

PAVING THE ROAD TO RELEVANCE IN INTERNATIONAL BUSINESS STUDIES: THE LIFE AND WORK OF YAIR AHARONI

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YAIR AHARONI – WHAT WE KNOW ABOUT HIM

The patterns of Yair Aharoni's life resemble those of many brilliant Israeli scientists of his generation, including some Nobel Prize winners. After serving his country through the army (Yair Aharoni managed to combine active army service with studies at Tel Aviv University), he moved to Harvard Business School, where he studied economics and completed a doctoral program. The subject of his study was the decision-making process in foreign investments. As Yair Aharoni recalled:

"In 1960 I was a young doctoral student. I was distressed by the apparent failure of less developed countries (LDCs) to attract U.S. manufacturing investments. Specifically, I noted that the fervent attempts to encourage foreign direct investments (FDI) by enacting the Law for Encouragement of Capital Investments did not in fact materialize. Therefore, I resolved to study the way foreign investment decisions are made by U.S. manufacturing firms. I hoped that by finding out the considerations business persons took into account in making FDI decisions I could unearth ways and means to increase FDIs in

LDCs. I assumed that tax incentives permit a higher rate of return and therefore can make otherwise unpromising investments attractive. ... I soon found out that the tax incentives did not play the decisive role I expected them to play. Moreover, the picture emerging from my field research seemed to be one of utterly irrational behavior and a complete lack of economic logic. The decision process had very little in common with the classical economic theory of capital investments. It was necessary to look at the system as a whole, recognizing that decisions are made under uncertainty within an organization and a social system. Once I changed the lens what seemed irrational made sense." (Aharoni, 2011a, p. 24)

Throughout his life, Yair Aharoni attempted to find the proper lenses (and encouraged others to do the same) to obtain an accurate view of the process of foreign investments. The ultimate aim was to ensure suitable decisions both at the firm level and the national level. Like many others of his generation, he returned to his homeland after his study abroad to work as a teacher, researcher, and consultant. He also made frequent short- and long-term visits abroad to teach and participate in research at the best universities in the world.

YAIR AHARONI – WHAT HE LEFT TO IB RESEARCHERS

Existing reference databases (Web of Science, SCOPUS) only reflect a small volume of Yair Aharoni writings and do not reveal the true impact of his work. For example, a one-page summary of his book "The Foreign Investment Decision Process" (Aharoni, 1966a) in *The International Executive* (Aharoni, 1986b) is cited 2,627 times in Google Scholar. Currently, it is very difficult to properly assess the true

impact of Yair Aharoni's writings on economic policy and how these writings influenced policy in different countries – especially his homeland, Israel. After careful study of the attitudes and behavior of managers of state, cooperative, and private enterprises in Israel (Aharoni, 1981; 1982; 1984), Yair Aharoni became an ardent proponent of privatization (Aharoni, 1988). His fundamental book "The Israeli Economy: Dreams and Reality," published in 1991 (and reprinted by Routledge in 2014), portrayed a stagnant over-regulated economy with excessive state sector. This served as strong theoretical and empirical proof for the Israeli privatization program, which assisted in creating a mature market economy in the country (Gurkov, 1994). He later assisted in developing a center of technological entrepreneurship of global importance. This earned the country the nickname of "the startup nation". Yair Aharoni not only advocated privatization in Israel, but he also advised the government on technical aspects of privatization and performed careful analysis of organizational changes in privatized companies (Aharoni, 1994).

Less known are other indirect consequences of Yair Aharoni's studies of foreign direct investment attractors, besides those of tax incentives. We refer to the "Qualifying Industrial Zones" invented by Jordanian businessman Omar Salah in 1993 and inspired by the ideas of Yair Aharoni. Qualifying Industrial Zones (QIZ) are industrial parks that house manufacturing operations in Jordan and Egypt. They are special areas (zones) established in collaboration with neighboring Israel to maximize the benefits of free trade agreements between the US and Israel. Under these trade agreements, goods produced in QIZ can directly access US markets subject to certain conditions, without tariff or quota restrictions. In Q4 2019, the US-Egyptian QIZ joint committee approved 18 new companies as part of QIZ, bringing the total number of registered companies to 1,048. Products from QIZ made up 32% of Egypt's total exports to the US and 51% of non-oil exports (American Chamber of Commerce in Egypt, 2020). Between 1998 and 2005, Jordan rose five ranks, moving from being the US' 13th to 8th

largest trading partner, among the 20 Middle East and North Africa (MENA) entities. In 2005, US exports to and imports from Jordan totaled an estimated \$1.9 billion USD: US exports, at an estimated \$646 million USD, were 1.8 times their 1998 level, and US imports, at \$1.3 billion USD, were 80 times their 1998 level. Despite the 2001 Free Trade Agreement between the United States and Jordan, 75% of Jordanian products enter the US through the QIZ program (the importance of QIZ in Jordan decreased after this period). This is the most obvious example where Aharoni's perspectives on trade relations and inter-country capital flows as a whole impacted the country's search for foreign investment partners.

In the 2010s, Yair Aharoni strengthened his efforts to pave the road to relevance for studies in international business by giving research attention to behavioral elements in capital decisions of multinational corporations (Aharoni and Brook, 2010; Aharoni, 2011a; 2011b). His efforts were not in vain, as his articles published in 2010–2011 were intensively cited in international business / international management (IB/IM) journals such as *Journal of International Business Studies*, *Journal of World Business*, *Journal of International Management*, *International Business Review*, *Journal of Business Research*, *Management International Review*, *Multinational Business Review*, *Thunderbird International Business Review*, *European Journal of International Management*, and *Critical Perspectives on International Business*. Articles included titles such as: "[Reflective and Cognitive Perspectives on International Capital Budgeting](#)"; "[Behavioral Factors in Offshoring Decisions: A Qualitative Analysis](#)"; "[Entry Mode Deviation: A Behavioral Approach to Internalization Theory](#)"; "[How does De-globalization affect Location Decisions? A Study of Managerial Perceptions of Risk and Return](#)"; "[Cognitive Foundations of Firm Internationalization: A Systematic Review and Agenda for Future Research](#)"; "[Heuristics in International Business: A Systematic Literature Review and Directions for Future Research](#)". Hence, Yair Aharoni achieved his goal: he was

able to incorporate behavior elements into IB/IM research.

YAIR AHARONI -HOW IB SCHOLARS DEVELOP HIS CONTRIBUTIONS

Yair Aharoni's research approach was to view multinational corporations as a holistic system, which resulted in several novel constructs and approaches in studying multinational corporations over the past few years. For example, Gurkov (2019) recently introduced the concept of anisotropy of the corporate space as "the difficulties or inability (due to *objective* and *subjective* obstacles) to move capital (money), products (goods and services), ideas (knowledge) and talent (people) at the same speed and with the same conductivity in any direction within the corporation (from headquarters to subsidiaries, from subsidiaries to headquarters and between different subsidiaries)." Verbeke and Yaun (2020) proposed focusing on the "eternal problem" of subsidiaries' initiatives in multinational corporations by studying the motivations and abilities of individual decision-makers in corporate headquarters, while Asmussen, Foss, and Nell (2019) addressed the role of procedural justice in global strategy and subsidiary initiatives. These are just a few examples of profound indirect influences of Yair Aharoni on current research on multinational corporations.

Another aspect of Yair Aharoni's intellectual legacy is related to presenting highly unlikely events as a norm in international business. He was among the first authors who used the term "black swans." As Aharoni explained, he learned to identify "black swans" when he wrote a case study on Israeli companies in the 1960-1970s and "was exposed to many specific – often fascinating – problems of business strategy in a small country" (Aharoni, 2011c, p. 44). In the current period of the COVID-19 pandemic, which can be considered a "black swan", assessing these historical examples of how companies dealt with encounters of black swans (albeit on a smaller scale and with less disastrous consequences) is an essential must.

CLOSING REMARKS

Overall, Yair Aharoni lived a long, eventful, varied, and interesting life. I strongly believe that his intellectual legacy will be in high demand for decades to come.

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