

In at the Deep End of Firm Internationalization

Nationality Diversity on Top Management Teams Matters

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Abstract:

- The purpose of this research is to examine the consequences of top management team (TMT) internationalization: *why* and *under what conditions* can TMT nationality diversity be beneficial?
- On the basis of the upper echelons theory from the strategic leadership literature, the relationship between the TMT nationality diversity and firm performance in the strategic context of firm internationalization is investigated in moderated multiple regressions models (MMR) for a sample of Dutch, Swiss, and UK companies.
- The study findings suggest that the TMT nationality diversity becomes advantageous only in firms with high degree of internationalization. Companies have to be strongly committed to foreign markets so that the benefits of the TMT nationality diversity can materialize.
- The arising managerial implication is that the TMT nationality diversity can be a powerful tool in building a firm's competitive advantage, provided that companies are strongly exposed to the international environment. The study also provides corroborative evidence that the search for moderating and mediating variables in the TMT demography research represents a step in the right direction.

Keywords: Firm internationalization · Nationality diversity · Top management team · Upper echelons theory

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Introduction

In today's borderless world of global competition, the demands placed on the managerial elites have risen to a level that was inconceivable 20 or 30 years ago (Beck 2008; Ohmae 1990). These developments led international business scholars to appreciating the potential sources of a firm's competitive advantage in an international marketplace in thoughtfully composed and managed human resources at different managerial levels, however especially at the top of organizational hierarchies. Top management teams (TMT) composed of members understanding the dynamics of a firm's international environment and with strong cross-cultural awareness and knowledge have been advocated as an organizational solution, thanks to which companies can effectively navigate through complex and uncertain foreign markets (Bartlett and Ghoshal 1989; Greve et al. 2009; Luo 2005).

Academic research has documented that over the last 20 years the incidence of foreigners in executive ranks or supervisory boards of the world's largest multinational corporations (MNCs) increased considerably, and 75% of the world's 80 largest MNCs had at least one foreign member on their boards in 2005 (Staples 2007). There is also evidence that both firm internationalization and a country's governance regime explain whether and to what extent foreigners can be admitted to executive ranks (Van Veen and Marsman 2008; Van Veen and Elbertsen 2008). Moreover, in the research stream on global teams in general, the mechanisms of developing cross-cultural competence and learning, as well as the conditions under which an internationally experienced member can effectively contribute to the proceedings of the global team, have been studied (Athanasios and Roth 2006; Bartel-Radic 2006; Maznevski and Athanasios 2006). However, except for a handful of studies (Gong 2006; Nielsen 2010a; Nielsen and Nielsen 2011), there is a paucity of research that would examine the consequences of the internationalized TMTs. *Why and under what conditions* are they supposed to be beneficial for companies?

Building on the upper echelons theory, which specifies that organizational outcomes and performance are reflections of attributes of senior management (Finkelstein et al. 2008; Hambrick and Mason 1984), and based on the setting of three developed economies from Western Europe, we explore these research questions in this work. Our findings suggest that the TMT nationality diversity becomes advantageous only in firms with high degree of internationalization. Companies have to be strongly exposed to foreign markets along multiple dimensions of firm internationalization so that they can reap the benefits of the TMT cross-cultural awareness and knowledge. This is because only when companies are confronted with serious challenges of operating in multiple and frequently culturally and institutionally distant markets, the human and social capital of the nationally diverse TMTs can be fully utilized. Moreover, we find that there are some national idiosyncrasies attributable to a country's economic factors and corporate governance regimes, which influence the level of nationality diversity among the TMT members. Overall, our study contributes to the international business and strategic leadership literature, answering the recent calls for introducing contextual variables to the TMT demography research and demonstrating that the search for moderating and mediating variables represents a step in the right direction (Carpenter 2002; Certo et al. 2006; Hambrick 2007).

The paper is structured as follows. In the next two sections we present the literature review and derive the hypotheses. Then, we elaborate on our research design and data

analysis. The subsequent two sections comprise the presentation and discussion of findings, together with the discussion of managerial implications and limitations of the study as well as potential future research avenues. Concluding thoughts are contained in the final section.

Literature Review

The upper echelons theory, as a central tenet in the strategic leadership literature, proposes that organizations represent reflections of their senior managers' characteristics. Observable demographic attributes of top managers are construed as proxies for their cognitions, values and personality traits, such as charisma or locus of control, which consequently influence strategic choices and outcomes (Finkelstein et al. 2008; Hambrick and Mason 1984). Until recently, the academic contributions to this stream of literature concentrated primarily on TMT's age (Tihanyi et al. 2000; Wiersema and Bantel 1992), functional background (Carpenter 2002; Hambrick et al. 1996), organizational tenure (Carpenter and Fredrickson 2001), and educational level and/or background (Eisenhardt and Schoonhoven 1990; Wiersema and Bantel 1992). Yet, as illuminated by Carpenter et al. (2004), the original Hambrick and Mason (1984) model is being extended to incorporate the upper echelons internationalization variables, which indeed represent its dominant enhancement recently.

In today's globalizing world, in which international trade and foreign direct investment (FDI) have increased to the extent that some MNCs generate revenues greater than the gross domestic products (GDP) of some smaller national economies, such as Walmart's or Exxon Mobil's revenue exceeding the GDP of Turkey or Austria (Rugman and Collinson 2009), MNCs have to accommodate a high degree of nationality diversity among their employees at different managerial levels, and especially at the top of the organizational hierarchy (Beck 2008). Gupta and Govindarajan (2002, p. 120) proposed that, indeed, such globally-oriented companies should be on 'the quest for a global mindset' in order to be able to be open to and aware of diversity across cultures/markets and to synthesize across this diversity.

Facilitating cultural knowledge-building among individuals through formal education abroad, participation in cross-border endeavours, cultural learning programmes, or expatriate assignments is likely to be a lengthy process fraught with difficulties (Gupta and Govindarajan 2002). This is because learning through experience across multiple cultures is pre-determined by a person's personality traits, which are typically shaped in the early childhood and throughout the formative years spent in that person's homeland. Although building a global mindset is ultimately possible (Bouquet 2005), nationality imprinting is generally not easily erased (Hofstede and Hofstede 2005). Therefore, Gupta and Govindarajan (2002) rightly conclude that MNCs have the greatest degrees of freedom with regard to cultivating a global mindset of their managers in selecting and managing the demographic make-up of particular teams, and especially the TMT, by creating geographic and cultural diversity on the TMT.

There are two main sources of TMT internationalization: (1) domestic, but internationally experienced, managers, and (2) foreigners. The common denominator of both

cases is that both internationally experienced and foreign managers are likely to have cultural knowledge in terms of cognitions, values, norms, etc., on countries in which they spent their international assignments and where they come from, respectively. However, whereas foreign managers are likely to embody and live up to those cognitive cultural schemas of their country of origin, domestic, internationally-experienced managers can at best understand them, but not be governed by them (Greve et al. 2009; Nielsen 2010a). In line with this argument, Nielsen and Nielsen (2011) demonstrated that differently composed TMTs in terms of nationality and international experience diversity are likely to have proclivity for the shared- and full-control entry modes to international markets, respectively.

Whereas the variable of TMT international experience has been comparably well researched in the academic literature so far (e.g., Athanassiou and Nigh 1999, 2000; Carpenter and Fredrickson 2001; Carpenter et al. 2001, 2003; Daily et al. 2000; Reuber and Fischer 1997; Sambharya 1996), the stream of research on the TMT nationality variable is only emerging, despite its intuitive appeal in studies based on samples of European companies (Caligiuri et al. 2004; Greve et al. 2009; Heijltjes et al. 2003; Van Veen and Elbertsen 2008; Van Veen and Marsman 2008). All of those studies focused specifically on the antecedents of the TMT nationality diversity, such as a firm's degree of internationalization, breadth and scope of internationalization, merger and acquisition deals, or a country's governance regime. There is, however, a dearth of research on the possible consequences of TMT nationality diversity in terms of firm strategic choices and outcomes and/or organizational performance implications. Nielsen (2010a) examined the link between TMT nationality diversity and a firm's number of subsequent foreign market entries, as well as the impact of these variables on firm performance. Nielsen and Nielsen (2011) looked at the relationship between TMT nationality diversity and the entry mode to foreign markets as a proxy for TMT strategic decision-making. Finally, Gong (2006) assessed the influence of TMT nationality diversity on firm performance at the subsidiary level.

Therefore, in this work we seek to fill this gap in the literature and undertake a study of value-creating implications of the TMT nationality diversity rather than international experience. In the literature, a person's nationality is identified as a factor which determines communication patterns and interaction styles, as well as the structure and content of personality trait hierarchy (Oetzel 1995). In trans-national teams it is therefore assumed to be the primary status-determining characteristic that influences a person's behaviour and how she/he is perceived in such teams (Earley and Mosakowski 2000; Hambrick et al. 1998). In the next section, we propose a set of hypotheses on the TMT nationality diversity.

Hypotheses

Internationalization of Upper Echelons

There is strong support in the literature that in response to increases in the internationalization posture of an MNC, the international cognitive capacity of the TMT members

should be also enhanced. Kobrin (1994) reported that an index of geocentric mindset of senior corporate human resource managers is associated with the geographic scope of a firm's operations and international human resource management policy. Sambharya (1996), Tihanyi et al. (2000), and Carpenter and Fredrickson (2001) demonstrated that foreign experience of the TMT members is positively correlated with its firm's international exposure. Carpenter et al. (2003) showed that the technology-based initial public offering firms embarked on globalization strategies, provided that their TMT members possessed international experience. Finally, Greve et al. (2009) indicated that changes in geographical and cultural posture of financial companies are positively related to the level of both TMT nationality and international experience diversity, which is in line with the findings reported by Heijltjes et al. (2003) and Van Veen and Marsman (2008).

Introducing foreign executives to the TMT ranks of an MNC is also in accordance with the argument of 'matching managers to strategy' (Gupta and Govindarajan 1984; Szilagy and Schweiger 1984). The internationalization strategy requires effective fulfillment of important managerial tasks, such as scanning of the complex international environment, coping with uncertainty and change, or maintaining contacts with a number of relevant, external actors in foreign markets. TMT foreign nationals who typically spent their formative years in a different country to that of the MNC's headquarters enhance and align the cognitive map of the TMT members with the geographic map of an MNC's international operations. Therefore, they increase the chances that the TMT will match the high job demands arising from involvement in complex and uncertain foreign markets. Accordingly, we propose that the level of TMT nationality diversity will rise in tandem with increases in a firm's internationalization posture.

Hypothesis 1: There will be a positive association between the firm internationalisation and TMT nationality diversity.

In our study, we concentrate on the largest stock-exchange listed companies from three modern and well developed economies of Western Europe, which house a great number of MNCs: the Netherlands, Switzerland, and the United Kingdom (Rugman and Collinson 2009). All three countries share some important similarities, but also exhibit significant differences in terms of their socio-economic legacies and corporate governance regimes.

The UK and the Netherlands as opposed to Switzerland share a similarity in the fact that they used to be colonial super-powers and had vast territories under their jurisdiction, such as Australia, Canada, Hong Kong, South Africa and Indonesia, respectively (e.g., Osterhammel 2005). This socio-economic heritage facilitated the process of their firms' internationalization and had an impact on its pattern, which took a form of establishing subsidiaries in their former colonies. At the same time, the Netherlands and Switzerland, in turn, contrary to the UK are small-size economies, for which early internationalization represents a pre-requisite for national competitiveness in line with Porter's (1990, 1998) diamond framework. Limited factor and demand conditions resulting from the small population of these countries make their companies embark on the internationalization path early on, which impacts on the structure of firms and their rivalry in those countries (Greve and Ruigrok 2008; Nielsen 2010a; Ruigrok and Van Tulder 1995; van den Bulcke et al. 2009).

European companies as opposed to their U.S. counterparts foster the board leadership structure, in which the role of a Chief Executive Officer (CEO) and a Chairman are separated. Such recommendation in their corporate governance codes is meant to serve a purpose of avoiding undue concentration of power in the hands of one individual. Whereas the UK corporate governance regime is described as the market-oriented system, or in other words, the Anglo-Saxon model of corporate governance, both the Netherlands and Switzerland are characterized by the network-oriented system, i.e. the Rhine model of corporate governance. In the Anglo-Saxon model, which is based on the common law system, controlling shareholders appoint both executive and non-executive directors and the majoritarian electoral mechanism tends to offer strong investor protection with the focus on shareholder value thanks to a fluid capital investment system. The Rhine model, based on the civil law system, operates with the proportional electoral mechanism that tends to offer strong employment rather than shareholder protection with the focus on stakeholder value thanks to a dedicated capital investment system (Albert 1993; Kwee et al. 2011; La Porta et al. 1998; Letza et al. 2004; Moerland 1995).

More specifically, the Netherlands is a country with the system that represents an intermediate case between a coordinated and liberal market economy, in which stock-exchange listed companies have a choice between one- and two-tier board structures. Most companies opt for a two-tier board with a separate executive board (equivalent of the TMT) and a supervisory board; however there is a slow movement towards a one-tier board (Van Veen and Elbertsen 2008). In Switzerland companies are recommended to establish a one-tier board, however the majority of them adopt a two-tier board structure, whereby TMT members are also represented on the supervisory board (Ruigrok et al. 2007).

Finally, in the UK, the stock-exchange listed companies are recommended to have a one-tier board, in which executive and non-executive directors work together and are held collectively accountable for a firm's performance. This leads to the situation in which the core of the TMT is also represented on a company's board, however following recent changes to the governance code in the UK, there is a trend towards limiting the presence of executives on the company's board. In fact, in many Financial Times and London Stock Exchange (FTSE) 100 companies, only the Chief Executive Officer (CEO) and the Finance Director are granted a board seat (Pye et al. 2012; Van Veen and Elbertsen 2008).

In sum, despite the similarities between the UK and Netherlands in terms of their socio-economic legacies, the UK's governance architecture contrasts with governance regimes of the Netherlands and Switzerland. Van Veen and Elbertsen (2008) suggest that the country's governance regime underlies the likelihood of incidence of foreigners in both the non-executive and executive (equivalent to the TMTs) segments of the companies' boards. They report significant inter-country differences in terms of nationality diversity on the TMTs, whereby Dutch companies exhibit a noticeably higher level of TMT nationality diversity than the UK companies. This is because in the UK there is much higher occurrence of foreign directors in the non-executive ranks rather than in the executive segment. Switzerland, in turn, is one of the countries with the greatest number of MNCs in Europe, which increases the probability that many foreign managers will be admitted to the executive suite (Rugman and Collinson 2009; Nielsen 2010a). Accordingly, we might expect that the level of TMT nationality diversity in Swiss companies

will be comparable with that of Dutch companies, and above the level of TMT nationality diversity in the UK firms.

Hypothesis 2: The level of TMT nationality diversity in Dutch and Swiss companies will be significantly higher than in the UK companies.

Performance Implications of Internationalized TMTs

The ‘value-in-diversity’ proposition is well established in the group effectiveness literature (e.g., Cox et al. 1991; Watson et al. 1993). According to this perspective, diversity in a team enlarges the amount of information available for problem-solving, and thus enhances a team’s ability to generate correct and creative solutions (Williams and O’Reilly 1998). This is because such diverse team members are likely to possess their own professional networks underpinning their social capital, based on which they can tap a wider array of information and bring it in to enhance the quality of the focal team’s work (Maznevski and Athanassiou 2006). Moreover, diverse groups have been shown to establish more collaborative and cooperative norms for positive interaction, which are likely to overcome the potential for negative social categorization processes due to demographic differences (Ely 1994; Martins et al. 2003).

TMTs are confronted with tasks that are frequently non-programmed and require creative input, which lead to decisions of strategic rather than tactical nature that cascade down the organization (Finkelstein et al. 2008; Hambrick and Mason 1984). In internationally involved companies this TMT decision-making process is likely to gain even more in complexity, because TMTs have to navigate their companies through different legal, social and economic systems, the effectiveness of which is typically underpinned by the awareness of and ability to synthesize the cultural differences between the MNC’s home and foreign markets (Gupta and Govindarajan 2002; Nielsen and Nielsen 2011). In a similar vein, Hambrick et al. (1998) proposed that nationally diverse teams are likely to have the best performance effects when grappling with creative tasks. Therefore, in such international environments, mixing nationalities in the executive suite can be seen as the central resource for creativity, and exploitation of managerial talent from different countries in which an MNC operates may be one of the sources of its competitive advantage (Mellahi and Collings 2010).

Hypothesis 3: There will be a positive relationship between the TMT nationality diversity and firm performance.

There are arguments in the group effectiveness literature that diversity in a team, especially if based on observable, demographic characteristics such as nationality, may in fact be a ‘double-edge sword’. This is because it may lead to negative social categorization processes among team members which undermine a team’s cohesiveness, and are thus likely to outweigh the benefits of enhanced information-processing and creativity in decision-making (Milliken and Martins 1996; Williams and O’Reilly 1998). Therefore, TMT nationality diversity may not be unconditionally beneficial.

Moreover, some scholars pointed out that the inconsistency in upper echelons research is likely to be due to the de-contextualization of TMT studies, in which the idiosyncratic nature of each firm’s strategy and the TMT’s social structure are not accounted for (Car-

penter 2002; Certo et al. 2006; Hambrick 2007). With some notable exceptions (e.g. Hambrick et al. 1996; Michel and Hambrick 1992; Nielsen 2010a) research on the TMT demography and firm performance relationship had typically overlooked important moderating and intervening variables.

In line with those observations, we follow the suggestion of Certo et al. (2006) that a firm's internationalization (in addition to R&D expenditures and a firm's diversification) represents a likely moderator of the relationship between TMT demography and firm performance. A firm's degree of internationalization, capturing the extent to which companies depend on foreign markets for revenues and factors of production, appears as the relatively most pertinent strategic contingency under which to assess the value-creating implications of the TMT nationality diversity. This is because such nationally diverse TMTs may be misaligned in companies that are either not operating abroad or have a limited scale of international involvement. Only when companies are credibly committed to foreign markets, the benefits of nationally diverse TMTs are likely to be tangible. Therefore, we propose that operating in an international marketplace, with its inherent complexity and uncertainty, represents a pre-condition for the notion of 'value-in-diversity' with regard to the TMT nationality diversity to materialize.

Hypothesis 4: The relationship between TMT nationality diversity and firm performance will be positively moderated by a firm's degree of internationalization.

Vermeulen and Barkema (2002) argue that the process of internationalization, e.g. speed and regularity of international expansion, matters for the ultimate profitability of the internationalization strategy. Barkema and Drogendijk (2007) point out that companies have to balance exploitation and exploration processes in the internationalization strategy and that internationalization through larger steps, despite the potential initial setback in performance, is likely to result in improved long-term performance thanks to organizational learning and experience. Moreover, they suggest that a firm's prior experience in internationalization is a pre-requisite for organizational learning from increasing the internationalization posture in larger steps. These arguments raise the question of the threshold of internationalization, which has to be reached so that the TMT nationality diversity can be truly beneficial.

We propose that companies' international exposure along different dimensions of internationalization, such as size (revenue from foreign markets), depth (assets deployed internationally), and breadth (the number of countries and cultural zones in which a company has subsidiaries), has to reach certain scale before the benefits of TMT nationality diversity can materialize. This is because TMTs have to be confronted with real challenges arising from international involvement so that their enhanced cross-cultural awareness and knowledge can be fully utilized. Otherwise, the presence of foreigners on the TMT may be a sheer reflection of tokenism and negative social categorization processes may creep in lowering the quality of the TMT's work. Therefore, we suggest that at issue here is the critical mass of international exposure, which determines whether the nationality mix on the TMT can be expected to contribute to a firm's competitive advantage.

Hypothesis 5: The positive moderation of the relationship between TMT nationality diversity and firm performance by a firm's degree of internationalisation will be due to companies characterized by a high firm's degree of internationalization.

Method

Data and Sample

One hundred largest stock exchange-listed companies from the Netherlands, Switzerland, and the United Kingdom each, distinguished based on the criterion of market capitalization as of the year-end 2005, constituted the study sample. All these countries represent well-developed European economies. The United Kingdom, as one of the main financial hubs of the world, as well as the Netherlands and Switzerland, which are inherently small-sized economies with pressures for early internationalization, have all traditionally housed a high number of MNCs. In 2005 these three countries accounted for 21.3 % of the world's outward stocks of FDI (Greve and Ruigrok 2008; Nielsen 2010a; Rugman and Collinson 2009).

The 100 largest companies represent about 5 % of all listed companies in the UK, 40 % in Switzerland and 50 % in the Netherlands based on the data from the Thomson One Banker database. Therefore, our sample may be skewed towards the high-end of internationalization, as large companies can better overcome the barriers in foreign expansion than their smaller counterparts (Calof 1994). At the same time, the difference in the average level of firm internationalization between the UK on one hand side and the Netherlands and Switzerland on the other hand may not be detected, because our sample represents a much smaller representation of all UK listed companies than it is the case for Dutch and Swiss firms. However, this three-country setting of European, well-developed economies that are actively involved on the international arena ensures that there is sufficient variance in terms of TMT nationality diversity and firm internationalization in our study (e.g. the nationality variable is less pertinent to studies based on the samples of the U.S. companies, for which the notion of racio-ethnicity is more applicable). It also increases the generalizability of our findings and allows us to make inter-country comparisons.

The following additional screening criteria were applied for the inclusion of companies into the study sample: (1) a firm had to be a non-SME (small and medium-sized enterprise) according to the European Union definition (a number of employees above 250, more than €50 million turnover), (2) typical investment vehicles (the first two digits of the Standard Industry Classification Code (SIC) equalling 67), which minimise the number of employees, were excluded. All data were collected for the year-end 2005.

The secondary information sources were consulted extensively first: the companies' websites, annual reports, the LexisNexis, the Thomson ONE Banker database, and information generated through casual Internet searches. In cases where some data points were not available, the relevant firms were contacted by the means of e-mail, fax and telephone interview. The initial sample comprised 300 companies, however due to missing

observations in data series for various variables, the actual number of companies that entered particular models ranged from 245 to 262. Overall, 1,762 profiles of TMT members were studied.

Dependent Variables

In the model testing the first two hypotheses, the *TMT nationality diversity* represents the dependent variable. We delimit the TMT as the core executive committee comprising the top-tier of executives only (Certo et al. 2006), as reported by companies in their annual reports, which corresponds with the notion of *Raad van Bestuur* in the Netherlands, *Geschäftsleitung* in Switzerland, and *Executive Committee* in the UK. The managers' nationality was determined based on the passports that they held as reported by companies in their annual reports or in other secondary sources of information, such as the LexisNexis database. Following the standard of capturing the phenomenon of diversity as variety based on the particular characteristic (Harrison and Klein 2007; Nielsen 2010b), we apply Blau's index (Blau 1977) to measure the TMT nationality diversity: $(1 - \sum p_i^2)$, where p_i stands for the fraction of TMT members representing a single nationality. As a result, the more nations present on the TMT, the closer to unity is the index.

In the models testing the remaining three hypotheses, *firm performance* serves as an *explanandum*. We account for this variable with the use of an accounting-based measure of performance, return on assets (ROA). Accounting-based measures of firm performance are relatively backward-looking and based on self-reported company data that should be compiled in accordance with prevailing and legally enforceable accounting principles intended to prevent distortion and manipulation of relevant financial information (Haslam et al. 2010). In that sense, accounting-based measures of firm performance represent a more accurate reflection of the quality of work and contributions of TMTs than the market-based measures of performance, which are influenced by investors' subjective perceptions.

ROA is defined as net income divided by total assets and captures the efficiency with which a firm deploys its current asset base. ROA is therefore especially relevant to international business research, because internationalization strategy is based theoretically on the search for economies of scope and scale (Dunning 1988). Accordingly, ROA enables insights with regard to the efficiency of utilisation of the asset base that is available for companies' international expansion strategies. Moreover, ROA serves as a basis for measuring the value of intangible assets (the so-called ROA methods) and therefore appears as relatively the most pertinent measurement of TMTs' intellectual and social capital out of all accounting-based measures of firm performance (Sveiby 1997). Finally, ROA has been traditionally the most widely used measure of firm performance in the TMT demography literature so far (Certo et al. 2006).

Explanatory and Moderating Variables

The first independent variable is *firm internationalization* captured as the composite degree of internationalization index (DOI). The measure is a variation of the original

Sullivan's (1994) index and comprises three dimensions of internationalization (Carpenter et al. 2001; Greve et al. 2009): (1) performance/financial, measured as foreign sales to total sales (FSTS), (2) structural, calculated as foreign assets to total assets (FATA), and (3) attitudinal, accounted for as the ratio of the number of countries in which a company has subsidiaries to the number of countries in which the company with the greatest number of subsidiaries in the sample has as its subsidiaries (GEO). The measure of the last dimension of internationalization is anchored to the most dispersed company in the sample in order to maintain the ratio scale of all three components of the DOI index. We validated this composite measure of DOI by assessing whether it captures firm internationalization as a single uni-dimensional latent construct with the Cronbach's alpha coefficient. It exceeds the adopted in the social science research acceptability threshold of 0.70 reaching the level of 0.78. In the models testing hypotheses 3–5, firm internationalization serves as a control variable and the moderator, whereas the TMT nationality diversity, as defined in the preceding sub-section, as a main independent variable.

Control Variables

In all models we control for the *TMT size*, as the larger the TMTs are, the higher the chances that foreigners will be admitted to the executive ranks, which would then lead to a higher level of nationality diversity. Moreover, a higher number of senior managers on the TMT increases cognitive capacity, human and social capital of the team, which should enhance its potential for effective fulfilment of its statutory functions. We measure the TMT size as a count of all TMT members, as reported by companies in their annual reports (Certo et al. 2006).

We also control for the following firm characteristics: *firm size* and *firm diversification*. Larger firms are likely to have stabilized revenue streams and therefore have performance advantages over their smaller counterparts. Thanks to the scale of their operations, they are also more able to overcome structural and financial difficulties inherent to the internationalization process. Therefore, firm size may explain both the level of TMT nationality diversity and differential performance effects between firms. We account for the firm size with the measure of a firm's total sales (Fich and Shivdasani 2006; Nielsen and Nielsen 2011).

Firm diversification represents an important dimension of a firm's corporate strategy, which has been demonstrated to be at the root of differential firm performance effects as well (Hitt et al. 1997). We measure the firm diversification variable as a count of all business segments in which a firm is active on the basis of the two-digit SIC codes (Fama and Jensen 1983; Linck et al. 2008). The count of businesses and the entropy measures belong to the so-called 'business count approach' as opposed to 'strategic approach' in measuring corporate diversification. They have the advantage over the latter approach, because they rely on SIC data rather than on the subjective judgment of the researcher (Martin and Sayrak 2003).

Differences in firm performance can also be attributed to the industry structure in which a firm is operating. We account for *industry effects* with the use of the dummy variable based on the one-digit SIC codes (Ruigrok et al. 2006), which is equivalent to the Datastream Level 2 Industry Groupings.

Finally, in the three-country setting of our study, we also use the dummy variable to control for *companies' country of origin*, as a country governance regime, institutional and economic environment are likely to explain differences in the TMT nationality diversity and firm performance (Kostova and Zaheer 1999; Van Veen and Elbertsen 2008). Switzerland serves as a control category in this variable in our models.

Analysis

In the model testing the relationship between firm internationalization and TMT nationality diversity, there is a potential for reverse causality, and thus an endogeneity problem. Whereas some studies assumed the TMT internationalisation as a dependent variable (Athanasios and Nigh 1999, 2000; Greve et al. 2009; Van Veen and Marsman 2008), some other scholars examined this relationship with a firm's internationalization as an *explanandum* (Carpenter and Fredrickson 2001; Carpenter et al. 2003; Sambharya 1996). We have adopted the approach of the first group of studies and checked for the possibility of the reverse causality with the Durbin–Wu–Hausman (DWH) test. The result of the DWH test indicates that firm internationalization is not endogenous in our model ($F(1, 258) = 1.82; p = 0.18$), as the null hypothesis of exogenous influences on the dependent variable may not be rejected. Therefore, there was no need for an estimation of the Instrumented Variable (IV) regression and we report the results based on the ordinary least squares (OLS) estimation (Brown et al. 2011). This model also serves as a basis for testing hypothesis 2.

In testing hypothesis 3 we use the multivariate regression model based on the OLS estimation. Tests of hypotheses 4 and 5 involve the moderated multiple regression (MMR) models, in which we introduce the two-way interaction terms between TMT nationality diversity and firm internationalization. The MMR models enable the stipulation of conditions in terms of moderating variables (firm internationalization) for the main effect of the independent variable (TMT nationality diversity) to unfold (Aiken and West 1991; Aguinis 2004). Moreover, in order to test hypothesis 5, we split the sample into two sub-samples: (1) below and equalling the median of firm internationalization, (2) above the median of firm internationalization. The MMR analysis is known to be prone to the problem of multi-collinearity between predictor variables and their cross-product term (Aiken and West 1991; Shieh 2010). Based on the variance inflated factor (VIF) diagnostic, we do not detect the problem of multi-collinearity in any of our MMR models testing hypotheses 4 and 5.

We have taken natural logarithms of all studied variables. All regressions have been checked for the correctness of the assumptions of the classical regression model with the regression diagnostics functions of the statistical software package STATA.

Results

The means, standard deviations, and the correlation matrix of the main variables are included in Table 1. The variables are expressed in the actual level form rather than as centred values for ease of interpretation. The average DOI measure across our sample

Table 1: Descriptive statistics and the correlation matrix

Variable	Mean	S.D.	1	2	3	4	5	6
1. Firm performance	8.32	7.46	1.00					
2. TMT nationality diversity	0.32	0.27	0.07	1.00				
3. Firm internationalization	0.36	0.24	0.08	0.50	1.00			
4. Firm size	8248.91	22195.26	-0.01	0.17	0.26	1.00		
5. TMT size	5.81	3.29	0.06	0.42	0.19	0.09	1.00	
6. Firm diversification	2.52	1.38	-0.02	0.08	0.16	0.09	0.06	1.00

$N=245$. All variables are expressed in the level form. The absolute values of the correlation coefficients equalling 0.126 or higher are significant at the $p<0.05$ level (two-tailed)

Table 2: Hypotheses 1 and 2.: OLS model

Variable	TMT nationality diversity	
	β	S.E.
Firm internationalization	0.43***	0.07
Firm size	0.01	0.01
TMT size	0.16***	0.02
The United Kingdom	-0.10**	0.03
The Netherlands	-0.01	0.03
Industry controls	Yes	
Constant	-0.11 [†]	0.06
R ²	0.44	
F-value	19.47***	
N	262	

* $p<0.05$; ** $p<0.01$; *** $p<0.001$; [†] $p<0.10$

of Dutch, Swiss, and the UK companies, at the level of 0.36, suggests that the largest stock exchange-listed companies in those countries are considerably exposed to foreign environments. Although the spread of the DOI measure is between 0 and 1, its three dimensions of foreign sales, foreign assets and overseas subsidiaries, as they are defined, make it quite a conservative test of internationalization, therefore the score of 0.36 can be interpreted as reasonably high. At the same time, we observe that the average diversity of nationalities on TMTs of those companies, at the level of 0.32, is not lagging behind firm internationalization, and foreigners are admitted to the executive ranks at a non-negligible scale (cf. Heijltjes et al. 2003).

In Table 2, we present the statistical estimates of the OLS regression model, which demonstrates that a firm's internationalization is positively related to the TMT nationality diversity ($\beta=0.43$, $p<0.001$). This evidence provides support to hypothesis 1. Moreover, whereas the level of TMT nationality diversity in the UK is lower than in Switzerland ($\beta=-0.10$, $p<0.01$), there is no statistically significant difference between Dutch and Swiss companies in this respect. This renders support to hypothesis 2.

In Table 3, the statistical estimates of the MMR regression model testing hypotheses 3 and 4 are included. The coefficient of the TMT nationality diversity is not statistically significant, therefore hypothesis 3 is not supported. The increase in the explanatory power

Table 3: Hypotheses 3 and 4: MMR model

Variable	1		2	
	Firm performance		Firm performance	
	β	S.E.	β	S.E.
TMT nationality diversity	-0.43	0.51	-1.95*	0.87
Firm internationalization	0.24	0.56	-0.88	0.77
Firm size	-0.05	0.06	-0.07	0.06
TMT size	-0.02	0.20	-0.03	0.20
Firm diversification	0.06	0.15	0.10	0.15
The United Kingdom	0.10	0.22	0.10	0.22
The Netherlands	-0.25	0.24	-0.20	0.24
Industry controls	Yes		Yes	
TMT nationality diversity* firm internationalisation			5.07*	2.36
Constant	2.42***	0.50	2.76***	0.52
R ²	0.22		0.24	
ΔR^2			0.02*	
F-value	5.49***		5.50***	
N	245		245	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$; † $p < 0.10$

of the augmented model is statistically significant, which validates the MMR analysis ($\Delta R^2 = 0.02$; $p < 0.05$). The coefficient of the two-way interaction term between TMT nationality diversity and firm internationalization is positive and significantly different from zero ($\beta = 5.07$, $p < 0.05$), which provides support to hypothesis 4.

The results of the MMR models testing hypothesis 5 are included in Table 4 (sub-sample below the median of firm internationalization) and Table 5 (sub-sample above the median of firm internationalization). Neither the increase in the explanatory power of the augmented model, nor the cross-product term between the TMT nationality diversity and firm internationalization are significant for the sub-sample of companies below the median of firm internationalization. In contrast, both the increase in the explanatory power of the moderated model ($\Delta R^2 = 0.05$; $p < 0.01$) and the coefficient of the two-way interaction term between TMT nationality diversity and firm internationalization ($\beta = 20.73$; $p < 0.01$) are statistically significant for the sub-sample of companies above the median of firm internationalization. Hence, hypothesis 5 is supported.

Nielsen (2010a) demonstrated that the relationship between the TMT internationalization and firm performance is mediated by the foreign market entry decisions. As a robustness check, we therefore considered whether firm internationalization should be construed as a mediator rather than moderator of the relationship between TMT nationality diversity and firm performance. Our analysis showed that two out of four conditions of mediation, as specified by Baron and Kenny (1986), are not satisfied, therefore we can rule out the possibility of firm internationalization being the mediator of the examined relationship. Moreover, we established that the detected moderation effects are not country-dependent, *i.e.* the results of the model testing hypothesis 4 in the breakdown

Table 4: Hypothesis 5: MMR model (a sub-sample of companies with a degree of internationalization below the median)

Variable	1		2	
	Firm performance		Firm performance	
	β	S.E.	β	S.E.
TMT nationality diversity	-1.56*	0.76	-1.73	1.40
Firm internationalization	0.39	1.29	0.25	1.62
Firm size	0.03	0.10	0.03	0.10
TMT size	-0.21	0.27	-0.21	0.27
Firm diversification	-0.02	0.21	-0.01	0.21
The United Kingdom	0.10	0.36	0.10	0.36
The Netherlands	-0.52	0.34	-0.51	0.34
Industry controls	Yes		Yes	
TMT nationality diversity* firm internationalisation			0.98	6.71
Constant	2.06**	0.76	2.07**	0.77
R ²	0.30		0.30	
ΔR^2			0.00	
F-value	3.96***		3.63***	
N	123		123	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$; † $p < 0.10$

Table 5: Hypothesis 5: MMR model (a sub-sample of companies with a degree of internationalization above the median)

Variable	1		2	
	Firm performance		Firm performance	
	β	S.E.	β	S.E.
TMT nationality diversity	0.52	0.74	-8.53*	3.55
Firm internationalization	-1.65	1.86	-9.61**	3.55
Firm size	-0.11	0.09	-0.11	0.08
TMT size	0.21	0.30	0.11	0.29
Firm diversification	0.08	0.22	0.09	0.22
The United Kingdom	0.02	0.31	0.05	0.30
The Netherlands	0.08	0.36	0.02	0.35
Industry controls	Yes		Yes	
TMT nationality diversity* firm internationalisation			20.73**	7.96
Constant	3.28***	0.96	6.87***	1.66
R ²	0.23		0.28	
ΔR^2			0.05**	
F-value	2.74**		3.19***	
N	122		122	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$; † $p < 0.10$

into single countries are not significant. So, as we show in relation to hypothesis 5, what matters is the threshold of internationalization: a firm's internationalization must be high for the TMT nationality diversity to be beneficial.

Discussion

The results of our study indicate that the TMT nationality diversity matters and can be expected to be beneficial for companies only when they are strongly committed to foreign markets in terms of size, depth and breadth of internationalization. The cost-benefit analysis of opening the TMT ranks to foreign managers and creating a mix of nationalities appears therefore to be highly strategy-dependent. The contextual variable that we proposed and tested in this study is a composite measure of internationalization strategy (Carpenter et al. 2001; Greve et al. 2009). In this sense, our work contributes to the upper echelons literature by examining the international ramifications of Hambrick and Mason's (1984) baseline model and providing an empirical analysis of the implications of the TMT internationalization based on the strategic contingency of a firm's internationalization (Carpenter et al. 2004). Moreover, our paper answers the recent calls in the literature to draw out the implications of upper echelons' composition in relation to its strategic and social context (Carpenter 2002; Certo et al. 2006; Hambrick 2007).

Barkema and Drogendijk (2007) reported that larger steps in internationalization may lead to temporary performance decline, however, when accompanied by learning and experience, performance is likely to improve in future expansions. Our findings suggest that the TMT nationality diversity is best utilized when companies face serious challenges in the internationalization process, *i.e.* when their exposure in terms of revenues and assets to foreign markets and their institutional environments is high. In such cases, nationally diverse TMTs can serve as conduits of cultural awareness and knowledge, and in consequence facilitate the necessary processes of organizational learning and adaptation. Such nationally diverse TMTs in MNCs are also likely to be, in Gupta and Govindarajan's (2002) terminology, an emanation of 'the quest for a global mindset', which is ultimately associated with tangible benefits in terms of improved organizational performance.

The lack of support for hypothesis 3 seems to suggest that the nationality mix on the TMT may in fact be misaligned, when companies are not strongly embedded in foreign markets. Typically, in line with the Uppsala model of incremental internationalization (Johanson and Vahlne 1977), such companies operate within the confines of the cultural zones to which the country of their headquarters belongs and which are culturally related to the cultural zone of the country of the company's headquarters. Therefore, the challenges of navigating companies through such environments are not high enough to justify a great variety of nationalities among the TMT members, because the domestic managers, possibly with some international experience, can do the job more efficiently. Accordingly, the demands placed on the TMTs in terms of information-processing, awareness of cultural diversity and creativity in generating solutions are likely to be lower and thus better handled by less nationally diverse teams. This is in line with the argument of Hambrick

et al. (1998), who suggest that nationally diverse teams are best suited to grapple with creative tasks, however they are less able to cope with computational, and especially coordinative tasks, which are likely to prevail when companies do not expand beyond the cultural blocs related to their home country.

The corroborative evidence for the significant inter-country differences in terms of the TMT internationalization (hypothesis 2) suggests that Dutch and Swiss companies are more pressed to introduce foreign managers to their executive ranks than the UK firms. This is largely attributable to the fact that for both the Netherlands and Switzerland, as small-size economies, firm internationalization is a pre-condition of national competitiveness in line with Porter's (1990) diamond framework. Foreign expansion helps them overcome the limited demand and factor conditions and improve the structure of firms and firm rivalry in their countries (Ruigrok and Van Tulder 1995; Van den Bulcke et al. 2009). To accommodate this strategic imperative, Dutch and Swiss companies have to enlarge their international cognitive capacity at the top of their hierarchies and hence are found more nationally diverse than their UK counterparts. This effect is additionally strengthened by the differing governance structures between those countries, whereby in the UK foreign directors are predominantly found in the non-executive segment of the one-tier boards, and therefore are not members of the executive committee (Anglo-Saxon vs. Rhine model of corporate governance).

Managerial Implications

Some important implications for managerial work can be drawn from our study. Despite the fact that in today's globalizing world many companies are exposed to foreign markets to a lesser or greater extent, and thus the enhancement of the cognitive capacity and cross-cultural awareness of their TMTs would be advisable (Beck 2008; Gupta and Govindarajan 2002), the TMT nationality diversity should not be a *mantra* of the modern management language. The need for creating the mix of nationalities at the top of organizational hierarchies should be assessed in close connection with the company's internationalization posture and the associated demands placed on the TMT members. Only when companies' commitment to foreign markets is high, and the substantial portion of their revenues is derived from and assets deployed in international markets, can the nationality mix on the TMT serve its purpose and facilitate the navigation of companies through the uncertain and complex international environment. Otherwise, the nationally diverse TMT may be in fact misaligned, and TMTs composed of domestic managers will be more suited to the demands of the job. Accordingly, the potential for the TMT nationality diversity to contribute to a firm's competitive advantage largely hinges upon the degree of firm internationalization (cf. Becht 2010; Mellahi and Collings 2010).

Limitations and Future Research Directions

In line with the upper echelons theory, the nationality variable has some psychological accompaniments behind it, such as cognitions, values, and personality traits, which we do not measure, but which are the real drivers of team dynamics due to nationality diversity

(Finkelstein et al. 2008; Kilduff et al. 2000). This raises the question of the latent construct of cross-cultural awareness and knowledge for which two TMT internationalization variables, *i.e.* nationality and international experience, can be construed as proxies, as proposed by Nielsen (2010a). There is potential traction for studying those two variables together, *e.g.* to account for the case when a foreigner has substantial international experience in third countries. However, we believe that for such a measure to be meaningful, it would have to be constructed at the level of an individual and only then aggregated to the team level. Therefore, the construct validity of the measure based on the average of the TMT nationality diversity and the ratio of TMT members with international experience (Nielsen 2010a) is in our view questionable. Especially that Nielsen and Nielsen (2011) demonstrate that the TMT nationality and international diversity predict preferences for different modes of foreign market entry, which defies the argument that nationality and international experience represent proxies for the latent construct of cross-cultural awareness and knowledge and suggests that those are two distinct constructs. Therefore, there is still great scope for improvement in terms of reliability and construct validity in research design of studies on TMT diversity in general, and TMT internationalization especially (Nielsen 2010b).

Moreover, our study is based on the multi-country setting, however lacks longitudinal dimension. There is therefore potential to examine the proposed relationships for the panel data of companies across several years, and in a different cultural context than the Western European countries, and especially in the Asian context, to increase the reliability and generalizability of findings generated through our work.

Conclusion

This study contributes to the repository of findings on the consequences of the TMT diversity, and more specifically TMT nationality diversity, in the setting of three Western European countries. Based on the upper echelons theory, it provides evidence that the contextual influences strongly matter for assessing the consequences of the TMT composition for organizational outcomes and performance. The benefits of the TMT nationality diversity are likely to materialize only at high degree of firm internationalization. The study also documents national idiosyncrasies in the process of opening the executive ranks to foreigners depending on the country's governance regime. Overall, this work suggests an important argument to the discussion as to *why* and *when* foreigners on the TMTs may be an asset for companies, and stipulates tractable avenues for even more relevant and rigorous research on the subject matter of the antecedents and consequences of the TMT internationalization.

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