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Top management team characteristics and firm internationalization: The moderating role of the size of middle managers

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ABSTRACT

This paper examines the influence of the top management teams' (TMTs) characteristics, including tenure and international experience, on the degree of firm internationalization. In addition, this study explores the moderating effect of the size of middle managers (MMs) on the relationship between the TMT characteristics and the degree of firm internationalization. This study uses the information-process perspective to emphasize that MMs provide information processing capabilities that assist TMTs as they cope with the high information-processing demands of the strategic decision-making process in international markets. We test the hypotheses using a sample of listed manufacturing firms in the electro-optical and textile industries during the 2006–2010 period. The findings indicate that TMT tenure has an inverted U-shaped relationship with firm internationalization and TMT international experience has a positively affect the firm internationalization. Furthermore, we find that large MM size positively enhances the inverted U-shaped relationship between TMT tenure and firm internationalization.

1. Introduction

Many firms engaged in international activities in recent years. Some studies demonstrate a firm's growth and success in foreign markets relies on the supported managerial services from top managers (Hutzschenreuter & Horstkotte, 2013b; Tan & Meyer, 2010). Most studies are drawn from the upper echelon perspective developed by Hambrick and Mason (1984), who demonstrate that the top managers' cognition, perspective and background affect their strategic decisions, which influence the firm's strategic outcome. Since top management teams (TMTs) are viewed as information processing centers of organizations, their characteristics, such as international experience and tenure, enable them to manage complexity and ambiguity in the international environment, and those characteristics are considered relevant to firm internationalization (i.e. Hambrick, Cho, & Chen, 1996; Jaw & Lin, 2009; Thomas & McDaniel, 1990; Tihanyi, Ellstrand, Daily, & Dalton, 2000).

Firms expanding into foreign countries must deal with cultural diversities and management complexities that are associated with higher information-processing requirements (Hutzschenreuter & Horstkotte, 2013a; Tihanyi & Thomas, 2005). TMTs serve as the information processing center for the firms (Hambrick & Masen, 1984), therefore they need more accurate information to make a decision and provide strategic alternatives during the internationalization process (Caves, 1996; Ghoshal, Korine & Szulanski, 1994). However, the TMTs' ability to do so

faces the constraint of bound rationality when dealing with the increasing complexity that arises from a firm's internationalization.

In addition, the other literature stream recognized the important role of middle managers (MMs) in the implementation of strategy (e.g. Floyd & Wooldridge, 1992; Huy, 2001; Ouakouak, Ouedraogo, & Mbengue, 2014; Wooldridge, Schmid, & Floyd, 2008). Embedded in the informational structure and informal network, they affect the organization's outcomes (e.g. Floyd & Wooldridge, 1999). Prior research suggests that the structural arrangement is critical for multinational companies whose success depends on an effective flow of information (Bartlett & Ghoshal, 1989; Roth, 1995). Previous studies have highlighted the role of MMs, who occupy a critical position in handling the information flow and information processing in the organization (Nonaka & Takeuchi, 1995). Positioned between the top managers and the first-line managers, they are responsible for overseeing the large task of gathering, interpreting and providing information for the top managers (Huy, 2002; Westley, 1990). Acting as knowledge brokers, they supply alternative decisions for the top managers of the organization to reduce the information processing demands that accompany international expansion, and assist with decisions related to internationalization (Burgess & Currie, 2013; Mair & Thurner, 2008). However, relatively few empirical studies have examined the effect of MMs on a firm's internationalization (Boyet & Currie, 2004; Judge & Stahl, 1995; Mair & Thurner, 2008). Judge and Stahl (1995) claim that the MMs' personal characteristics and perceptions are

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relevant to the selection of strategy within multinational companies. [Mair and Thurner \(2008\)](#) explain that the MMs' involvement was critical in the strategic process when an Italian company intended to expand to other international markets. [Boyet and Currie \(2004\)](#) stress that the MMs' comprehension of a firm's international strategy is vital to a firm's success in a foreign country.

More specifically, several studies have examined the interactive relationship between TMTs and MMs. [Raes, Heijltjes, Glunk, and Roe \(2011\)](#) pointed out that the literature on TMTs and MMs has largely developed along separate lines. The TMT literature focuses on the role of TMT in strategic formation and implementation, while research on MMs stresses the role of MMs in supporting and accelerating the formation and implementation of strategy. But the two lines have developed separately, and prior research pays less attention to the interaction between TMTs and MMs. This is especially true in the process of internationalization, where the interaction and communication between TMTs and MMs influences the effectiveness of the information-processing, which is closely related to the strategy and the success of internationalization ([Mair & Thurner, 2008](#); [Rae et al., 2011](#)). With the up-down information flow, the TMTs' communication and interaction with MMs largely affects the MMs' attitude and awareness about the importance of internationalization and the direction of international strategic implementation ([Hornsby, Kuratko, & Zahra, 2002](#); [Mair & Thurner, 2008](#); [Torres, Camilo, & Claudio, 2015](#)).

In addition, the MMs are expected to facilitate innovative activities, see new opportunities in the market, gather information about the organization's surrounding environment, such as market competition, customers' preferences and political situation, and then interpret the information to provide solutions for the TMTs to evaluate and make a decision related to internationalization ([Burgelman, 1983](#)). Incorporating the role of MM with the TMTs' decision-making process ensures a better understanding of how the firms process information to expand into foreign markets successfully ([Hutzschenreuter & Horstkotte, 2013b](#); [Raes et al., 2011](#); [Tihanyi & Thmoas, 2005](#)). Thus, our research question is how the TMT copes with complexity when it ventures into the international environment.

Faced with uncertainty related to the international environment, TMTs have a high demand for information processing and a greater need for information processing capabilities ([Egelhoff, 1991](#); [Tihanyi & Thomas, 2005](#)). We stress the role of MM in the relationship between TMTs in several ways. First, they serve as information brokers in the organization and help to provide managerial resources for the TMTs, which may have difficulty coping with national borders because of the large information overload during internationalization. Second, MMs are embedded in the organization ([Ahearne, Lam, & Kraus, 2014](#)), therefore the TMTs need the information supplied by the MMs to overcome the uncertainties and complexities that vary among nations during the internationalization process. The MMs capabilities and network can help satisfy the information requirement. Third, prior studies focused less on examining the interactive relationship between TMTs and MMs on internationalization because of the two different literature streams ([Raes et al., 2011](#)). However, the interaction between TMTs and MMs affects the strategic intention and strategy quality that is also related to the decision-making process during internationalization ([Hornsby et al., 2002](#); [Raes et al., 2011](#)).

Therefore, in this study, we demonstrate that TMTs require more managerial resources from the MMs and we assert that a larger size of MMs provides a broader range of experience, knowledge and information sources ([Haleblian & Fininkelstein, 1993](#)). The size of MMs reflect the firm's information processing and assessment capabilities, which can satisfy the high demand for information processing that occurs when firms are engaged in foreign expansion. Processing sufficient knowledge and information enables TMTs to evaluate the full range of alternatives, thus facilitating the strategic decision-making process ([Raes et al., 2011](#); [Rensburg, Davis, & Venter, 2014](#)). TMTs can draw upon a large resource of information provided by MMs to handle the complexities of management during international expansion

([Mair & Thurner, 2008](#)).

According to the role of information processing of managers, we first explain how the TMTs' characteristics affect firms' internationalization. We investigate two TMT job-related characteristics, tenure and international experience, since their information processing capabilities are relevant when evaluating, assessing and selecting foreign investment alternatives, and affect firms' internationalization ([Thomas & McDaniel, 1990](#); [Tihanyi et al., 2000](#)). Second, how does the size of MMs moderate the relationship between the TMTs' characteristics and firm internationalization? We advocate that a larger MM enhances a firm's information processing capabilities and assists TMTs when making strategic decisions related to internationalization, therefore the relationship between the TMTs characteristics and internationalization will be stronger. We developed and tested hypotheses by investigating Taiwanese listed companies in the textile industry and in the electro-optical industry between 2006 and 2010.

This study makes the following contributions to the literature. First, the study advances the literature by exploring the role of MMs in the firms' internationalization process ([Judge & Stahl, 1995](#); [Mair & Thurner, 2008](#)). Prior literature shed more light on the role of the TMTs' experience and knowledge as a key resource to support firms' internationalization (e.g. [Herrmann & Datta, 2005](#); [Tihanyi et al., 2000](#)). We stress the critical role of the size of the MM in lessening the demand of information processing of TMTs during firms' internationalization. Thus, our study provides empirical evidence of the influence of MMs on foreign expansion. In addition, prior literature highlighted the importance of MMs in strategy implementation but neglected their impact in a multinational context ([Judge & Stahl, 1995](#)). Our study investigates the role of MMs in firms' internationalization to extend our understanding of the strategy implementation in international business literature. According to the literature on information processing perspective, our study further measured organizational information processing capabilities through the size of the MM to explore the information processing system in multinational companies ([Egelhoff, 1991](#); [Galbraith, 1973](#); [Tushman & Nadler, 1978](#)). In addition, this paper adds to the literature by integrating the interaction experience from TMTs and MMs size to examine how their respective managerial experience jointly affects the firms' international strategy, since previous studies have suggested that an examination of a bundle of managerial experience can provide an appropriate explanation of a firm's growth ([Kor, 2003](#)).

Following this introduction, the second section of the paper develops the research hypotheses. The third section describes the research method, and the fourth section presents the empirical results and discussion. Finally, the conclusion includes the contributions of this research, research limitations and suggestions for future studies.

2. Research background and hypotheses

2.1. The information-processing demand of managers and firm internationalization

Existing in an open system, firms have an interface between international organization and the external environment that is a source of complexity. The information process perspective claims that collecting, gathering and processing relevant information is vital for a company to effectively deal with the complexity produced by the external environment ([Egehoff, 1991](#); [Tushman & Nadler, 1978](#)). Studies in information processing perspective also argue that compared with domestic companies, multinational companies face higher requirements and challenges in information-processing, which constrains the organization's performance ([Judge & Stahl, 1995](#); [Tihanyi & Thomas, 2005](#)). Scholars suggest that understanding the structure and process of information-processing can better explain how information-processing capabilities are meaningful to multinational companies. Moreover, individual members of the organization, such as TMTs, are recognized as

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