow pointing from gender to risk represents there are the gender differences when making risk assessment decisions in FDI.

Moreover, participants interviewed for the current study evaluated FDI risks from three perspectives: 1) commercial risks, 2) legal risks, and 3) financial risks. These findings are represented in Figure 2 by the three arrows pointing from risk. Thus, gender difference at workplace and type of risk will be presented in the next sub-section.

### **3.1 Gender difference at workplace**

Hurwitz and Smithey (1998) found that women are more afraid of crime than men. They investigated and compared 501 adult Lexington men and women's degree of fear of crime, attitudes to crime prevention policies, and attitudes to punishment for offenders. Although women fear crime more than men, men are more likely to be victims of crime (typically committed by other men). Why does this discrepancy exist? Because women are taught to be more cautious and fearful while men are taught to be more risk-taking and fearless. This culturally-ascribed and gendered discrepancy of fearfulness is likely at least partially able to explain gender differences in FDI risk-taking.

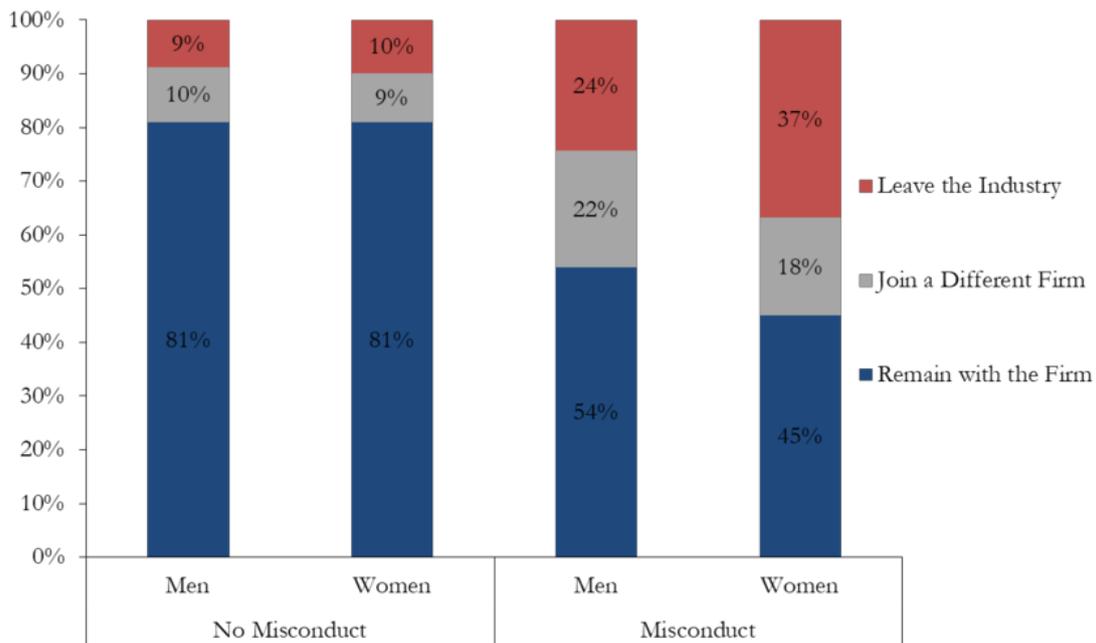
Women also face harsher challenges than men in both their education and at work. Indeed, over the past several decades, women have typically needed to work harder than men to obtain the same level of education and to simply get hired by top enterprises (Milkman, Akinola, & Chugh, 2012; Goldin & Rouse, 2000). Men have also long taken control of more political and economic resources than have women (Hurwitz & Smithey, 1998). In the United States of America, the number of male upper management is 1.8 times the number of that of women, and it is 4.2 times greater in Sweden (Wright, Baxter, & Birkelund, 1995).

Institutionalized gender biases like the examples I provided above are important factors shaping the allocation of punishment in the workplace. Many scholars have analyzed the

gender discrimination and punishment gap in the workplace from the perspectives of lower pay and fewer leadership positions, promotions, and management opportunities (Stamarski & Son, 2015).

According to a study conducted by the Harvard Business school regarding female employment at Wells Fargo, women usually receive harsher punishment compared to men for the same misconduct, to the point that they are 50% more likely to lose their jobs. Moreover, female financial advisors are 20% more likely to be fired due to misconduct in the workplace compared to male financial advisors. Afterward, women experience increased difficulty when attempting to find another job in the same industry. This kind of gendered discrepancy in the workplace is common (Blanding, 2018), as demonstrated by data are collected by the WSJ that shows that, for similar missteps, 55% of women face dismissal compared to 46% of men (WSJ Pro, 2018).

Below, Figure 3 represents findings from a study based on data collected from the world economic forum, which displays the gender punishment gap for misconduct (e.g., a mistake or improper behaviour) in the financial advisory industry in a typical year. This study clearly shows that there are almost no differences between genders in terms of “leave the industry,” “join a different firm,” and “remain with the firm” without misconduct. However, there is a clear gap when there is misconduct. 37% of women are forced to leave the company compared to 24% men for similar actions, and only 45% of women employees are allowed to, which is 9% lower than men.



Source: World Economic Forum

Figure 3: Gender Punishment Gap

In addition, there are prohibitive gender stereotypes regarding warmth and competence (Williams and Best, 1982; Kennedy, McDonnell and Stephens, 2016). For example, women are often characterized as housewives instead of as successful family breadwinners and decision-makers, and women are traditionally expected to be warmer and less competitive than men (Eagly, Wood, & Diekmann, 2000; Cuddy, Glick, & Xu, 2002). Therefore, due to gendered stereotypes, women are often interpreted as performing negative stereotypes at work (e.g., being bossy, an absentee mother, and sexually frustrated, to name a few), especially when in positions of power such as management and ownership. This disparagement of women at the workplace makes women's statuses more precarious than those of men (Ryan & Haslam, 2007; Kennedy, McDonnell, & Stephens, 2016). As a result, women's precarious status in the workplace is another driving force behind the current study that investigates gender differences in FDI risk assessment.

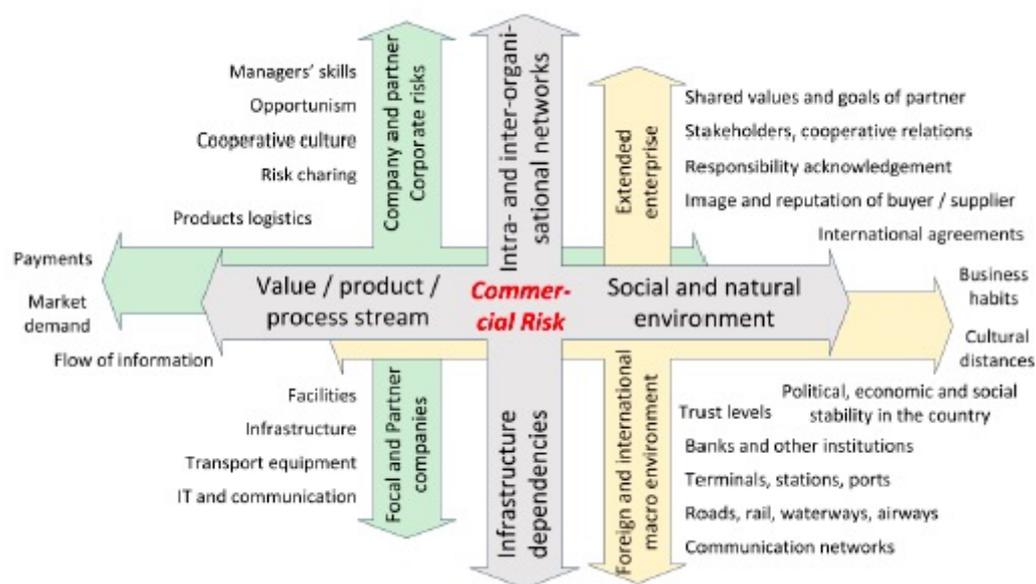
### 3.2 Risk

As mentioned above, risk studies demonstrate that there are many different kinds of risks, such as commercial risks, financial risks, and legal risks. In this sub-section, I define these three types of risks and provide examples.

For commercial risks, the terms “capability” (i.e., market capability) and “resources” (e.g., technology, labour force, and efficient supply chains) are always involved in risk evaluation. Therefore, commercial risks are considered an important factor affecting a company’s international competitiveness and its ability to sustainably-develop. Any unmanaged commercial risk will decrease the company’s sustainability and increase its financial vulnerabilities (Žigienė, Rybakovas, & Alzbutas, 2019).

As demonstrated below in Figure 4, many unexpected factors affect commercial risks, such as market demand of the target country, the cultural differences between countries, and political stability on the country level, co-operative culture, and reputation at the company-level, and others.

Moreover, participants distinguish commercial risk from the other two categories of risk because it is an uncontrollable risk-type, and also because it appears in more wide-ranging types of business. Compared to legal risks and financial risks, commercial risks are not one-dimensional and include various risk-types in different commercial contexts such as the market, labour force, consumers, competition, technologies, and so on.



Source: “Artificial Intelligence Based Commercial Risk Management Framework for SMEs” Žigienė, Rybakovas & Alzbutas (2019)

Figure 4: Extended structure of commercial risk factors decomposition across four levels of risk analytics

Contrary to commercial risks, legal risks are regarded as controllable. Most legal risks can be assessed from the country level, such as regulation restrictions of related products or services in host and home countries and business qualifications. Also, legal risk management models usually required engaging in due diligence, asset protection, changing laws, legal claims, and regulatory transactions. A good legal risk management model can increase a company’s reputation and quality of goods and services by identifying the potential legal exposure and litigation culture of operating. A failed legal risk management model can result in a lower stock price, sanctioning, civil disputes, and “bad will” (Ramsay, 2015).

Financial risk management is usually managed by assessing market risks, portfolio management, profitability, liquidity risk, and counterparty credit-risk and performance. This is one of the fastest-growing risk management issues regarding financial performance on a global scale (Skoglund, Chen, & Safari Books Online [Firme], 2015). For example, volatility of exchange rate, inflation, corporate earnings, credibility of financial statements, and others. Financial risks are also characterized as the resulting interrelationship between financial institutions (Cerchiello and Giudici, 2016). Finally, similar to legal risks, financial risks are categorized as controllable risks since most of them are measurable and solvable.

My interviewees mostly indicated that there are too many unpredictable, unavoidable, and insurmountable risks that cannot be averted under the objective conditions of commercial risks. Those participants, therefore, classified commercial risks as an uncontrollable risk. Still, participants generally agreed that most financial and legal risks can be foreseen and controlled. Furthermore, most female interviewees reported that they would focus on controllable risks over uncontrollable risks in their risk assessments. Perhaps because women usually pay more than men for similar workplace missteps, women are more prudent and conservative when

making decisions to avoid mistakes on known risks, and by association, avoid overly harsh punishment.

In summary, this literature review has introduced the background for gender differences in FDI risk-taking from various perspectives (e.g., biological and psychological), explained the historical development of risk decision-making and risk preference between genders, and described different types of FDI. However, this literature is limited in that there are little to no studies explaining the gender differences in risk assessment in the context of FDIs. The next chapter will provide an explanation of the methodologies that I used to conduct the current study explaining gendered differences in FDI risk decision-making. Thus, I now turn to the next chapter explaining my methodologies.

## **4 METHODOLOGY**

In this chapter, I explain the current study's methodologies, including a description of the sample selection process, the case study, the units of analysis, quality control, and cognitive mapping. Specifically, the current exploratory study uses qualitative methods to evaluate how men and women do risk assessment in the context of FDIs. In contrast with quantitative methods, which are positivistic in nature, qualitative methodologies are based in constructivist philosophies and primarily focus on social and cultural background (Mayer, 2013). Therefore, if the research goal is to understand social phenomena and motivations for behaviour, qualitative inquiry is the most suitable approach (Mayer, 2013).

Compared with quantitative methods that require large sample sizes to be meaningful, qualitative techniques benefit from examining small samples to understand a single concept or phenomenon better. Qualitative research is a dynamic process that considers the concept or phenomenon under investigation using historical contexts, relevant interviewee experiences, and theory to verify via tests.

Qualitative methods rely on three major data collection techniques that include interviews, observations, and documentation reviews (Yin, 2014). Also, qualitative research focuses mainly on individuals, micro-level analyses, and subjective questioning to reveal the process of phenomena change, intrinsic connections, the subjective cognitions of research subjects, and behavioural interpretations to develop extant or construct new theoretical hypotheses (Yin, 2014).

Importantly, one major advantage of qualitative methods is their ability to provide textual descriptions of people's experiences (Mack et al., 2005). Since the purpose of this paper is to explain and describe the relevant experiences of each participant regarding risk assessment for FDIs, I chose to use qualitative methods. Ultimately, I used interviews to collect the data for analysis, and eight individuals composed the sample. Below, I provide a more detailed description and explanation of my research methodologies, including the cognitive mapping method, data collection, case study, unit of analysis, quality control, and ethics.

#### **4.1 Case Study**

Case studies can be applied to individuals, groups, organizations, and communities in various research fields such as sociology, psychology, political science, and anthropology (eg., Bromley, 1986; Hamel, 1992; Bennett, 2004; Dul & Hak, 2008). Moreover, case studies are often used by researchers to conduct empirical investigations of real-world phenomena (Yin, 1981). The characteristics of a case study include are three-fold. The first characteristic is that case studies generate findings from more variables of interest than data points, for example, one pattern can be identified under different situations. The second characteristic is that case studies have multiple data sources, such as interviews, documents, and websites, to triangulate findings and increase reliability. Finally, all case studies must be grounded in previous empirical and theoretical studies (Yin, 2014).

#### **4.2 Unit of Analysis**

In qualitative research, the sample selection process can be diverse and flexible that are usually based on several factors, such as the unit of study, location, and also the researcher(s)'s field of study, biases, and research interests (Patton, 2002). Furthermore, there are various forms of units of study, such as people-focused, perspective-based, geography-focused, activity-focused, and time-based.

People-focused units of study include individuals, groups, and families, while perspective-based units include cultures and shared experiences. Furthermore, geography-based units include cities, states, countries, and communities, while activity-focused units include critical incidents, celebrations, and quality assurance violations. Finally, time-based units include special days, weeks, months, years, and even political terms (Patton, 2002). However, although many unit-types exist, individual-based units are the most common unit-types used in research (Bromley, 1986). As such, I analyze individuals in this paper, and total eight individuals are divided in two groups of fours. (i.e. Group 1 and Group 2)

#### 4.2.1 Group 1 V.S Group 2

For participants, I divided eight interviewees into two groups with four of each because P1 to P4 are more variables are the same in Group 1, such as entry mode and products, since there are from the same company, same department, and work on the same project. Conversely, only the industry and number of participants are the same, but all other variables are different in Group 2. Also, I want to compare the result by controlling different variables to see whether the result is the same or different.

To compare the similarities and differences between Group 1 and Group 2. I develop a table below that lists general information about two groups by controlling variables, to identify whether men and women make various risk assessments under different conditions.

	Similarities	Differences
Group 1	*same industry *same company *same department	*different background (i.e.,education, family, working experience, age)

	<ul style="list-style-type: none"> <li>*same product</li> <li>*same project</li> <li>*same entry mode</li> <li>*same number of participants</li> </ul>	
Group 2	<ul style="list-style-type: none"> <li>*same industry</li> <li>*same number of participants</li> </ul>	<ul style="list-style-type: none"> <li>*different company (P5 and P7 are same)</li> <li>*different department</li> <li>*different product</li> <li>*different project</li> <li>*different entry mode</li> <li>*different background (i.e., education, family, working experience, age)</li> </ul>

Table 2: Similarities and differences between two groups.

### 4.3 Data Collection

In the current research paper, I collected data primarily via personal interviews, and obtained some of the supplementary information from websites and social media posts by the stock exchange on their companies' official websites. There are a total of eight participants, including four men and four women. Only people who either have been involved in FDI, or who are currently involved in it, were selected.

Participants 1(P1) to 4 (P4) are all from the same department at company “X,” and they all talked about the same case that I describe later in this sub-section. Conversely, participants 5 (P5) to 8 (P8) are from the same industry (manufacturing), but do not work at either the same companies or departments. For the descriptive information of all eight interview participants, refer to Appendix 1 (P91) that includes age, education level, specialization at school, and international experience.

The interview guide (see Appendix 2 P91) consisted of 27 questions that were emailed to participants before their interviews to prepare. The interview questions centered around two areas of investigation, including “real-life” company questions and questions informed by *game theory*. The real-life questions enable a better understanding of the FDI project(s) the interviewees were, or had, been involved in (eg., entry modes and risk assessment procedures), as well as the interviewees' backgrounds, personalities, experiences, and their processes for

carrying out real-life risk assessments. The game theory questions assist with the analysis of the participants' risk preferences by explaining their real-life question answers.

Company X was established in 2009 and was listed in the H stock exchange in 2014. X Holding Limited is a leading web-game and Fintech company that has developed over 100 web-games and attracted millions of online players. To be regarded as a top influential technology company, X Holding Ltd. is always in search of potential companies to acquire that operate both upstream and downstream of their industry to expand their business.

For example, in 2016, X company obtained an Internet micro-lending business license issued by the government, while, in recent years, they have also been developing their business in the e-sports and virtual reality industries. The specific FDI investment case selected to be discussed with the four interviewees is related to when the firm acquired a VR company in June 2018. All four respondents were involved in the process of assessing firm-level risks associated with this acquisition.

As previously mentioned, P5-P8 are from four different organizations but are all in the same industry of manufacturing. P5 and P7 both work for a Turkish furniture company that is called company "B" in the current study. B is an international company with a group of 29 subsidiary companies operating in seven different industries. P5 introduced a case about exporting between Malaysia and Turkey in 2018. P6, on the other hand, works for company "C," which is an investment company located in Guangzhou, and mainly follows the policy of "one belt, one road" when investing Africa-based companies. P6 is one of an unknown number of team members who are charging a case that set up a gas cylinder factory in an African country. Finally, P8 is a sales manager who works for company "W," which is a large-scale, integrated aluminum extrusion processing firm founded in 1992 and located in Foshan. Its business mainly focuses on construction, transportation, electronics, sanitary goods, and more, with over 65 international production lines. P8 talked about a case regarding exporting and overseas agents in Thailand.

#### **4.4 Quality Control**

Huberman and Miles (1984) argued that qualitative data collation and analysis should be divided into three steps to control for quality. First, the data-reducing stage deals with categorization, coding, keywords, summaries of audio recordings, and any additional notes. Keywords and core themes and assertions are then marked down, often using software (e.g., Dedoose) that enables future referencing and searching. The second step deals with the network between all the data. Like in the first step, this stage compares the similarities and differences between the cases before connecting them to summarize their logical relationships. Finally, the third step of quality control is building up the theory or concept according to the information gained during the previous stages.

Cook and Campbell (1979) also mentioned four criteria from which the quality of research can be controlled: construct validity, internal validity, external validity, and reliability. Construct validity usually requires the discovery of a theoretical gap in need of being defined and then measured. To pursue validity, then, one must identify multiple sources and establish a chain of evidence. Internal validity is also a common concern within exploratory studies, as the researcher needs to provide a logical explanation for the relationship(s) under investigation. Pattern-matching and logical models are often used to improve internal validity.

It is useful to assess and monitor external validity using third party reviews and case study protocols. However, in a descriptive study, external validity can be monitored through observations and surveys. Researchers also use the theory of replication to control for validity because, in qualitative studies, invariably, researchers must acknowledge and decrease their personal biases to make the study's findings more reliable.

Ethical issues are also of great concern in qualitative research methods. There are several principles involved in research ethics, such as advanced and informed consent, confidentiality (i.e., confidential or anonymized data), and rewarding (e.g., participants are sometimes paid with money or course credit). For example, before each interview, I provided all participants with interview guides that included a copy of all 26 interview questions, the study's goal, warning that the interviews would be audio-recorded, and a promise to maintain participant confidentiality.

I also designed a pilot study to identify the relevant literature and develop research questions for an in-depth analysis of whether, why, and how men and women have different risk assessments in FDIs.

## **4.5 Cognitive Mapping**

Cognitive mapping is a graphical networking of ideas and explanations from individuals or a group on a given phenomenon (Scherp et al., 2013), and it is one of many qualitative research techniques (Eden, 2004). By linking lines and arrows to create a “mental landscape” that acts as a simplified overview of complex information (Scherp et al, 2013). However, it is not only a diagram with words and arrows, but it is also a hierarchical structure to better enable the visual analysis of data. Cognitive mapping can help to establish patterns by breaking up a complex research question. Also, there is no structured format required in cognitive mapping, and so interviews, questionnaires, and other form of qualitative data collection are accepted (Eden, 2004).

For the current study, I collected information from each interviewee, such as their gender, risk assessment before FDI activity and after, and the games theory questions results. Because cognitive mapping provides a diagram of the integrated information provided by the participants, I provide individual diagrams for each participant, with three layers of data. The first layer of data is sexuality, and the second layer is divided into three ordered parts, including risk assessment in Pre-FDI period, identified potential risks during Post-FDI period, and finally, the results of the two game scenarios. The third layer constitutes all the second layer’s influencing factors. Arrows point from the first and third layers to the relevant elements of the second layer, which represent the decisions of risk assessment (diagram refers to the next chapter)

## **5 ANALYSIS AND DISCUSSION**

## **5.1 Introduction**

In the previous chapters, I explained my research questions, theoretical frameworks, methodologies, and preliminary data organization. In this chapter, I use the cognitive mapping method described in Chapter 3 to construct individual maps for each of the current study's eight participants. There are three layers in each map, which includes gender, risk decisions, and influencing factors. In each map, I provide a quick review of the participant's characteristic features (e.g., age, education, gender, income, company, and industry), and quotations from the interviews as support. I also create the basic map from the first participant, and will add to the map in red, all new influencing factors collected from each subsequent participant.

## **5.2 Diagram of Cognitive Mapping**

### **5.2.1 Group 1**

There are four participants in the group, including two males and two females. All are from the same company, same department, and will describe the same project, which is an M&A. However, their personal backgrounds vary, such as in the categories of education, working experience, and family. I analyze each participant's responses to see how they evaluate risk and what their risk preferences are. Finally, I compare the similarities and differences between the two groups and eight individuals, and explain them in context with the literature summarized above.

#### **5.2.1.1 Participant 1**

P1 is from X company – that also employs P2 through P4 – and is a listed web-game developing company. X company's entry mode is M&A, which is how the parent company acquired 62.3% of the ownership of a VR company. In our interview, P1 explained that she does risk assessment during the Pre-FDI period and explained her concerns during the Post-FDI period. Also, she explained the reasons for M&A selection.

As mentioned in the literature review (refer to P10), one of the benefits of M&A is obtaining resources in a new market. For X company, VR is an entirely new industry, for which they had produced no related technology, and thus, had zero customer- and technology-base. Therefore, they acquired a company that has a portion of market shares since it is an effective entry strategy for many technology companies.

However, there are still challenges in M&As, as mentioned in the literature review section. For M&As, there are an array of conflicts that can arise when two or more companies merge. For example, can the management teams of an acquired company and the parent company can work together? Also, can the parent company absorb the financial situation of an acquired company? Finally, can the acquired company help the parent company enter a new market?

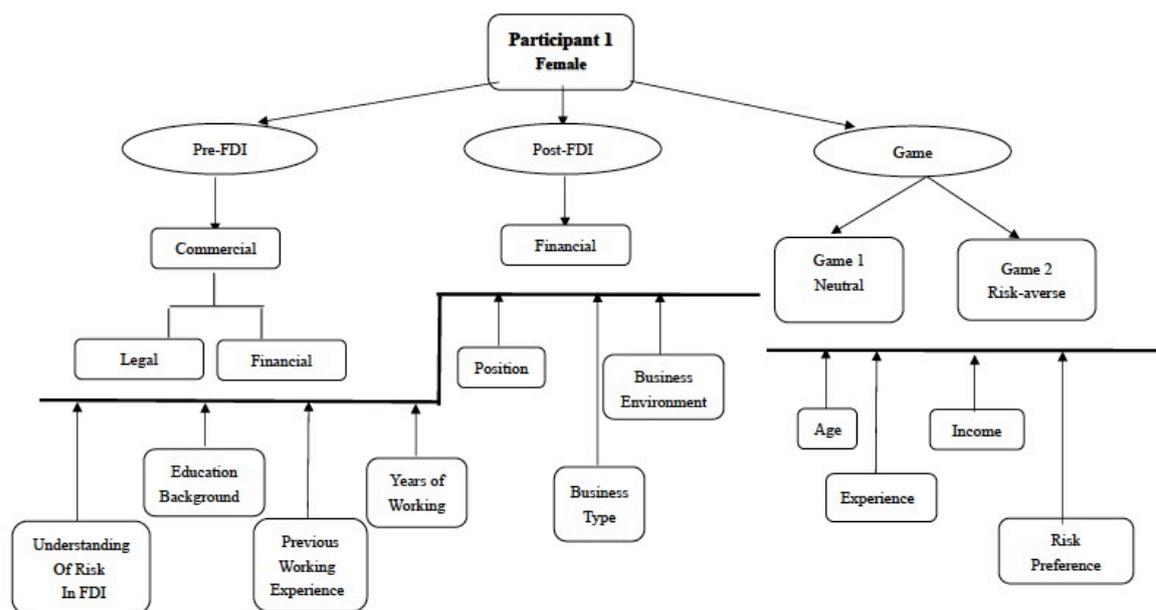


Diagram 1: Cognitive Mapping of Participant 1

P1 first explained to me her education, work experience, age, position, and described a typical working day at company X. After graduating with a bachelor's degree in accounting, she worked at Deloitte for four years in auditing. She then moved to X company and has been there for over a year, working as a senior accountant in the investment department. Usually,

she is responsible for finance-related matters—for instance, the streamlining and analysis of financial statements, and funding budgets for relevant projects.

Next, she explained some general information about across-border acquisitions and the purpose of the project of concern. The acquiring company is a game and technology enterprise based in HK, and it acquired a VR company in mainland China to expand the business since China is a big potential market, and the company wants to stay close to customers as well. This can be referred to as location advantages by using OLI. P1 said:

*Recently, our company acquired 69.84% stock equity of one VR company, and the project completed this June. Before, our company didn't have a business related to VR, but the company believes that VR is the industry of the future based on the affirmative national policies, as well as the business expansion capabilities. Moreover, the acquired company has an R&D team that has some notable achievements. Besides, there are offline stores and business offices in major cities, such as Beijing, Shanghai, and Tianjin. (P1)*

P1 is the first person I interviewed, and she explained the concept of formal risk assessment procedures in business. According to this theory, during the pre-acquisition period, risk can be evaluated from three perspectives, including; commercial, legal, and financial, which is different from what we introduce in the literature review section. As mentioned, there are many evaluation models for risk assessment, such as the Uppsala model and Dunning's eclectic model (refer to P11).

It was surprising, however, that P1 did not mention any of the introduced models in the risk assessment part of the interview. Still, the categories of commercial, legal, and financial have included many factors in these models. In fact, most elements of Dunning's theory can be analyzed from those three perspectives. For example, the self-developed VR technology and existing customer base are ownership advantages. Also, the acquired company has physical stores that allow the host company to stay close to customers, and the labour costs

in China is relatively cheaper. Both of these advantages are types of location advantages. Indeed, P1 said that:

*In the commercial analysis, we always evaluate three aspects, which are legal, commercial, and financial. The term of "commercial" usually refers to the business opportunity and future potential for the industry where the acquired company belongs, as well as the previous cooperation with the other companies and the development trend of relevant sectors of this industry. The term "legal" usually refers to the business qualification of the company, historical legal dispute record, and authorized commercial registration. The term "financial" usually refers to financial reports. We need to verify the authenticity and effectiveness of financial statements. Also, we analyze the previous investments and return rates to predict future yields. Likewise, prior to performing a thorough analysis, the company usually carries out the due diligence and foreign investigation to the target company. Then, the company presents some potential risks regarding these three aspects, as well as develops the risk measures to determine the feasibility of a trade. (P1)*

When I asked P1 whether and how she prioritizes the three types of pre-merger risks, she identified commercial risks as the top priority, but said that legal and financial risks are equally less important. As a result, she thinks the target business's value is the most critical information for an acquisition. P1 said:

*From my perspective, the commercial risks are of the most importance, and the company should pay more attention to the business values of the acquired company, and get information on relevant supports for the company's future development if the industry has become a sunset industry, or if it is unable to bring advantages to the strategic arrangements for the company. Our company will not consider it, even if it's a profitable company. As for the legal and financial, I think they are in parallel. (P1)*

Then, I asked her why she prioritizes this information this way, and she explained that previous and present work experience direct her to focus on not only finance but also other aspects of M&A, such as barriers between companies and the commercial value of an acquired company. However, she still pays more attention to financial risks due to her position as a senior accountant, even though she knows commercial risks are usually the priority during an M&A. Thus, role at the workplace affects people's priorities during risk assessments and may also affect risk preference. P1 said:

*First off, I have been working for more than five years, which means that my insight is not just limited to finance even though my background is accounting. Because my previous working experience expands my horizon, that helps me to consider issues from different perspectives, especially in investment. Even though the commercial risks are usually prioritized in risk assessment in our industry, it is hard to avoid that I will concentrate more on financial risks as an accountant. (P1)*

*Those companies comply with our company's directions, which can result in resource transfers in the relevant industries. Financially, whether our company can directly absorb the profits of an acquired company, and whether there are potential benefits, are essential reference points (P1).*

Although commercial risks are typically a top priority during pre-acquisition, P1 argues that financial risks are the biggest risk-factors during Post-acquisition. Moreover, since the financial requirements are often different between listed and unlisted companies, the acquired company cannot always absorb profit. Also, there are barely any regulations regarding VR, as it is an emerging industry. Still, she said that the business environment and type are very crucial in finance. Moreover, she reports that her primary responsibility is to solve financial issues as an accountant. Thus, P1 argues that her occupation strongly affects her risk assessment priorities, as her position as an accountant means that she prioritizes financial risks over other risk-types. Also, P1 positively associates financial risks and legal risks in her understanding of

risk assessment in FDI. This finding suggests that a person's understanding of the risks associated with FDIs will also influence their risk assessment strategies. Indeed, P1 said:

*There are some modifications required with respect to finance, like calculation method. In particular, our company is a listed company, but the acquired company is not. Because the requirements for the listed companies and unlisted companies are different in term of financial statement, we are not sure if there are extra profits that can be absorbed after the modification. In addition, VR is a new emerging industry; thus there are no complete legal regulations and relevant policies to regulate the industry. However, since the financial and legal are inseparable, any changes in the legal area relating to the industry may influence financial profit. (P1)*

In the game questions (refer to P92), the results show that P1 is almost risk-neutral in the game one since she preferred to pick cards from the table B, which has low risk and return. In game two, she drew a ball from box R. She explained to me that she was unwilling to take such adventures in real life so that she can avoid bad surprises caused by taking bad risks. She also wanted stability instead of turbulence, and her income was not high enough to afford many risks. Thus, as mentioned in the literature review, wealth accumulation influences people's risk preferences (refer to P17). For example, wealthy people tend to take higher investment risks, whereas people with less wealth are typically more conservative with investments. P1 said:

*I will pick 60 times from A and 40 times from B, because A has a more substantial possibility of winning, and deck B is safer. It is less risky this way, and I can at least keep the initial \$2,000. (P1)*

*I will not draw the ball from box R because I am unwilling to take the risk under the situation that the percentage of winning and losing is not confirmed. (P1)*

*I am not a person who is prone to taking risks in real life, and I always apply the attitude of reservation for everything. Mainly, I want stable wealth accumulation instead of risky*

*high investments at my current age. Besides, my salary is not high enough to undertake risks in real. Considerably high. However, this is the decision with the combination of my situation, and there will certainly be different results in real-life since everyone's personal situations are different. For instance, I think whether he/she receives the pressure from the original family, or his/her own family will also be the influential factor of risk decisions.*  
(P1)

At the end of the interview, we talked about whether she had noticed a gender gap in her workplace's risk assessment practices and policies. She said that she had noticed some gender differences and explained that men focus more on the potential commercial value in the long-term, whereas women usually pay attention to short-term returns. This character is also reflected in the experiment "Iowa Gambling Task," which I mentioned in the literature review (refer to P17).

In the experiment, men typically evaluated in a big picture when investing, whereas women usually focused on current profit. Moreover, men were more willing to take a risk to get a higher yield, while women are less willing to take the same risks based. P1 argues that biological differences mentioned in the literature review (refer to P18) and past work experience are the main reasons for this phenomenon. She said:

*By observing my colleagues, I found that most males focus more on commercial values, long-term returns, and profits. By contrast, females tend to pay more attention to the current earnings and short-term gains. Biological differences can explain some of these gender differences, like the fact that men are usually more competitive than women due to level of testosterone. Moreover, I believe that the working experience is also a significant reason, especially for students who graduate. Two or three years of working experience after graduation will shape future working ideologies and styles.* (P1)

#### **5.2.1.2 Participant 2**

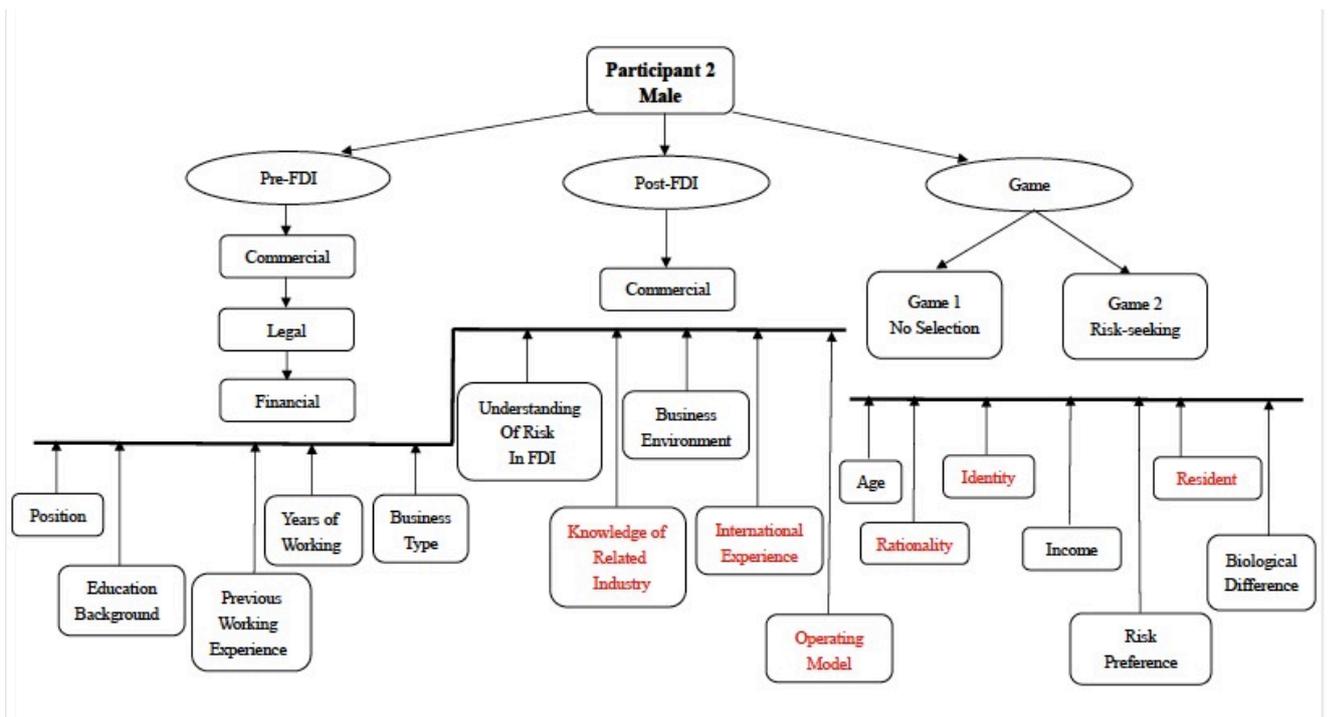


Diagram 2: Cognitive Mapping of Participant 2

I coded the information from the interview with P2 in red and coded commonalities between them (i.e., patterns) in black. For example, position, educational background, and previous work experience affects both P1 and P2's risk assessment. For risk preference, age and income are considerable risks for both participants. As I previously explained, P2 is a man that has been working at X company for two years as an investment project manager. He graduated from the State University of Binghamton, New York, with a major in accounting. After graduation, he passed the USA CPA exam and became an auditor at the PWC in New York for over five years. Then he went back to China two years ago and started working at X company as a project manager, where he is presently still working.

During pre-acquisition, P2 ranks the risk-types a little differently from P1, but it is still similar. The order from most important risk-type to least is; commercial, legal, and then financial. Thus, I hypothesize that gender does not influence risk assessment during pre-acquisition.

To explain his reasons behind his risk assessment rankings, P2 indicated that the company must confirm whether the investment subject can bring commercial value, especially in international market to the company and then consider whether that added value is worth the investment. Commercial values must be considered on a wide range, such as the upstream and downstream tendencies of the industry, product compatibility, market reactions, and the industry's current life-stage (e.g., sunrise or sunset). P2 said:

*From a legal point of view, the acquired company's products must qualify as real VR via national license or patent. Why financial risks are ranked last compared to listed enterprises, the financial system for most unlisted enterprises is certainly immature and nonstandard, and any corresponding modifications are required post-acquisition. There will always be solutions as long as there are no outstanding legal disputes or issues on the acquired company. The analysis shall be performed from three aspects, including commercial, legal, and financial. I think the commercial is the most important. (P2)*

*Simply, there are many uncontrollable challenges in commercial risks. However, on the aspects of legal and financial, most problems could be solved through more time or money input, and input cost is usually predictable and measurable. Therefore, the risks from these two aspects are mostly controllable, in my opinion. (P2)*

*Secondly, the order of the VR market is relatively chaotic, because there are many offline VR stores now, most stores do not operate in the real sense of VR. However, consumers have been influenced by so-called "VR" and they are lacking the understanding to the real VR application all of which are needing time to modify, and it is difficult to estimate the time. Moreover, whether VR technology can be combined with our current game products is a challenge as well. All of these can be attributed to commercial risks. (P2)*

P2 explains his belief that commercial risks are uncontrollable using the example of Juul, which is a leading electronic cigarette company that was acquired in 2018 by Altria for \$12.8 billion. An acquisition with a high PE index means that the acquired company has a monopoly

in a related industry, with a considerable number of loyal customers. Comparably, the acquired company of a small-scale acquisition is usually from a growing market and is without a leading market position. Therefore, the challenges now are, how to increase the market scale of VR, and how long with it take before we see significant change? The interview with P2, then, demonstrated that he has a better understanding of acquisition than P1, and his attention is not only on domestic, but also international, business opportunities and contexts.

These differences could be related to his international experience, since he indicated that he has ten years of work and study experience in the United States, which has influenced his business perspectives. Mainly his experience was in hedge funds that may have helped him see business matters from the “big picture.” In combination, he argues that his business experiences in China and the United States was a great benefit to him. P2 said:

*I want to give an example of Altria acquired Juul as an example, PE index for such large-scale investment is high, and the investment is usually performed by an experienced company, which means that the market has developed to a certain extent. However, in terms of the small-scaled mergers and acquisitions, in which the products of the acquired company have certain influences in the market but without the monopoly and leadership. How to establish the market after the acquisition is a significant potential risk due to it is uncontrollable. (P2)*

*Ten years of working and studying in the United States is a vibrant and precious experience that could make me think differently. (P2)*

There were two critical points raised in the above conversation. The first is that P2 categorized risks as either controllable or uncontrollable, and identified financial and legal risks as more measurable than the commercial risks. Moreover, he also demonstrates that “international experience” is another important factor in FDI risk assessment. P2 has more abundant knowledge of the game and VR industries compared to P1, and his international experience is one of the reasons why.

During post-acquisition, he asserts that commercial risks are the most critical potential risks to monitor. Because, he explained, VR is a new industry for X company, and the fact that it is an emerging market makes it even more challenging. However, customers are often influenced by the currently popular mock “VR” products, such as headgear and bodysuits. Customers, then, must adopt new VR products, and finding the time and money to do so is often a challenge.

Moreover, P2 explained that there are different “tracks” in the game industry, such as e-sports, web-based games, and mobile games. Additionally, there are three streams for each track: downstream, midstream, and upstream, and company X’s business mainly focuses on the downstream track. However, company X must consider the strategic layout of the industry, not just the downstream track. P2 said:

*The industry where our company is in can be divided into the different “racing tracks,” which usually include e-sports, web games and mobile games, etc. Generally, when a company investing, we will consider the upstream and downstream industries and then design a strategic layout. The device manufacturers are usually upstream industry; the midstream is the development of software and programs for corresponding devices, and the downstream is the platform connecting the consumers and products. Currently, our business concentrate on downstream due to the downstream is confronting with the consumer market, and the liquidation will be faster. Although the return of upstream is abundant, the threshold is higher, and the previous input is more extensive. (P2)*

Compared to P1, who never mentioned this, P2 demonstrates more familiarity with the industry and knows the advantages and disadvantages of each track and stream. Moreover, his concentration is different from P1 since the educational background for both is accounting. Thus, there must be other reasons besides education, and it may be P2’s international experience and occupation at the company. Additionally, knowledge of the related industry is a critical reason to explain the difference in priority.

Different from the other study participants, P2 is a game enthusiast (a.k.a., a gamer) who was already interested in VR before the merger. P2 explained that, since he has personal experience with VR technology, he knows the industry better than people without this experience. Specifically, P2 said:

*The entertainment tends to be passive communication in the past, but there are more and more entertainment activities tend to be active communication. VR enables players to have practical experience instead of being limited to the desktop experience. The acquired company is now the first company that can commercialize the large space VR in the current market. Before some technology company pushes out VR products as well, such as VR headgear from Sony, consumers can experience VR as well as they wear it. But it is not real VR, and the real VR technology allows users to move in a VR space. This company can implement a spatial positioning technology that will enable players to experience live CS in a 100 square meter space by carrying a computer and helmet. Besides, the large-spaced VR application can cover the broader scope, such as the commodity exhibition and military exercise. (P2)*

Moreover, the operating model is P2's most significant concern in the present stage of X company's current M&A, since it mainly generates profit via physical stores. Thus, the company will review the financial data for all of its stores to identify the store with the best operational history, and to observe the average consumption and customer flow. Other concerns include whether all stores can reach the expected revenue since the main profit of the acquired company mainly relies on the offline store and how long it takes to reach the performance targets. If the speed of a store opening is too slow or the earnings do not meet its targets, then this commercial mode is not so effective for that particular company. When a new commercial mode is needed, the company must invest an unknown amount of time in choosing and testing potential new model(s). Therefore, the operating model is an essential factor in risk assessment.

In game one, P2 decided to invest his \$2,000 outside of the present study. He said that he chose this investment strategy because, mathematically, the expected utility is negative on deck A and zero on the deck B. As I mentioned in the literature review, people typically make maximum profit when using the expected utility model (refer to P14). As a result, P2 seems to have made a more rational decision for game one compared to P1, because P2 calculated after all the numbers were provided to maximize personal profits, whereas P1 either never considered this or failed to calculate her odds of winning accurately. Therefore, I added the term “rationality” to the map.

In the second game, results show that P2 is risk-seeking, as he picked a card from box A instead of box B. He explained that he has a good income and no family to take care of, so he can take bigger risks with his money. Moreover, he is a resident of Guangzhou, which means that he does not pay extra on housing, and his parents’ financial situation is quite good. Also, since he is not yet married, he has fewer responsibilities and social bonds, so he is less afraid to take risks than someone with more responsibilities and social bonds (e.g., a married politician with children). However, he often repeated in the interview that his attitude towards risk-taking would change after getting married, especially once he has a baby, and indeed, he said he is going to get married soon. Therefore, I added the terms “identity” and “resident” to the second map. This response was expected since real-life risk preference is dynamic in relation to their social bonds (e.g., responsibilities, investments, and children). P2 said:

*Because I am getting married soon. I will be more conservative when I have a family, especially if I have a child. (P2)*

At the end of the interview, he also said that he believes that men take more extreme risks than women. However, P2 explained that these differences are a result of individual differences, working experience, education, growth environment, and alignment with traditionalist beliefs regarding gender. He also argued that the brain is different between genders, too. Generally

speaking, P2 thinks risk preference differences results from differences in biology, environment, and personal background. Specifically, P2 said:

*I think there is a gender difference in risk decisions. Firstly, there is individual difference, such as education, age, experience, family background, etc. Moreover, there is a biological difference between men and women, such as brain mechanisms. Besides, society positioning men and women for different responsibilities. (P2)*

P1 and P2 expressed no evident difference in risk-type rankings during pre-acquisition. However, the interview with P3 revealed that the knowledge gap, workplace position, education, and previous experience (work and study) have also have big impacts on risk assessment.

### 5.2.1.3 Participant 3

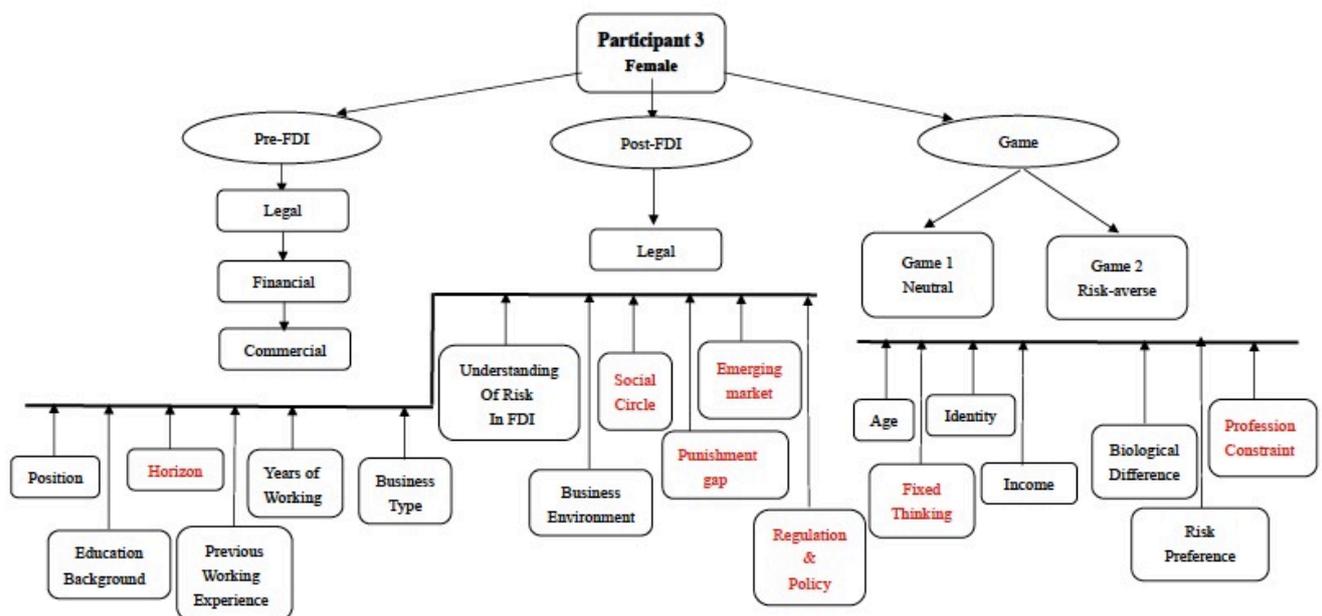


Diagram 3: Cognitive Mapping of Participant 3

Like with map 2, map 3 is based on information collected during the two previous interviews. P3 is female with a master's degree in law. She first worked at a law office for three years and mainly engaged in Initial Public Offering and M&A. Afterward, she worked at a Private Equity company for over a year. At the time of writing, she had been working at company X for one year and four months. Compared to the previous two participants, she has rich experiences in both finance and law. Also, she has a legal background, whereas the other two have accounting backgrounds.

During pre-acquisition, P3 evaluates risks in the following order: legal, financial, and then commercial, which is different from P1 and P2. Most of the reasons she reported are the same as the two previous participants, such as position and education. However, all of P3's considerations and evaluations are based in law. Indeed, she said:

*I can only analyze this problem by standing more from a legal point of view. At the beginning of the case, the company usually conduct due diligence of the target company and a comprehensive survey of the relevant industry, and then the company will propose all situations based on the investigation report. (P3)*

*I understand that the commercial value of the target company and market is significant in M&A. But my evaluation sequence will be legal, financial, and commercial. (P3)*

During post-acquisition, P3 said that the most crucial legal risk is called “hysteresis property.” Generally, there are some legal issues associated with acquiring new things, and the relevant legal regulations must be revised and addressed accordingly. Therefore, the VR industry currently does not have a complete commercial industry, such as settled business qualifications and industry standards, which is also an issue to which she is currently paying most of her attention. This is one of the reasons why she thinks that legal risks are the most important during M&As. P3 explained that:

*Because VR is an emerging industry, and the legal regulation usually has the hysteresis property. There is no complete regulation and law regarding this industry. (P3)*

Also, P3 has worked in the legal field for many years, and so it is understandable that she attaches more importance to legal issues when doing a risk assessment. Moreover, she mentioned that most of her friends are from university and her workplace, so most have a legal background, and so, most of their suggestions are based on law. Thus, social circles can be a significant influencing factor in risk assessment. For example, people ask for the input of people they know who have related knowledge, and friends are an ideal first choice. P3 said:

*Also, my friends are mostly involved in legal work due to my several years of working experience in a legal firm and my educational background, which will enable me to limit the legal risks when performing the risk assessment. (P3)*

Furthermore, P3 brought up the concept of the punishment gap between genders in the workplace very early in the interview. As explained in the conceptual framework, the number of men in management positions is far greater than the number of women. Women are also usually paid less than men for the same work, and have higher chances of being fired for similar misconduct. Even worse, still – women have less opportunity for promotions in the workplace, especially if they have made any missteps in the past. (refer to P26) For P3, then, being a woman is a risk factor for her career development and advancement. Comparatively, legal risks are controllable since the law is her profession, whereas financial and commercial risks are not in her field. P3 said:

*There is one more point I would like to mention is that I identify the punishment is harsher for women to make mistakes in the workplace is higher than that of men through the observation. If I make a mistake in my field of expertise, it will affect my future promotion,*

*which is one crucial factor that my focus point is always the legal risks in the course of risk evaluation. (P3)*

In the first game, P3 picked an equal number of cards from deck A and deck B, in total 100 times resulting in neutral gains and losses. In the second game, she drew a ball from box R because she is unwilling to take a risk in uncertain conditions. However, she provided a new reason for being risk-averse, that is, professional constraints. For instance, lawyers are trained to be cautious since every action she takes can have profound impacts (i.e., high-stakes risks). Accordingly, recall that MBA students are more likely to engage in the risk industry and in making risky decisions compared to students in other majors (refer to P18). Therefore, one's professional and educational backgrounds play essential roles in risk-based decision-making. P3 said:

*Because the lawyers are a prudent profession, thus yes, I am a highly rigorous person in everything in life. (P3)*

Based on P3's observations, then, there are not only gender differences but also the individual difference in risk assessment because of one reason, that is, the vision determines the realm. She thinks one's horizon influence decision in reality. P3 said:

*I think everything about education, income, experience, and all others will finally build up one's horizon. (P3)*

#### **5.2.1.4 Participant 4**

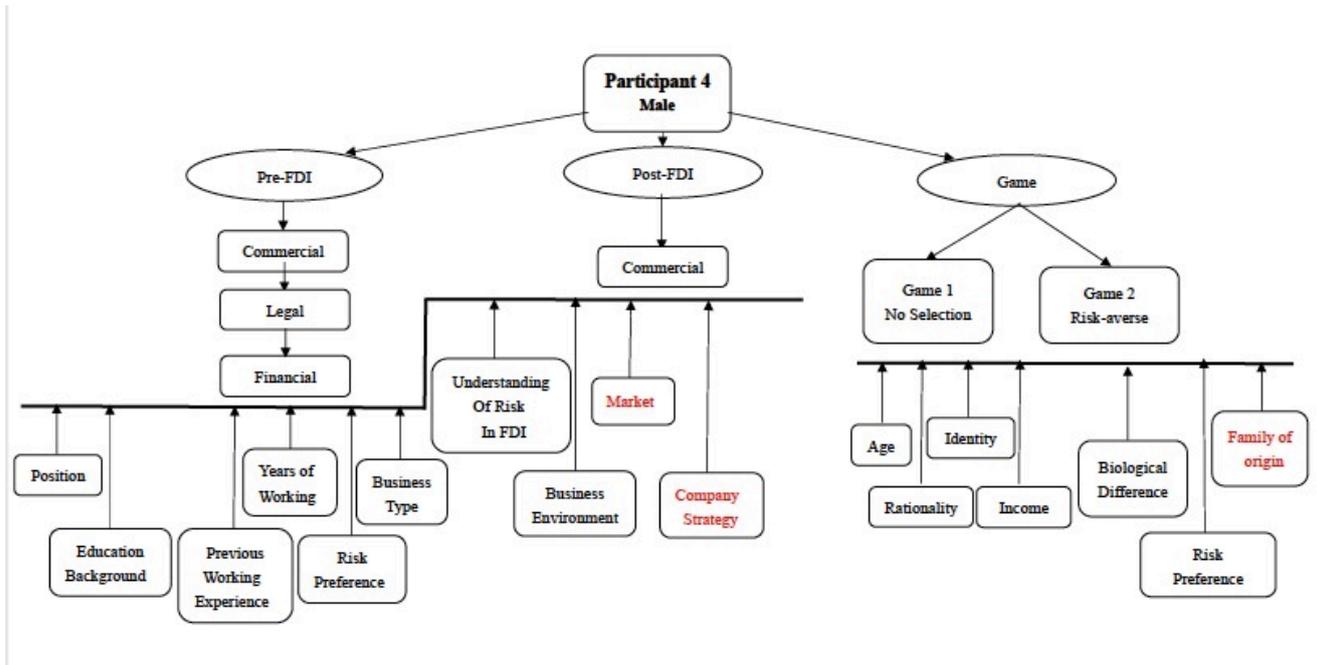


Diagram 4: Cognitive Mapping of Participant 4

P4 was a new graduate with a bachelor's degree in accounting, and company X is the first company he worked for after graduating. He is a project assistant in his department and, different from the previous three respondents, he lacks experience, and so, he follows the command of his team members or managers most of the time. During pre-acquisitions, he evaluates risk from commercial, legal, and financial perspectives, but for him, commercial risks are the priority. P4 said:

*The steps I took into risk assessment established in the company. I don't have relevant experience as a rookie in the workplace. I, therefore, follow the team or manager most of the time to analyze these three aspects. (P4)*

During post-acquisition, the most significant potential risk factors for his consideration are commercial risks. Since VR is an emerging industry, there is much time required for VR technologies to integrate with the company's products, as well as to address any technical barriers and bad customer reactions. Regarding financial and legal risks, he argued that there

are always ways to satisfy financial standards and statutory regulations. In general, companies will issue corresponding policies that address the new laws and regulations. However, the market is hard to manipulate, and technological barriers cannot be avoided. Hence, P4 argued that legal and financial risks are relatively controllable. P4 said:

*Firstly, VR is an emerging market, the current market environment is immature, and there are many uncontrollable risks. For example, the time required for VR technology to integrate with the company's products, as well as technical barriers and the customer reaction. (P4)*

In game one, P4 did not pick any cards for the same reasons given by P2; that is, they expected to lose. In the second game, P4 preferred to pick a ball from box R since it is too risky to pick a ball from box A. He said that he made these choices because he is a working freshman and so his income is not high enough to take higher risks. Moreover, his parents are somewhat conservative risk-takers, and he believes that his risk preferences are, in part, influenced by his family.

In this conversation, P4 also mentioned “income” as an influencing factor, like P1 and P3. Also, he raised a new point that parents have formative effects on children’s behaviour. P4 said:

*The reason why I am conservative in risk decisions could also be because of the following reasons. From personal experience, my family of origin will have a certain degree of impact on my risk preference because my parents have never engaged in risky investments. (P4)*

When I asked P4 whether there are gender differences in risk-based decision-making, he agreed that there was, but said that individual differences have a more significant effect. For example, some people are more competitive while others are more conservative; some people are more extraverted, whereas others are more introverted; and some people are confident while

others are not. Different personalities will result in different performance, even with risk-based decision-making.

Conversely, P4 reported being strongly ambitious in his career and expressed a willingness to compete in the workplace, even though he is generally risk-averse. P4 said:

*Compared to gender differences, I think individual variation is more significant since people have a different personality. (P4)*

### 5.2.2 Group 1: Summary and Analysis

After I analyzed the interviews, I created Table 3 (below) to show the results for each participant’s risk assessment in M&A projects and risk preferences in games.

	Pre-FDI	Post-FDI	Game (1 & 2)
Participant 1	1.Commercial 2.Legal, Financial	Financial	(Neutral, Risk-averse)
Participant 2	1.Commercial 2.Legal 3.Financial	Commercial	(No selection, Risk-seeking)
Participant 3	1.Legal 2.Financial 3.Commercial	Legal	(Neutral, Risk-averse)
Participant 4	1.Commercial 2.Legal 3.Financial	Commercial	(No selection, Risk-averse)

Table 3: Result of risk assessment and risk preferences of P1-P4

According to the four participants’ responses represented in Table 3, all participants raised the same formal risk assessment criteria, which includes commercial, financial, and legal. However, when ranking them from most to least significant, they almost all classified them differently, except that both male interviewees who ranked commercial as the top factor, with legal and financial below it on the same level. In contrast, another female participant prioritized

commercial, legal, and financial factors equally, while another listed them in the order of legal, financial, and commercial. This order is for pre-acquisition, however, since the context is very different during post-acquisition, when the men focus on uncontrollable risks while the women pay more attention to controllable risks.

Recall that I designed game one to test the participants’ gendered risk preferences in certain conditions, while game two tests risk preferences in uncertain conditions. As I expected, due to the extant literature reviewed previously, their responses differed greatly depending on the participants’ gender and the game-type. In game one, both men chose not to gamble in either game, as the mathematically expected results were losses, and so they deemed the risks not worth it.

Conversely, both women chose to gamble in the two game scenarios. P1 selected cards from the riskier game 60 times, and the less risky game 40 times, while P3 chose to play the games equally, picking 50 cards from each deck. In game 2, the results indicate that both women are more risk-averse when the outcomes are uncertain. Importantly, P3 has a higher income than P1 since she has a superior company position, but she has higher living costs since she is a non-resident of Guangzhou. Also, professional constraints can be an essential factor in risk-taking, as is the case with P3, who mentioned that prudence is an essential characteristic for most lawyers. Similar to the men, the women’s previous working experience, education, wealth, and age are all influencing factors in their risk assessment. Based on this, I created Table 4 (below) to provide a direct visual comparison of the participants’ responses and game decisions.

	Males		Females	
	Participant 1	Participant 3	Participant 2	Participant 4
Similarity	<ul style="list-style-type: none"> <li>risk preference in two games</li> <li>identity (marital status)</li> </ul>		<ul style="list-style-type: none"> <li>risk assessment in the period of Pre-FDI</li> <li>concern in the period of Post-FDI</li> <li>same risk preference in the game one</li> <li>identity (marital status)</li> </ul>	

Difference	<ul style="list-style-type: none"> <li>• position</li> <li>• education background</li> <li>• international experience</li> <li>• year of working</li> <li>• age</li> <li>• family of origin</li> <li>• income</li> <li>• knowledge of VR market</li> <li>• risk assessment in the period of Pre-FDI</li> <li>• concern in the period of Post-FDI</li> </ul>	<ul style="list-style-type: none"> <li>• position</li> <li>• education background</li> <li>• years of working</li> <li>• age</li> <li>• family of origin</li> <li>• income</li> <li>• risk preference in the game two</li> <li>• understanding of FDI</li> </ul>
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Table 4: Similarity and difference of participant P1-P4

In Table 4, the participants are divided into two groups by gender to better enable their comparison. For example, when comparing P2 and P4 in terms of their work positions, P2 is a project manager, which implies that he has a broader picture of the company than the others, who are not yet managers. P2 also has a background in international work and study, as he has a master’s degree in accounting from New York, and worked for several years at an international company with a position in finance. Conversely, P4 has a bachelor’s degree in accounting, but no international experience. Having versus not having international business experience may result in different viewpoints on some elements. Moreover, P2 is older and has more work experience than P4, and P2 has greater knowledge of the VR industry compared to P4, and is also more passionate about this emerging industry. Thus, the current study demonstrates that all of these variables likely affect people’s risk assessment considerations during international M&As.

This study also confirms the research suggesting that risk preference is vital for influencing real-life risk valuation. As mentioned in the literature review, there are gender differences in risk preference, in which men are more willing to take risks in real life. Risk preference can be affected by self-esteem level (refer to P19), emotion (refer to P20), competitive cognition (refer to P21), wealth capacity (refer to P17), major at university (refer to P18), and testosterone level (P18). Moreover, risk preference will be different for people from matriarchal and patriarchal

societies (refer to P24). After four interviews with four participants, the findings confirm that wealth capacity, position, and education are driving forces in risk preference. Also, the results show that women are less willing to take risks than men.

Moreover, only P2 was risk-seeking in the game question, whereas the other three Group 1 participants were risk-averse. There was also a gendered punishment gap at the workplace that has gendered effects on risk assessment in FDI. Additionally, I found that risk preferences are dynamic and can change depending on individual contexts. For example, P2 said that his risk preferences would be different once he is married and then becomes a father.

Since P2 has a higher income and has been working longer than P4, the other male participant in Group 1, P2 should have a higher capital accumulation, which would enable him to afford taking higher FDI risks than P4. Moreover, P2 is a Guangzhou aborigine, whereas P4 moved there from another city. P4 also has higher social pressures than P2 due to having higher living costs and social bonds, which may also have influenced their different risk preferences in game 2 and, ultimately, their real-life risk assessment. Indeed, by doing rough statistical calculations in their heads, neither male participant decided to pick a card in game 1 because they expected to lose. Moreover, both participants selected commercial risk as a potential risk in the real-life interview questions, as they felt that commercial risks were uncontrollable. Indeed, P2 said that he would be less willing to take risks once he was married because he would have more family responsibilities than now. Therefore, identity change, education, domestic issues, international experience, wealth, and age are all factors that can also influence risk assessment.

In contrast to the male participants, the female participants' education, personal characteristics, experiences, answers, and choices were quite different. For instance, the interviewee's educational backgrounds were dissimilar, as P1 has a bachelor's degree in accounting, while P3 has a master's degree in Law. Conversely, while P1 worked for four years in auditing at Big Four, P3 worked for a few years at a law firm in M&A, before moving to a career in private equity.

In residential terms, P1 is a native of Guangzhou while, like P2 and P4, P3 is from the North of China. Recall to the conceptual framework, the punishment gap considered to be the cause of gender difference in risk assessment, and P3 did mention this reason in the interview. However, P1 didn't raise similar concerns in the conversation. I think working experience, age, and residential status that mentioned above are a critical reason for the difference. Moreover, likely because P3's work is in commercial law, she always answered the interview questions from a legal perspective during the interview, including in her definition of FDI. P3 also mentioned that most of her friends are lawyers or in law-related positions, therefore, her friends' expertise also probably reinforces her legal approach to finance.

P3's legal approach to finance is one of the reasons why her risk assessment ranking was different from the other study participants. Indeed, she classifies legal, financial, and commercial in the order of most to least important, while P1 prioritized commercial risks and positioned financial and legal risks on the same level. However, P1 argued that the most significant potential risks after acquisition are financial risks, while P3 argued that they are legal risks. P3 said that she chose this order because she thinks VR is an emerging industry with no complete legal policies to regulate it, so it is difficult to gauge the government's attitude towards the industry, and whether or not there will be profits in the future. P3 also mentioned the gender punishment gap, as she explained witnessing gender discrimination in her workplace. Consequently, as a woman, more than men, she must avoid making mistakes within her profession and, in general, pay more attention to her increased professional, legal risks. Together, the findings indicate that men generally think market reactions are hard to predict. This finding is especially true for emerging industries like VR, as customers have been influenced by the so-called VR instead of big space VR. To change this trend, customers need VR knowledge, and the length of time needed to gain this knowledge is still unknown. Moreover, to make a profit requires a business model that includes the opening of an offline (i.e., physical) store to enable consumers to finally experience real VR. Therefore, the two male participants in Group 1 ranked commercial risks as the priority, while the two female participants had different priorities (i.e., financial [P1] and legal [P3]). Compared to men in the

real-life case risk assessment during pre-acquisition, the results indicate that there is no significant difference between women and men. However, men demonstrated an increased attention to uncontrollable risks (i.e., commercial), while women paid more attention to controllable risks (i.e., financial and legal).

Moreover, I also found that risk assessment in FDIs is influenced a lot by a person's profession. For instance, the accountant (P1) prioritized financial risks in evaluation, whereas the attorney (P3) focused on legal risks. I think this is also a way to avoid risks, because people are usually less likely to make mistakes or encounter difficulties in their professional fields. However, in an unfamiliar area, people typically need more time to explore, and obstacles are more likely to occur, especially in international business. Because people usually face a new market, new customers, new law and regulation, and even new culture in FDIs. Women are typically less likely to take the risk as discussion (refer to page); therefore, females participants are likely to be more conservative in international business.

### **5.2.3 Group 2**

Coming from different companies but the same industry, Group 2 offers different insights into risk-assessment and its best practices. Thus, in the next sub-section, I provide a review of the individual results of Group 2's interviews, followed by a summary and analysis this sub-section.

P5 works at a Turkish furniture company (refer to P35), and the company's primary entry mode is importing. The biggest advantage of this entry mode is low risk-taking and financial input, since there are no facilities and equipment investments in other countries. In this way, buyers usually sign contracts directly with overseas sellers to obtain goods, services, or equipment.

However, some shortages come with these benefits. Same as exporting, importing relies on the local policies of target countries, such as tariffs and the restriction of goods. Moreover, the exchange rate plays a vital role in transactions, since most deals close in US dollars and so, any fluctuation of exchange rate effects profits

Based on the shortages and advantages previously mentioned, there are three primary reasons why importing was selected as entry mode. First of all, labour in China is cheaper compared to that of Turkey, and China also offers the benefit of various styles of furniture with lower prices and good quality. Moreover, before 2015, there were no furniture importing and exporting tariffs between China and Turkey. Also, are no technology transfers involved in such transactions since most import products are sofas, office chairs, and tables. Thus, import is a good choice for furniture companies working in China and Turkey.

### 5.2.3.1 Participant 5

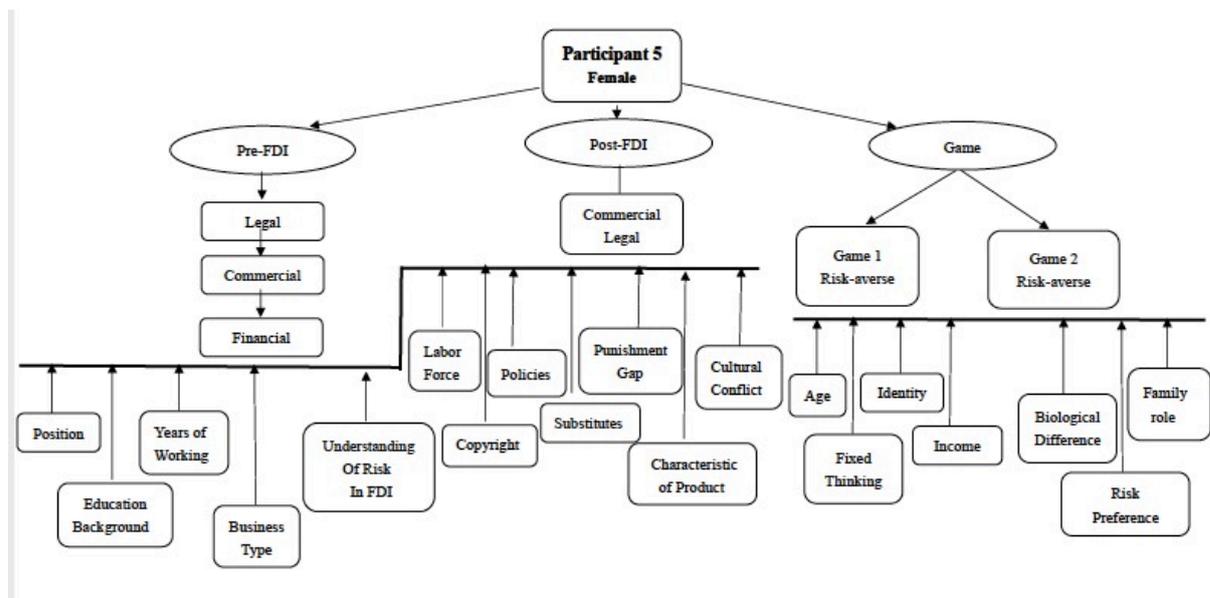


Diagram 5: Cognitive Mapping of Participant 5

P5 is an office manager who works for a Turkish furniture company. She graduated from the University of Minnesota with a major in business purchasing. After graduation, she started working at her current company, and has been there for seven years.

During the Pre-FDI period, she also does risk assessment by considering the legal, commercial, and financial risk factors. However, the importance of each kind of risk is different in the manufacturing industry. Based on P5's interview answers, legal risks and commercial risks are both uncontrollable. Because tariffs play a vital role in her industry, she argues that

they could be classified as legal risks. The company even shifts product lines to Malaysia due to the increased tariffs at home. Based on the interview data, the risk assessment priorities are different in the manufacturing industry and in direct exporting entry mode, even though the criteria of risk assessment are the same as the criteria of P1 to P4. P5 said:

*From the most important to the least, my ranking is legal risk, commercial risk, and financial risk. Firstly, the profit margin is affected a lot by tariff, and the company cannot control it. It may be dramatically increased or decreased due to political and economic factors, and it cannot be forecasted.*

*For example, it was duty-free to transport goods from China to Turkey before 2015; however, the tariffs increased so much that our profit margins shrunk significantly, and we had no choice but to relocate part of our production facility to Malaysia after 2015. Because the company with a certificate of origin can benefit from free duty. (P5)*

Moreover, since “both Malaysia and Turkey are Muslim countries” (P5), there are fewer cultural conflicts between the two countries. Also, it is easier to get a Malaysian business or travel visa for people from Turkey. P5’s flexibility is vital because the company sometimes needs to send quality-checkers directly from headquarters to inspect finished goods. Therefore, this new location helps to reduce the time spent on getting a visa.

However, there are disadvantages to working in Malaysia as well. Rattan chairs are popular in Turkey, and all related products are hand-made, which means there is a massive demand for labor. Also, we use pericampylus bamboo instead of traditional flat-stemmed bamboo for the chairs. Pericampylus bamboo needs twice the production time, and there are different skills requirements for working with this atypical material. Hence, the company decided to move their production offshore Malaysia, but there are many floating residents in Malaysia. Indeed, P5 said that “the labour force is not stable because most labourers are only temporary residents of Malaysia.” Also, despite Malaysia’s lower labor costs, these savings do not provide the

company many benefits for production efficiency, and this also sometimes delays deliveries. Thus, these risks could be classified as commercial.

Besides the challenges above, copyright is also a challenge for the company. For example, consumers want office chairs with functionality and design, so the company continually invests in design and R&D to meet their customers' dynamic demands. However, sometimes the company will buy a design from the factory directly. In this situation, copyright is a big concern since some products are very similar, and there are no strict laws to protect intellectual property and patents in Malaysia. Even though they usually sign a confidentiality agreement before the transaction to avoid possible legal disputes, copyright ownership is still always a concern. P5 said that, due to these copyright issues, "we need to protect our designs, as well as the ones we procure from other furniture designers, to avoid legal disputes."

For commercial risks, P5 explained to me an example using acrylic. Acrylic, which is also called "organic glass," is a lighter substitute for glass that is also more transparent, chemically stable, easy to tincture, high-temperature resistant, anti-corrosion, and cheaper. However, this company does not have a production line for acrylic, and so, it lost a market share for this particular alternative glass product. Indeed, P5 said that these "widely used Acrylic products have a detrimental impact on traditional glass product sales due to its better performance." Conversely, Group 1 and other participants do not share concerns of substitutions due to product differentiation.

As for financial risks, as mentioned above, the biggest concern is the exchange rate because the trade contract stipulates that settlements be in US dollars. Therefore, the exchange rate fluctuation between the US dollar and the Lira influences profits. Hence, price quotations will frequently change to avoid loss, which helps to control financial risks. Still, the exchange rate differs depending on the choice of entry mode via M&A and direct exporting. This difference exists because M&As acquire companies in target countries and then do business from their host country, whereas direct exporting is the frequent sale of products to companies in other countries.

During the Post-FDI period, P5 identified legal and commercial risks as the most significant potential risks. She prioritizes these two risk-types because it is hard to say how long it will be tariff-free between Turkey and Malaysia, and whether they will issue new policies affecting the industry. Also, when the company selects new products, the potential market reactions to the products are a concern. Unfortunately, P5 said that one cannot predict future trends in national policy or customer preference. The required material, labour, price, design, and so on must always change according to these policies and preferences.

Moreover, to keep her position as a manager, P5 reported that she must look further into the company's future than the other members of Group 2 to gain a big picture perspective on risk assessment. Also, like P3, she mentioned that there is a gendered punishment gap in her workplace that favours men.

In the first game, P5 selected 50 cards from deck A and 50 cards from deck B, which shows that she was risk-averse. In the second game, she was risk-averse too since she picked a ball from box R instead of box A, which is the less risky choice. P5 then introduced a new risk-factor, that is, family role. Because P5 reported being the only source of income for her family, she did not want to make risky investments that could jeopardize her income. Therefore, family and other social roles can influence risk preferences.

In addition, when I asked her whether she had witnessed gendered differences in risk assessment at her company, she explained that “men usually have a bigger picture in risk assessment, such as political relationships between countries, international industry trends, as well as potential opportunities in related industries.” “Conversely,” she said, “women concentrate more on costs and returns.” Indeed, as I explained in the literature review above, the reasons for these gendered differences are many, including education, work experience, biological differences, and more.

### **5.2.3.2 Participant 6**

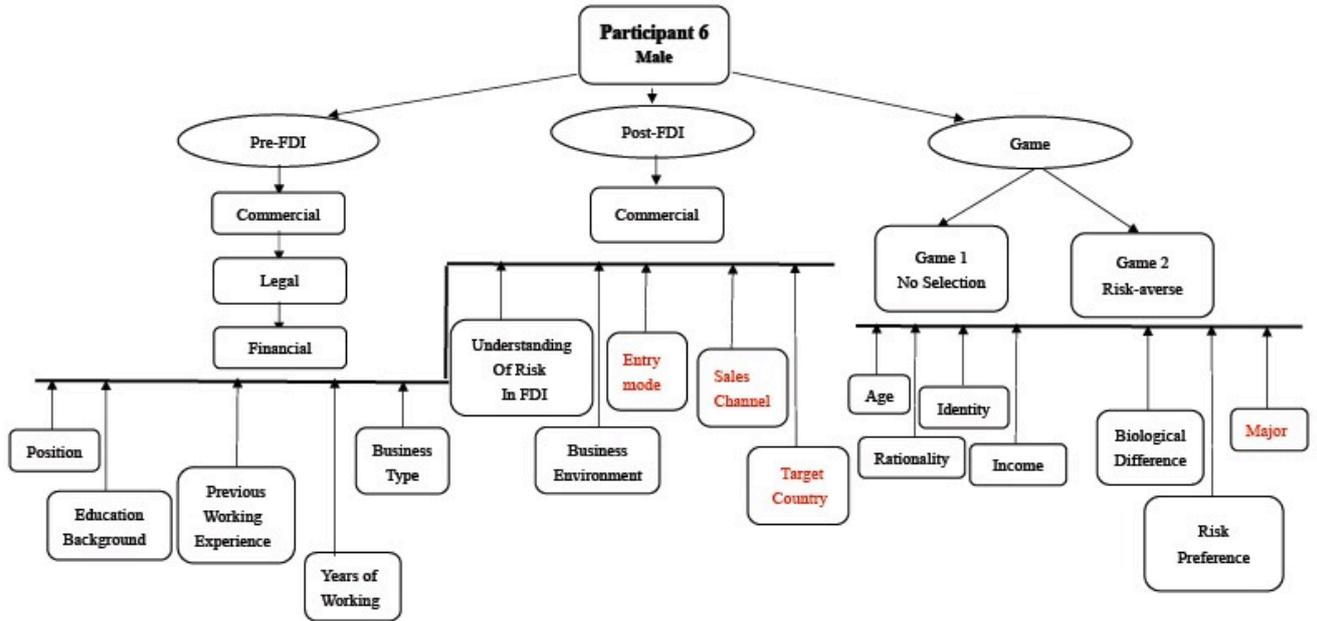


Diagram 6: Cognitive Mapping of Participant 6

P6 worked at company “C,” whose entry mode was greenfield investment. As discussed in the literature review, greenfield is the riskiest entry mode as there is substantial financial input into facilities, land, equipment, and more in host countries (refer to P9). Therefore, greenfield is not the first choice for MNEs compared to joint-ventures and M&As. In this case, company C cannot find suited companies in the host country to acquire or build up partnerships, since the investment industry is behind in the target country.

However, companies can usually enjoy local preferential policies by making greenfield investments, because they can provide employment opportunities and boost economic growth (refer to P9). Moreover, the subsidiaries are usually wholly owned by the parent company in greenfield investments, which can decrease the conflict between companies and the management team.

P6 obtained a master’s degree from the university in Australia with a major in finance. He first worked at a foreign bank for six months after graduation, and then he ran an educational institution for a year until it finally failed. After that, he started working at company C, and has been working here for six months.

Company C is an investment company that mainly follows the “one belt, one road” national policy to make investments in Africa. In China, for those companies that make investments overseas, official qualifications from the National Development and Reform Commission, the Ministry of Commerce, and the State Administration of Foreign Exchange are required. This process is called the “ODI” procedure since there is much money flowing out to the other countries. Procedure can shorten the processing time to obtain qualifications for projects supported by policy. Therefore, the company targeted Kenya and set up a gas cylinder factory there. Company C chose Kenya because “it is the core country in east Africa that is close to the Indian Ocean, and the average age of the population is around 18-19 years old, which means that the labour force and consumption capabilities are strong.” Comparing Group 1’s and P5’s companies’ entry modes, ODI is unique to greenfield since they encourage vast outflows of money. P6 said:

*In fact, we are an investment company that mainly follows the “one belt, one road” policy to start a business in an African country. Therefore, our company recently set up gas cylinder factories in Kenya. (P6)*

During the Pre-FDI period, P5 ranked from the most important to the least important risks as commercial, legal, and then financial. P5 prioritized the risks this way because the socio-economic situation in Kenya is relatively backward, the social security costs are high, and the legal system is immature.

Moreover, Kenya is a new market for P5’s company, and greenfield is the riskiest entry mode with the highest potential return. When I asked him why the company chose greenfield instead of another type of entry mode, P6 explained that “there are no suitable factories in Kenya that can provide the required technology since the gas cylinder manufacturing in Kenya is decades behind that of China. Also, cooperation with domestic enterprises who can provide related technology is better in terms of cooperate culture fit and management integration. In

this way, the company achieves both risk reduction and risk allocation, and also obtain ownership advantages.

During the Post-FDI period, P6 said that commercial risks are the most important since the market cannot be manipulated due to the current legal system. Also, sales channels are a big concern for the company, such as whether to open offline stores owned by the company or authorize marketing right to local stores.

In contrast, legal risks are relatively more manageable since there are always ways to address policy, even though the policies can change depending on the government. Moreover, participants involved in M&A and greenfield indicated the distribution mode would be a worry during FDIs, but it is not a primary concern with direct export (e.g., P8)

P6 made the same decision in the first game as P2 and P4, who all chose not to pick any cards due to their internal, mathematical calculations that anticipated negative profits. Like the other two participants, he said that it did not make sense to gamble given such poor odds of success, suggesting that P6 is risk-averse.

In the second game, the results confirmed that P6 is risk-averse, as he drew a ball from box R instead of box A, which was the lower-risk option. The reasons behind the decisions were, again, similar to P2 and P4, including age, income, social roles, family roles, and more.

However, P6 argued that there is no significant difference in risk assessment between genders because women's positions at the workplace, in society, and in families is getting higher so that the gap is diminishing over time. Thus, according to P6, even though the gender gap still exists in society, it does not result in gendered differences in risk assessment in FDIs.

### **5.2.3.3 Participant 7**

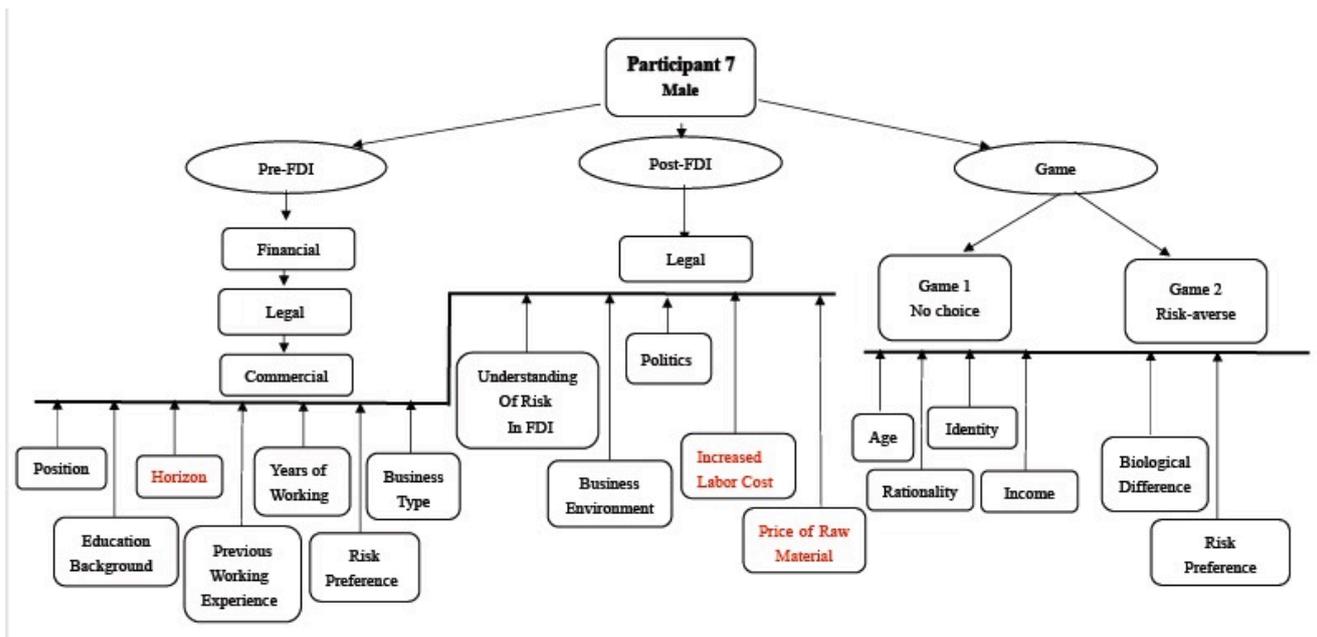


Diagram 7: Cognitive Mapping of Participant 7

P7 holds a bachelor’s degree in international business and works at the same company as P5, but holds a different position there. He has been working at B company as a salesperson and quality checker for more than six years. Before working at his current company, he worked in a similar position for a domestic furniture company for two years.

During the Pre-FDI period, his risk assessment ranking order is financial, legal, and then commercial risks. The reason why he considers financial risks as the most important is mainly due to the increased labour and material costs both in mainland China and Malaysia, which diminishes the profit margins and can impede his ability to reach his sales targets. Here, P7 raised a new point that the price of raw materials is very important when making risk assessment. P7 said:

*The cost of packing and wooden furniture increases due to price inflation to woods and mental. For example, because most of the company logos attached to furniture are metal, when the price of metal increased recently, so did the price of wooden furniture. Also, since companies often must paint the metal logos by hand, it must be done in China since this kind of metal processing is illegal in Malaysia due to the pollution concerns. Thus, the total cost increases as labour costs increase. Secondly, the cost increases as wood prices rise*

*because many of our products are wooden, such as tables, chairs, sofas, and bed frames. Also, we use paper box packaging, whose raw material is wood too. (P7)*

Moreover, the political situation is tense in recent years: “In fact, there are big personnel changes of top management team since 2017 due to political issues, which is a fatal blow to the company” (P7), and several top management teams have been arrested. This chaotic political environment has had a huge negative effect on Turkey’s domestic economy due to the poor exchange rate between US dollars and Turkish lira, which results in the dramatic decrease of international orders. Also, it is becoming increasingly difficult for people in Turkey to get visas in this unfortunate political situation. All of the concerns mentioned above increase the company’s financial risks. Hence, P7 thinks that legal risks are the most important in Post-FDI, as political risks and policy changes are unavoidable and uncontrollable.

In the first game, P7 was risk-averse because he did not pick any cards due to the expected negative gains. This choice was the same as all of the other male participants who also chose not to gamble in the first game. In the second game, the results showed that he is, once again, risk-averse as he chose to draw the ball from the box R. P7 explained his choice using similar reasons to the other participants who made the same choice (e.g., income, risk preference, and age).

#### **5.2.3.4 Participant 8**

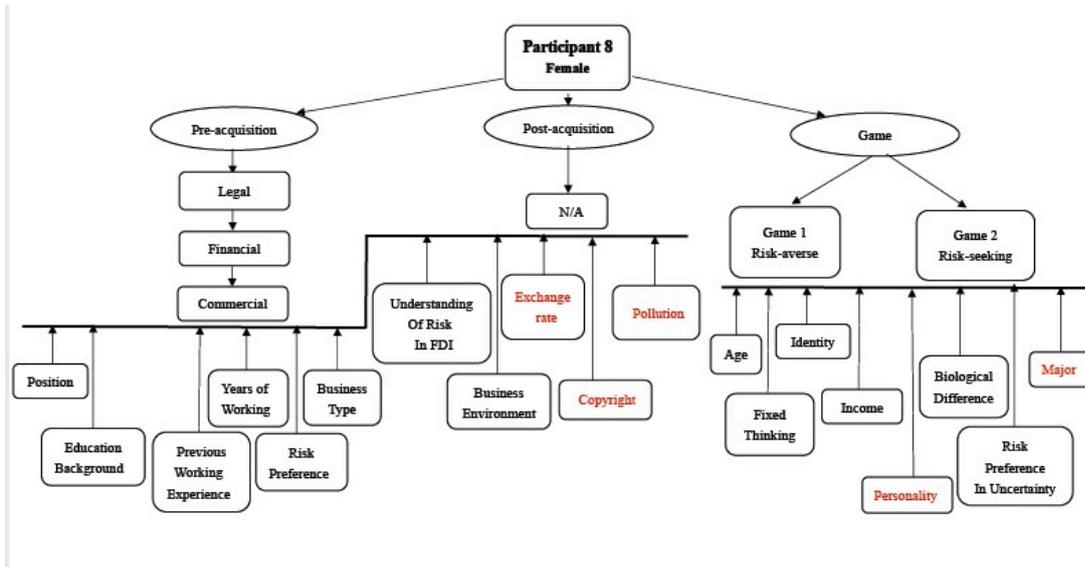


Diagram 8: Cognitive Mapping of Participant 8

Finally, P8 works for company “W,” which is a large-scale, integrated aluminum extrusion processing company (refer to P35) owned by her family. The company’s entry mode is direct export, which is similar to company B, which uses importing.

Company W chose export as its entry mode for several reasons. First, the labour and raw material costs in China are cheaper, which is an advantage in manufacturing. Furthermore, aluminum is different from other metal products as it is a heavy metal, and different countries have varying regulations for these products. Also, there are no regional differences, which means there is no need for localization. Moreover, the company mastered the newest technology for related products, and so, export is a good fit for company W.

P8 obtained a bachelor’s degree in finance at a University in New Zealand. Before the current company, she worked at a financial company for one year in HK. Then, she worked at a foreign bank for almost a year, and she now work as a sales manager at company W.

In the Pre-FDI period, she reported legal risks as the most important consideration in risk assessment, followed by financial risks, and then commercial risks. P8 prioritizes risk assessment this way because some of their designs are customized, and they are usually required to sign an additional confidential agreement to avoid leaking.

At the same time, the company will sign similar agreements with internal staff who are involved in the deal to avoid exposure as well. Like P5, P8 raised the issue of “copyright” is a potential risk when making an assessment. However, the difference between P5 and P8 regarding copyright issues is that P5 was worried their product designs would be stolen by competitors, and P8 was afraid that the design would leak by internal staff. P8 said:

*Because some of the products are customized, that is, the customer provides design drawings, there is a confidentiality agreement to be signed by the involved parties at the beginning, which stipulates non-disclosure. Therefore, all employees who are involved in the project are required to sign a confidentiality agreement to avoid future legal disputes. (P8)*

Moreover, since aluminum alloy is a heavy metal that causes pollution, there are strict regulations on the environmental index since ecological protection is a rising global concern. Therefore, the company must formulate respective polices and upgrade their machinery to meet the local standards. If the company cannot pass its inspections, the company will be fined, or even put on suspension.

However, there are no pollution concerns for P5 and P7 even though both of their products present environmental concerns. This is because company B is a buyer so there is no production involved in the transaction. Conversely, company W is a seller that produces the products that need to satisfy local environment regulation. Thus, there are no production-based environmental concerns for company B, even though its entry mode is similar to company W.

As a sales manager, P8’s biggest worry was the exchange rate because most of the transactions are settled in US dollars, although some are in RMB. Also, her income is positively related to sales, and so, financial risk is her top priority in risk assessment. Moreover, she did not identify any significant commercial risks because this is a mature company with over 20 years of operating experience, and the metal industry is different from the other industries due to its rigid demand without substitutes.

Conversely, during the Post-FDI period, there are no commercial risks since the quality checks and payments are made before shipment. Moreover, once products are offshore, P8 is no longer in charge of the order, and so, the order closes when the products leave the port.

In the first game, P8 picked all 100 cards from deck B, because she said that the return rate in deck A is not worth the risk. In the second game, she chose to draw a ball from box A because she felt there might be a higher possibility of getting a higher return when everything is uncertain. She self-identified as risk-seeking, which may be because of her major “I think finance people are more willing to take risks in business decisions” (P8), when, in fact, she said that since this was “just a game,” she might be making riskier decisions that she would not make in real life. However, considering her background (i.e., immigrated to New Zealand at 12-years-old, and then lived and was educated there), she had a better family background compared to the other participants of Group 2. Indeed, she even had a different living environment and rich personal experiences that can influence her risk preferences.

In the interview, P8 was talkative, outgoing, confident, and enthusiastic, which could explain why she was the only participant to pick a ball from box A in game 2. Finally, I asked P8 whether she had witnessed any gender differences at company W in FDI risk assessments, to which she answered yes, but she said it did not seem like a big gap.

#### 5.2.4 Group 2: Summary and Analysis

After I analyzed the interviews with the participants of Group 2 (i.e., P5 to P8), I created Table 5 (below) to show the results for each participant’s responses.

	Pre-FDI	Post-FDI	Game (1 & 2)
Participant 5	1.Legal 2.Commercial 3.Financial	Commercial Legal	(Risk-averse, Risk-averse)
Participant 6	1.Commercial 2.Legal 3.Financial	Commercial	(No selection, Risk-averse)
Participant 7	1.Financial 2.Legal	Legal	(No selection, Risk-averse)

	3.Commercial		
Participant 8	1.Legal 2.Financial 3.Commercial	N/A	(Risk-averse, Risk-seeking)

Table 5: Result of risk assessment and risk preferences of P5-P8

All four interviewees assess the same three criteria to evaluate risks even though they are from different industries. Moreover, different from Group 1, there is a significant difference in Pre-FDI risk assessment prioritization in Group 2. Conversely, risk prioritization in the Post-FDI period is almost the same. In game one, both male participants did not pick any cards, same as the men in Group 1. In game two, both males and P5 were risk-averse in both games, whereas P8 was risk-seeking in game two but risk-averse in game one. Based on these findings, I created Table 6 (below) to provide a visual comparison of the participants' responses to better identify similarities and differences.

	Males		Females	
	Participant 6	Participant 7	Participant 5	Participant 8
Similarity	<ul style="list-style-type: none"> <li>risk preference in both game</li> <li>risk concentration in Post-FDI</li> <li>identity (marital status)</li> </ul>		<ul style="list-style-type: none"> <li>risk preference in the game one</li> <li>entry mode</li> <li>international experience</li> <li>family of origin</li> <li>income</li> </ul>	
Difference	<ul style="list-style-type: none"> <li>position</li> <li>education background</li> <li>international experience</li> <li>year of working</li> <li>age</li> <li>family of origin</li> <li>income</li> <li>entry mode</li> <li>risk assessment in Pre-FDI</li> </ul>		<ul style="list-style-type: none"> <li>position</li> <li>education background</li> <li>years of working</li> <li>age</li> <li>identity (marital status)</li> <li>risk preference in the game two</li> <li>risk assessment in Pre-FDI</li> </ul>	

Table 6: Similarity and difference of participant P5-P8

By comparing the male participants, we see that both P6 and P7 work in the manufacturing industry, are both single, and their risk preferences in both games were the same. However, the orders of their risk assessment and risk prioritization are different. For instance, P6 and P7's positions at their company are different, and P6 has an international business background, whereas P7 has a finance background with international study experience. Furthermore, P6 is older than P7, who also has more work experience and a higher income. Also, the family of origin between P6 and P7 is different in terms of wealth. In addition, the most important factor is that the entry modes they are engaged in are different, in that, P6's company selected greenfield while P7's company selected importing.

The female participants, conversely, both have similar international experience, and their family of origin, income, and their company's engaged entry modes. However, the results show that the women's risk assessment and risk preferences are different. There are many reasons for these differences; for instance, P5 and P8 have different positions at their companies, and their years of work experience are different. Moreover, P5 has been married, has two children, and she is also older than P8, while P8 was single and had just recently graduated.

By comparing the men and women of Group 2, it is evident that P5 and P7 are from the same company, but have different concentrations of risk assessment. Position is probably the main reason for this difference, other than the gender inequalities. While P5 was an office manager who must focus more on future-oriented strategies, P6 and P8 were both finance majors with a background in international education. Despite these similarities, one is risk-averse, whereas the other is risk-seeking.

The main differences in P6 and P8's influencing factors included family of origin, income, and previous experience. For family of origin, P8's parents own a family company that she reported working for at the time. Moreover, P8's income was higher than P6's, and P6 mentioned that he ran an educational institution for one year that eventually failed. Because of this failure, he decided to be more conservative with risks in the future.

Different from Group 1, there is no participant in Group 2 raise the punishment gap is one of the considerations in risk assessment of FDI. After analyzing participants in two groups, I

found there are significant differences in risk concerns between the game industry and the manufacturing industry. Participants in Group 1 focus more on technology barriers, markets, and operation models, whereas participants in Group 2 concentrate on the exchange rate and tariff, which cannot be controlled in the company's side. Furthermore, the accessible entry mode in manufacturing is export and import based on status from Group 2; therefore, people are less likely to make decision-making mistakes. Thus, the punishment gap is not mentioned in Group 2. Moreover, I also found work position is an essential driving force instead of the personal profession in risk assessment, as participants in higher position, such as management, are more open to risks and consider the bigger picture when doing FDI risk assessment, while sales manager pay more attention to financial risks and sales target. By comparing Group 1 and Group 2, the risk assessment must be dynamic in international business, and it will be different in every industry, product, and entry mode

## **6 CONCLUSION**

### **6.1 Conclusion**

The aim of this thesis is to investigate the gender difference in risk assessment of FDI, as FDI is a main form in international business, but few studies on gender in international business. To achieve this, I first collect prior research to understand the concept of FDI and assessment, as well as previous study of gender difference from existing literatures. Then I create a conceptual framework in terms of gender difference, cost and risk to uncover the relationship between them. To obtain data, I conducted in-depth interview with eight participants of equal males and females in varying background, and cognitive mapping was applied to analyzed the data. Finally, there are findings relate to data in literature review section draw from analysis.

Based on the previous conceptual framework, which indicates the gender difference in risk decision and also three type of risks. I found there were no significant findings to demonstrate gender differences in FDI risk assessment in either group, and it depends on which sector

people work. Type of entry mode, personal wealth, age, position, working experience, and educational background have a more significant influence on FDI risk assessment and prioritization compared to gender. Moreover, even though all participants generally evaluate risks from commercial, financial, and legal perspectives, their risk rankings were different due, in large part, to differences in company entry modes, industries type, and products.

Moreover, participants consider the three types of risks in terms of controllable and uncontrollable risks. However, risks are never fixed and can change depending on the company's entry modes and industries. In the first group, most interviewees considered commercial risks to be uncontrollable in FDI, whereas the other two were relatively controllable in M&A and technological industries. In the second group, participants argued that both legal risks and commercial risks are uncontrollable in the manufacturing industry.

In addition, the punishment gap between gender that raised from interview was considered as an essential driving force on risk assessment, and women usually receive harsher punishment for a similar misstep at the workplace, especially in the financial industry, as we mentioned in the conceptual framework section. Most of the time, women are going to suffer a career-ending for misconduct in related industries. Gender inequality is not only reflected in the punishment gap but also wages and prospect advancement. All of these inequalities could be a consideration when people are making risk assessments.

Gender is an interesting topic in international business studies on risk assessment and this study fulfill the omittance in terms of the gender of preceding research on FDI, even though there was no holistic view of participants' perception in risk assessment in terms of gender limit to data size. However, we are able to obtain a general view of risk assessment procedures and criteria in different industries and entry modes of FDI, and intuitionistic mappings allow us to grasp what matters to the individual about risk concentration in Post-FDI and criteria of risk evaluation in Pre-FDI.

Managers can refer upon findings when organizing an investment team according to an individual's background. For example, people with knowledge background is required in the high technology intensity industry; people with international experience in the target country

can be selected in a team; people will be more risk-averse after marriage. Any changes in age, personal wealth, identity in family, and marital status affect an individual's risk decision at work. Furthermore, the company should attempt to diminish the gender inequalities at the workplace to increase fairness and can help prompt men and women to act fairly at the workplace. Moreover, a fair competition environment might enhance working enthusiasm of women.

## **6.2 Limitations and Future Research**

Since I used qualitative methods, this study only explains this particular phenomenon, and so, it is not generalizable. However, the correlation between factors cannot be fully assessed using qualitatively, as there are too many influencing factors that could affect risk decisions, such as age, background, income, and personality, all with different influence levels. Therefore, quantitative methods should also be used to provide mathematical support to the current study's findings. For example, binary regression could explain the correlations between all the variables to identify the most to the least significant influencing factors. In this way, the results could be more accurate and convincing.

Moreover, the findings suggest that the punishment gap is one of the most important explanations for the observed gender differences in FDI risk assessment. However, it would be useful to know if the gender inequality diminish or are eliminated as the gap diminishes, and whether women shift their priorities to controllable risks and, as a result, become more likely to make poor risk-based decisions.

Furthermore, this thesis does not show whether the punishment gap is the same in all industries. Therefore, the results of the current study may not be applicable to all industries, and so, assessing the punishment gap's reach and impacts in business requires further study to have industry comparison. There is the other limitation that the level of gender inequality is different. For example, gender inequality level is not as significant in Nordic countries as in Asian countries. Two groups of participants from two regions, respectively, but in a similar background should be compared to discover further whether gender inequality influence

prioritization risk assessment. Another limitation to the current study is that eight participants are insufficient for reliability, especially since I used cognitive mapping as my methodology. Indeed, cognitive mapping identifies patterns by drawing diagrams for each case, and so, its findings are not representative of a generalizable pattern.

The industry differences is another point of concern, and so, future research should analyze companies from the same industry to increase reliability. Moreover, there may be more criteria for risk assessment that were not analyzed here, as every industry has its particularities. Indeed, commercial, financial, and legal risks may not apply to all industries and enterprises.

Moreover, there are individual differences in risk assessment that were not accounted for in the current study. For example, age and work experience are a critical consideration. In the literature review provided above, I explained that in the preliminary study, age was found to affect risk preference, as people grow less willing to take risks as they age. A person's identities (e.g., mother, father, sister, boss, and homeowner) also change as a person grows, as P2 demonstrated when he said that he would be risk-averse after getting married and becoming a father. Family of origin is another influencing factor since parents' behaviour may affect their children's behaviour. Also, personality plays a vital role in determining risk preference, because sometimes, two people with similar backgrounds still make different risk assessments.

Another limitation is that, while there are more than two genders (e.g., gender-non-conforming people), this study only considered participants that identified as either a man or a woman. Therefore, future study should consider people of other genders when investigating gendered risk-preference in FDIs.

Furthermore, a company's entry mode is one of the most influential variables during risk assessment, as each entry mode has different associated risks. This research paper only engaged with three types of entry modes, including importing and exporting, M&A, and greenfield. However, there are also joint-ventures, franchising, licensing, and more. However, these variables were not considered in this paper as they could not be controlled due to the research methods and the small number of respondents.

Finally, the current study was also limited by investigating participants from a single country (China). However, the gendering of social dynamics varies depending on the country. For instance, in Scandinavia, there is more gender equality in both the general society and family culture than in Asian countries, which tend to be much more patriarchal and, thus, privilege men over women. Therefore, the existence of a gendered punishment gap identified in the current study will likely be less apparent in a country with more gender equality.

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## Appendix

### General information of participants (1-4)

Participant	Gender	Age	Education	Major	International Background
1	Female	25-30	Bachelor	Accounting	No
2	Male	30+	Bachelor	Accounting	Yes
3	Female	30+	Master	Law	No
4	Male	25-30	Bachelor	Accounting	No

### General information of four participants (5-8)

Participant	Gender	Age	Education	Major	International Background
5	Female	25-30	Bachelor	Purchasing	Yes
6	Male	25-30	Master	Finance	Yes
7	Male	30+	Bachelor	International business	No
8	Female	30+	Bachelor	Finance	Yes

## Interview Guide

This research is being conducted get to know gender difference in risk assessment of Foreign Investment. I am conducting this research for my qualitative research method course and thesis of Mater at HEC Montreal. Since there are many scholars who have indicated that women are more risk averse than men in economy and finance, but few explain it from aspect of how men and women process risk in financial activities. I therefore interested in doing this research to know risk procedure between different gender. All questions I would like to ask during interview are related to my research. Everything you tell me in this conversation is confidential and will be only used in my course project and thesis project, and it will not be shared with anyone besides research team. Your real name, identity and any personal information will not be used in my paper to avoid exploitation. In addition, the conversation will be recorded during interview.

### Background Information

No. of Interviewee:

Education:

Age:

### Opening Question:

1. Can you describe your typical day of working?
2. How long have you been working in this company?
3. Can you tell me little about your previous working experience?

4. Can you tell me more about your education background?
5. How do you think or define Foreign Investment?

**Key Question:**

6. Can you tell me about Foreign Investment project that you do?
7. Can you walk me through a typical process of identifying and assessing a potential Foreign Investment target?
8. Can we talk about a specific transaction (potential or finalized) that you were recently involved in?
9. Can you tell me how they went, right from the beginning?
10. How do you evaluate financial, safe, recreational, ethical and social factors
11. How do you make risk assessment based on internal and external factors?
12. Did you perform a formal risk assessment of this target firm?
13. If so. Can you describe the process for me?
14. Were there moments during this transaction where you were concerned about potential risks?
15. If so. Can you tell me more about these?
16. What concerns did you have?
17. Why did you have these concerns?
18. What did you do about them?
19. What is the performance of conducted project?
20. How do you go about choosing potential target companies?
21. Where is the main risk of overseas investment come from generally in your opinion?
22. Can you please describe a risk route you will draw when doing risk assessment?
23. How do you evaluate risk from aspect of company level, industry level and country level?
24. There are 2 decks of cards (A and B) and you can choose 100 cards in total, one at a time. Deck A can yielded \$100 or lost \$250 with 50% chance for each chosen, and deck B yielded \$50 or lost \$50 with 50% chance for each chosen. For each card chosen, there is 50% chance to get paid or make loss. You will have \$2,000 initially to start and you will not know about winning and losing of each chosen card in advance. How will you make arrangement for 100 cards?
25. There are 50 black balls and 50 white balls in R, but we only know there are total 100 black and white balls without certain number of each color in box A. Participants are allowed to obtain one ball from A or R, white ball means winning and black ball means loss. How will you make decision?

**Closing Question:**

26. Do you observe there is difference between men and women in risk evaluation?
27. What are reasons do you think cause the differences?