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Top Management Team Internationalization and Firm-level Internationalization: The Moderating Effects of Home-region Institutional Diversity and Firm Global Focus

Niccolò Pisani^{a,*}, Alan Muller^b, Paula Bogățan^a

^a University of Amsterdam, Plantage Muidergracht 12, 1018 TV Amsterdam, The Netherlands

^b University of Groningen, Nettelbosje 2, 9747 AE Groningen, The Netherlands

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ABSTRACT

The factors that determine firms' levels of internationalization remain a focal area of international business research. Within this research stream, studies building on the upper echelons theory have investigated the influence of the demographic characteristics of the top management team (TMT) on firms' international expansion. However, the literature to date has overlooked the TMT's overall degree of internationalization as a key driver of firm-level internationalization. In our paper, we argue that by having self-selected into careers abroad, foreign TMT members by definition have a higher cognitive tolerance of foreignness than domestic TMT members do. We theorize that foreign TMT members' higher cognitive tolerance for foreignness enhances the overall TMT's level of international attention and international trust, thereby facilitating strategic decisions that favor firm-level internationalization. Additionally, we propose two key contingencies that attenuate this relationship: the institutional diversity of the firm's home region and the firm's global focus. Analysis of Fortune Global 500 firms supports the hypothesized relationship between TMT internationalization and firm-level internationalization, as well as the two moderation effects.

1. Introduction

Understanding the factors underlying firm-level internationalization continues to be a central endeavor in the international business (IB) domain (Kirca et al., 2012). Within this literature, a stream of research has drawn from Hambrick and Mason's (1984) upper echelons theory to discern how specific demographic characteristics of the top management team (TMT) affect the extent and pattern of firms' internationalization. For instance, studies have shed light on the important role of TMT members' average age, tenure, education levels, and international experience (Carpenter et al., 2001, 2003; Rivas, 2012; Sambharya, 1996; Sanders and Carpenter, 1998; Tihanyi et al., 2000). Others have examined the heterogeneity of such TMT characteristics in relation to firm-level internationalization (Carpenter and Fredrickson, 2001; Kirca et al., 2012; Rivas, 2012; Tihanyi et al., 2000). A few studies have focused on the nationalities of TMT members, considering, e.g., how this type of heterogeneity affects the choice of foreign entry modes (Nielsen and Nielsen, 2011).

While the aforementioned stream of research has generated important insights, it has tended to emphasize learning and knowledge-based mechanisms associated with heterogeneity, while paying little attention to cognitive mechanisms such as those associated with foreignness (Bromiley and Rau, 2016). In contrast, IB research on managerial cognition has highlighted the key role

* Corresponding author.

E-mail address: n.pisani@uva.nl (N. Pisani).

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of frames such as “global mindset” (Levy et al., 2007: 231), “geocentric mindset” (Kobrin, 1994: 493), and “transnational mindset” (Bartlett and Ghoshal, 1989: 17), in firm's ability to succeed internationally. Yet, by only considering such frames in parallel to internationalization, i.e., “as firms globalize” (Levy et al., 2007: 233), this body of research has tended to take internationalization as a given feature of the firm's context instead of as an outcome of strategic decisions shaped by the cognitive dynamics within the TMT. As such, researchers have begun to highlight the relative lack of scholarly attention for the cognition of decision-makers involved in internationalization processes (Maitland and Sammartino, 2015).

In our paper, we aim to link these streams of research by elucidating the distinct role of cognitive mechanisms associated with foreignness in driving firm-level internationalization. Our foundational argument is that foreign TMT members, defined as TMT members whose primary nationality differs from that of the firm's home country, show greater openness to foreignness than their domestic counterparts do (Cerdin et al., 2014; Levy et al., 2007; Zikic et al., 2010). Specifically, as a function of having self-selected into non-temporary foreign employment, foreign TMT members are by nature less likely to see borders as obstacles or foreign markets as risky. We argue that this openness to foreignness translates into two mechanisms at the TMT-level that facilitate the international expansion of the firm: higher levels of *international attention*, which is a fundamental trigger for the development of a firm's international strategy (Bouquet and Birkinshaw, 2011), and higher levels of *international trust*, which is a critical facilitator of firm-level internationalization (Kwon et al., 2016). Thus, we propose a positive relationship between TMT internationalization and firm-level internationalization.

Additionally, we propose two key contingencies that we expect will attenuate this relationship: the *institutional diversity* of the firm's home region and the firm's *global focus*. Home-region institutional diversity (Banalieva and Dhanaraj, 2013) is a firm-external contingency that we expect to affect the level of experience domestic TMT members will have had interacting with others from foreign environments that are significantly different from the home country. The firm's global focus, reflecting the degree to which the firm targets markets outside its home region (Oh and Rugman, 2014), is a firm-internal contingency we expect affects the level of experience domestic TMT members will have accumulated conducting business in extra-regional markets that differ substantially from the home market. We conceptualize contingencies in reference to the home region because extant research corroborates the salience of both intra- and extra-regional considerations in international strategy (e.g., Arregle et al., 2009; Delios and Beamish, 2005; Goerzen and Beamish, 2003; Sammartino and Osegowitsch, 2013). We theorize that both factors are associated with an increased cognitive tolerance of foreignness among domestic TMT members, implying their levels of international attention and international trust will more closely proximate those of foreign TMT members. As such, we expect both factors will reduce the relative impact of foreign TMT members on firm-level internationalization.

We tested these hypothesized relationships with data from firms included in the 2013 and 2014 Fortune Global 500 listings (Rugman and Oh, 2010, 2011; Rugman and Verbeke, 2004). Using both sales-based and affiliate-based measures of internationalization and a one-year lag, we found support for our initial hypothesis that a more international TMT leads to greater firm-level internationalization. Additionally, consistent with our remaining hypotheses, we found evidence that home-region institutional diversity and firm global focus both negatively moderate this relationship. Further model specifications aimed at addressing potential endogeneity and a number of other robustness tests lend additional support to our conclusions.

In so doing, our work contributes to understanding the drivers of firm-level internationalization in two important ways. First, our study extends the upper echelons literature by explicating the role of foreignness in relation to firm-level internationalization. By arguing that foreign TMT members' higher cognitive tolerance for foreignness drives firm-level internationalization through its effects on the TMT's international attention and trust, we extend beyond the heterogeneity-based arguments offered in prior research to elucidate the distinct role of foreignness in driving firm-level internationalization. In so doing, we build on the recent call for more research on the cognitive foundations of firms' internationalization (Maitland and Sammartino, 2015) to shed light on specific cognitive mechanisms that may link TMT internationalization and the firm's foreign expansion. Second, building on the notion that the disparity between foreign and domestic TMT members' cognitive tolerance of foreignness can vary, we shed light on two key contingencies that attenuate the effects of TMT internationalization on firm-level internationalization. Specifically, we show that the effects of TMT internationalization on firm-level internationalization are attenuated when the firm's home region is institutionally more diverse and the firm's focus more extra-regional.

We structure the remainder of the paper as follows: first, we review the relevant literature and introduce the constructs that are of interest for the purpose of our study. Then, we develop our hypotheses. The methods section describes the data collection, the variables we operationalized, and the analysis we undertook to test our hypotheses. Finally, we discuss our findings and offer concluding remarks.

2. Theory development and hypotheses

Over the past few decades, TMTs have been the objects of numerous studies, many of which have drawn from Hambrick and Mason's (1984) upper echelons theory. Rooted in the behavioral theory of the firm, upper echelons theory suggests that top executives' behavioral and psychological attributes influence the decisions they make. This theoretical approach has triggered important research focusing on executives' characteristics and investigating their effects on a number of firm-level outcomes (Bromiley and Rau, 2016).

2.1. Research on TMT characteristics and firm-level internationalization

Within this stream of literature, prior studies have shown a clear association between a number of general TMT characteristics and

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