



Foreign executive appointments: A multilevel examination



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ABSTRACT

As multinational enterprises (MNE) expand, their attachment to the country of origin is challenged by the need to adapt to an increasingly diverse geographical posture. We examine how these countervailing forces affect top management team (TMT) composition and test a model that associates foreign executive appointments with individual- and firm-level antecedents. Using multilevel data comprising 1446 TMT appointments at 360 large European firms between 2001 and 2005, we show that individual experiential characteristics, the type of TMT function, prior performance of the MNE, and the MNE's overall degree of internationalization are associated with foreign TMT appointments. We discuss how our findings contribute to the international business literature and complement recent research on the internationalization of TMTs.

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1. Introduction

Top management teams (TMT) at multinational enterprises (MNE) need to manage the complexity of geographically dispersed operations and cope with the demands of a multitude of international stakeholders. One way in which MNEs respond to such pressures is to raise the international profile of the TMT,³ particularly by seeking top managers with international experience or with a foreign nationality (Athanasios & Nigh, 2000; Heijltjes, Olie, & Glunk, 2003; Kirca, Hult, Deligonul, Perry, & Cavusgil, 2012; Luo, 2005). In literature on the globalization of MNEs it has been argued that the recruitment of foreign TMT members indicates a readiness to transform into truly global organizations (Bartlett & Ghoshal, 1989; Derr & Oddou, 1993; Prahalad & Lieberthal, 1998) and is a prerequisite to cope effectively with the global–local dichotomy (Ghemawat, 2011). Indeed, recent studies have shown that internationalization of

TMTs is an important feature of the internationalization process and, under certain conditions, has a positive impact on MNE performance (Kaczmarek & Ruigrok, 2013; Nielsen, 2010; Nielsen & Nielsen, 2013; Schmid & Dauth, 2014).

Some recent studies suggest that there has been a substantial overall increase in appointments of foreign nationals to top executive positions over the last two decades (Davoine & Ravasi, 2013; Ruigrok & Greve, 2008; Staples, 2008; Van Veen & Marsman, 2008). Countries such as Switzerland and the Netherlands, which have a relatively high density of large and geographically diversified MNEs, have been leading the way (Ruigrok & Greve, 2008; Van Veen & Marsman, 2008). Meanwhile, TMT internationalization has been comparatively sluggish in countries such as the UK, Germany, and France, and hardly traceable in countries like Spain and Italy (Van Veen & Marsman, 2008).

Understanding the antecedents of TMT composition is vital for two main reasons: (1) it adds contextual knowledge to our understanding of TMTs' effects on organizational outcomes, and (2) it enables us to understand why seemingly optimal TMT configurations do not emerge equally across all firms. The literature on top managers' international experience, which examines how international assignment experience supports strategy implementation and decision-making at MNEs (e.g. Athanasios & Nigh, 2002; Bartlett & Ghoshal, 1992; Carpenter, Sanders, & Gregersen, 2001; Daily, Certo, & Dalton, 2000; Gregersen, Morrison, & Black, 1998; Reuber & Fischer, 1997; Sambharya, 1996), serves as a good illustration. In this literature, several studies have shown that international assignment experience is likely to impede managers' career progress (e.g. Dickmann

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³ Throughout this study, we employ the TMT as a generic term for the highest level of corporate management. This term covers a variety of different labels used by the firms themselves, such as executive committee, executive team, executive board, management board, senior management team, and the like. Similarly, we use the terms top manager and executive interchangeably, both referring to TMT members.

& Harris, 2005; Feldman & Thomas, 1992), making it more difficult for managers with international experience to progress to TMT positions. At the same time, international experience provides those managers who progress to the top with a valuable and potentially performance-enhancing resource (Carpenter et al., 2001; Daily et al., 2000). Carpenter et al. (2001) and Daily et al. (2000) discuss how a broad understanding of the antecedents of TMT international experience contributed to the development of their studies as well as to the interpretations of their findings.

In the evolving literature on TMT diversity, the findings of recent research suggest that TMTs comprising multiple nationalities are a potentially valuable resource (Kaczmarek & Ruigrok, 2013; Nielsen & Nielsen, 2013). At the same time, the antecedents of foreign TMT appointments remain a blind spot that limits our understanding of these findings. Key reasons why the international market for executives has gone largely unnoticed may be that (1) the international market for executives has emerged gradually and unevenly (Davoine & Ravasi, 2013; Gillies & Dickinson, 1999; Staples, 2007), and (2) we have previously lacked knowledge about the importance of TMT nationality diversity in the internationalization process of MNEs (Nielsen & Nielsen, 2011; Schmid & Dauth, 2014).

A few prior studies have investigated the presence and diversity of foreign TMT members at MNEs and described some possible antecedents of TMT internationalization (Greve, Nielsen, & Ruigrok, 2009; Heijltjes et al., 2003; Staples, 2007; Van Veen & Marsman, 2008). However, no studies to date have developed and tested a comprehensive model of organizational and individual-level factors that are associated with the appointment of foreign nationals to TMT positions. The main objective of our study is therefore to fill this gap and identify antecedents of MNEs' propensity to internationalize the TMT.

As the dependent variable in this study is the nationality of appointed TMT members, our empirical model provides insights into the circumstances associated with the appointment of foreign nationals. This empirical approach implies that we study 'selective entry into a team,' i.e. we observe only the candidates that were selected for executive positions, as described in Boone, Van Olffen, Van Witteloostuijn, and De Brabander (2004). By choosing this approach, we make two key assumptions about the underlying selection process: (1) the MNEs in our sample have both domestic and foreign nationals in their candidate pools as they appoint new TMT members, and (2) the control variables in our model, such as firm size, TMT tenure, and the pre-appointment proportion of foreign TMT members, account for systematic variations in MNEs' candidate pools.

At the same time, our empirical model benefits from an important advantage over alternative specifications. While information about the nationalities of shortlisted candidates would have made it possible to directly model the selection decision, such shortlists are notoriously difficult to objectively define and assemble based on external observation and are likely to lack comparability across firms and over time (cf. Magnusson & Boggs, 2006). Instead, our model distinguishes the circumstances associated with firms that appoint foreign candidates and those that appoint domestic candidates, as a proxy for the underlying hiring decision, thus avoiding the potentially confounding effects of incorporating candidate shortlists into the model.

This study makes two primary contributions to the literature. First, we shed light on the important link between the upper echelons (UE) perspective and international business research (Athanassiou & Nigh, 2000; Carpenter, Geletkanycz, & Sanders, 2004). We draw attention to the divergent forces in MNEs that determine the demand for executive candidates and thereby influence the configuration of TMTs over time.

Second, we show how a multilevel approach can be employed to improve our understanding of TMT appointment decisions, in line with Hambrick's (2007) call to extend UE research by examining the mechanisms of TMT composition. Understanding the multilevel sources of TMT composition preferences makes it possible to build more comprehensive and better informed models in future UE research. As discussed by Adams, Hermalin, and Weisbach (2010) and Hambrick (2007), TMT structure and composition are often inaccurately treated as exogenous predictors of performance and other organizational outcomes in the empirical UE literature. The reluctance in existing research to consider why different governance structures and hiring preferences emerge across firms has limited our understanding of the linkages between structural governance features and organizational outcomes. Our study constitutes a step toward bridging this gap. We shed light on TMT composition preferences across MNEs and show how the presence of foreigners at the TMT level varies with the combination of circumstances that each firm is faced with.

The rest of this paper proceeds as follows: First, we theoretically examine the drivers and barriers of foreign executive appointments and position the paper in the current literature. This is followed by the development of four hypotheses corresponding to our model of the determinants of foreign executive appointments. Subsequently, we employ a longitudinal and multi-country dataset to test the impact of the hypothesized predictors at three different levels (i.e. individual, year, and organization level) on the appointment of foreign candidates to TMT positions. Finally, we discuss the implications of our empirical findings as well as the theoretical and methodological contributions of this study to UE and international business research.

2. Theory and hypotheses

2.1. The benefits and costs of an international TMT

The establishment and subsequent operation of economic activities across multiple countries pose substantial challenges to MNEs. The costs and disadvantages that MNEs face in host markets relative to local firms are commonly referred to as liabilities of foreignness (Zaheer, 1995). They include the costs of physical distance, the costs of unfamiliarity with local institutional environments, the costs associated with negative inclinations toward foreign firms, as well as costs imposed by the home country in the internationalization process. These costs increase the uncertainty of operating in a foreign environment relative to the domestic environment. High levels of uncertainty imply that a large volume of complex and non-routine problems will be referred to the TMT (Thompson, 1967; Vermeulen & Barkema, 2002) and stretch TMTs' capacities in terms of information-processing, resource-seeking, and legitimacy-building. Thus, to overcome liabilities of foreignness, MNEs must seek ways to effectively deal with and counteract the added uncertainty associated with operations in foreign markets. Appointments of foreign nationals to the TMT have three distinct and crucial functions that support MNEs' efforts to mitigate uncertainty in the internationalization process and overcome liabilities of foreignness.

First, MNEs can increase their information-processing capacities by hiring TMT members whose abilities to process information complement those of existing team members and are congruent with the MNE's information-processing requirements (Sanders & Carpenter, 1998). Foreign executives are often viewed as a source of superior information-processing capacities related to foreign markets or regions that become increasingly important to the MNE (Greve et al., 2009). Luo (2005) argues that foreign top managers also possess a unique type of internationally deployable expertise,

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