

RESEARCH NOTES AND COMMUNICATIONS

INTERNATIONAL EXPERIENCE IN THE EXECUTIVE SUITE: THE PATH TO PROSPERITY?

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Attention is increasingly focused on the potential individual career and firm-level benefits of international experience for upper level executives. This research examines the relationships between CEO international experience, CEO tenure, firm internationalization, succession events, and corporate financial performance. Results indicate a significant interactive effect between CEO tenure and outside succession on CEO international experience. In addition to a relationship with CEO international experience, there are two additional interactive effects in the examination of corporate financial performance: (1) CEO international experience and the degree of firm internationalization, and (2) CEO international experience and CEO succession. These interactive effects are evident in accounting and market indicators of corporate financial performance. Copyright © 2000 John Wiley & Sons, Ltd.

Today's organizational leaders manage in an increasingly global environment. A recent survey of CEOs of large, U.S.-based corporations, for example, reported that international business issues ranked third in importance among 16 critical strategic issues (Hoffman and Gopinath, 1994). Others have set an even higher priority suggesting that the principal challenge facing organizations is the increasing globalization of businesses (*Chief Executive*, 1995).

In an environment where effectively managing international business issues is critical to firms' success, it may be that international business experience provides firms' executives with a competitive advantage, one crucial for their advancement to the chief executive suite (see, e.g., Carpenter, Sanders and Gregersen, 1998). Donlon *et*

al. (1996: 69; see also, Neff, Ogden and Ettore, 1997), noted, for example, that having international experience in one's portfolio is "de rigueur for managers with corner-office aspirations."

In this study, we explore contemporary CEOs' international experience in their career backgrounds. Included is the examination of CEO seniority and international experience and the extent to which the relationship between CEO tenure and international experience is influenced by corporate exposure to international markets. We also investigate the role of outside CEO succession in the internationalization of the firm, as a firm may elect an inside candidate with firm specific knowledge or an outside CEO candidate who provides a fresh perspective (e.g., Finkelstein and Hambrick, 1996). Lastly, we consider the relationship between CEOs' international experience and corporate financial performance.

Key words: CEO international experience; firm performance; CEO succession; degree of internationalization

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THE INTERNATIONAL CEO AS A RESOURCE

There is a long tradition of viewing organizations as being comprised of bundles of unique resources (see, e.g., Pfeffer and Salancik, 1978). Barney (1991), among others, suggested that these resources lead to sustained competitive advantage when they possess certain characteristics: value, rarity, inimitability, and non-substitutability. Particular focus in recent years has been devoted to the role of intangible resources such as knowledge and experience (Barney, 1992).

Application of this framework to CEOs may be especially appropriate, as CEOs have been viewed as unique organizational resources. As noted by Norburn (1989: 3), the CEO, as compared to other organizational members, has achieved the "pinnacle" in the organization. Moreover, the CEO has unique responsibility for the strategic success of the firm (Vance, 1983). In an examination of CEOs of U.K. firms, Norburn (1989) found that CEOs differ significantly from top management team members on a number of dimensions, including having overseas organizational assignments in their portfolio of professional experiences (see also, Hoffman and Gopinath, 1994; Neff *et al.*, 1997).

Even so, executives with international experience may remain a relative rarity (see, e.g., Carpenter *et al.*, 1998). This may be unfortunate, as international experience may serve as a proxy for the reduction of uncertainty and as a surrogate for accumulating cultural knowledge (Sambharya, 1996; see also Norburn, 1989). International experience may also be inimitable and non-substitutable. This experience provides individuals with skills which are not easily developed through other means (e.g., Black, Gregersen and Mendenhall, 1992; Sambharya, 1996; Sullivan, 1994). Moreover, because international experience is a function of unique historical conditions, it may also be inimitable (see, e.g., Barney, 1991).

International experience, then, may provide ascending executives with career experiences that are crucial for eventual accession to the CEO position (e.g., Barney, 1992; Coff, 1997). This would be consistent with CEOs' view that their overseas experiences were "extremely valuable in their managerial development" (Norburn, 1989: 7; see also, McCauley *et al.*, 1994; Roth, 1995).

The importance of international experience is likely to have increased substantially in recent years. Between 1982 and 1996, U.S. direct investment abroad increased from \$207 trillion to \$796 trillion (Alsop, 1997). Additionally, Lublin (1996: B1, Column 3) has noted that "with nearly every industry targeting fast-growing foreign markets, more companies are requiring foreign experience for top management positions."

These reports suggest the importance of international exposure as a path to the chief executive office. Given the increasing emphasis placed on having international experience in one's career portfolio, we might anticipate that CEOs with shorter tenures (i.e., those hired most recently) would have greater levels of international experience, as compared to their longer tenured counterparts who may have been appointed at a time when international experience was less at issue. Accordingly, we hypothesize that:

Hypothesis 1: CEO international experience will be negatively related to CEO tenure.

Consideration of the extent to which a given firm has international product-market exposure may impact the relationship between CEO tenure and international experience. Firms with extensive international exposure may have different strategic leadership needs as compared to firms with less international portfolio exposure (e.g., Daily and Schwenk, 1996). Consequently, CEOs' international experience may be less at issue for those firms with little international exposure, but increasingly important for those firms with higher levels of international exposure.

The relevance of international experience based on the exposure of the firm to international product markets may be a significant issue given that the potential costs of an overseas stint (i.e., "out of sight, out of mind") may impose undue risk on an executive employed by a firm with little or no exposure to overseas markets (see, e.g., Black *et al.*, 1992 for discussion). For those executives operating in a firm with higher levels of international portfolio exposure, the applicability and value of skills obtained during these assignments may offset any potential costs of international assignments. This would be consistent with the resource-based view, which suggests that unique bundles of skills obtained through international experience make these executives

valuable organizational assets (e.g., Barney, 1992; Coff, 1997). Accordingly, we hypothesize that:

Hypothesis 2: The degree of firm internationalization will moderate the relationship between CEO tenure and CEO international experience.

An additional factor may be the CEO's origin—from within the organization or outside the organization. When faced with a succession event, the board of directors could select either an internal candidate from within the organization (an inside succession) or someone from outside the focal firm (an outside succession) (see, e.g., Finkelstein and Hambrick, 1996; Vancil, 1987 for extended discussions of CEO succession). The inside succession constitutes a traditional succession event (Vancil, 1987). A key benefit of an inside succession is that the incoming CEO is familiar with the internal workings of the firm (Finkelstein and Hambrick, 1996).

Given the reported rarity of international experience among organizational members, an inside candidate with international experience may be unavailable. An outside successor, however, does not bring the firm specific knowledge possessed by the inside successor. To offset this situation, the board could select a person from outside the firm with other valuable resources—i.e., an outstanding record in international initiatives. In the case of an outside succession, the CEO would have no tenure with the firm, but would presumably bring extensive international experience. With the outside succession, then, there is a recognized trade-off between experience with the focal organization and the perspective/experiences of an organizational outsider. Accordingly, outside succession, too, could be a moderating influence:

Hypothesis 3: Outside succession will moderate the relationship between CEO tenure and CEO international experience.

INTERNATIONAL EXPERIENCE AND FIRM PERFORMANCE

There are several potential benefits derivable from CEO international experience. One benefit of exposing an executive to international assign-

ments is the development of an international network, critical for firms competing in the global environment (e.g., Kets de Vries and Mead, 1992; Roth, 1995). Firms operating in multinational markets rely extensively on intra-firm coordination across business units to achieve corporate performance (Kim and Mauborgne, 1991). Firms would likewise rely on inter-firm coordination with relevant stakeholders (e.g., suppliers, customers) to facilitate organizational success. In particular, direct experience in managing international operations would provide an executive with a more complete understanding of the contribution of these units/constituencies to overall firm performance.

Moreover, the primary rationale for any increase in the value that organizations place on international exposure for their high ranking officers may be a direct function of the expectation that such experiences will better enable firm officers to contribute to overall performance. This is consistent with the view that exposure to international markets requires unique strategic leadership capabilities (e.g., Daily and Schwenk, 1996). A direct relationship between CEO experience and firm outcomes (i.e., performance) is also consistent with the view that "...executives matter above and beyond rational analytical processes and industry characteristics" (Hitt and Tyler, 1991: 341). Accordingly,

Hypothesis 4: CEO international experience will be positively related to firm performance.

A stream of research has investigated the relationship between the degree of firm internationalization and firm performance. Sullivan (1994) reviewed the existing studies and noted the mixed results: six studies demonstrated a positive relationship, five studies demonstrated a negative relationship, and six studies concluded the relationship was indeterminate. Given the uncertain relationship between the degree of internationalization and firm performance, other factors might influence this relationship. It may be, for example, that the degree of internationalization plays an intermediary role in establishing a relationship between CEO international experience and firm performance. Perhaps it is only in environments where the firm has substantial exposure in international markets that the international experience of the

CEO is at issue with regard to firm performance. There is some evidence to sustain this view. Recent research has found no direct relationship between CEO international experience and firm performance, but has found that when international interdependence for the firm was high, CEO international experience was positively and significantly related to firm performance (Roth, 1995). Consistent with this perspective, we hypothesize that:

Hypothesis 5: The degree of firm internationalization will moderate the relationship between CEO international experience and firm performance.

Consistent with hypothesis three, the nature of CEO succession (i.e., inside, outside) may moderate the relationship between CEO international experience and firm performance. Firms might elect to hire international experience from outside the organization. As we have noted, the external CEO candidate will have less familiarity with the internal workings of the organization, but the international expertise which this candidate brings—a potentially critical resource—may offset this lack of inside knowledge, resulting in improved firm performance.

A recent example may help substantiate the importance of this scenario in CEO succession decisions. When James Preston announced his retirement as CEO of Avon Products Inc., Avon's board of directors bypassed several inside candidates for succession to the position of CEO (Parker-Pope, 1997). The board chose Charles Perrin as Mr. Preston's successor. A central consideration in this decision was Mr. Perrin's extensive international experience (Parker-Pope, 1997). The board felt that this expertise was essential given the strong exposure of the firm to non-domestic markets. This example is especially noteworthy because Mr. Preston had been an outspoken advocate for the advancement of women to high-ranking corporate positions. Interestingly, all three internal candidates for succession to Mr. Preston's position were women. For Avon, the trade-off between the firm specific knowledge of an insider was apparently offset by the value of the international experience of the outsider. Accordingly,

Hypothesis 6: Outside succession will moderate the relationship between CEO international experience and firm performance.

METHODS

Sample

The sample for this study is *Fortune* 500 firms. These firms are appropriate for our investigation because they include a variety of industry sectors spanning manufacturing and service firms. These firms also provide heterogeneity with regard to the degree of firm internationalization. Lastly, as publicly-traded firms, these organizations are required to file documents with the Securities and Exchange Commission which enabled us to identify the CEO and Corporate Secretary, and provided access to the appropriate financial and internationalization information.

We rely on a combination of information provided by the CEOs of these firms, as well as archival data. Information containing CEOs' career progression (i.e., tenure with the focal firm, tenure as CEO, tenure and assignments with other firms, assignments and responsibilities for the focal firm) was obtained through the office of the Corporate Secretary. Corporate Secretaries were identified from SEC filings (e.g., proxy statement) for all firms listed in the 1997 *Fortune* 500 ranking (*Fortune*, 1997).

Corporate Secretaries were sent an initial letter explaining the general purpose of this research with a request for the career resume of the current CEO.¹ Follow-up letters were sent to all non-respondents four weeks after the initial request. These two mail requests resulted in responses from 383 firms. Of these respondents, 16 firms declined to participate in the study. This resulted in an effective response rate of 76.62 percent. This response rate is substantially higher than most survey research focusing on high-ranking

¹ Letters were not sent to 20 firms known to be in the midst of a CEO change or a major strategic shift (e.g., merger/acquisition) during the study period. Also, firms which had not filed SEC documents in the past two years were excluded from the study. Additionally, only one request was sent to obtain CEO information for John Biggs, CEO of both CREF and TIAA. This resulted in an effective population of 479 firms.

corporate officers/directors (e.g., Hoffman and Gopinath, 1994; Pearce and Zahra, 1991).

Variables

CEO tenure is simply the number of years in which the CEO has served in his or her current position. CEO international experience is a composite of two variables—the number of international assignments and total years in such assignments (for discussion see, e.g., Sambharya, 1996; Sullivan, 1994). This index facilitates capturing the distinction between an officer with a single international assignment of fifteen years as compared to another officer with fifteen years of international experience, but in three separate venues. Because the distribution of international experience for this sample was not normal, this variable was transformed. CEO succession refers to whether the current CEO was employed by the focal firm immediately prior to his or her promotion to CEO (inside succession) or by another firm (outside succession). CEO tenure, CEO international experience, and CEO succession data were collected from the information provided through the office of the Corporate Secretary.

We rely on a multi-item construct of internationalization. Our approach is similar to that of Sullivan (1994), who suggested that inclusion of multiple approaches for capturing the degree of firm internationalization may provide a more meaningful measure than single indicators. We include (1) foreign sales as a percentage of total sales, (2) foreign assets as a percentage of total assets, (3) the number of foreign subsidiaries relative to the company's total number of distinct operating units, and (4) the dispersion of the subsidiaries of a firm among ten psychic zones of the world identified by Ronen and Shenkar (1985). A confirmatory factor analysis indicates that the four-item construct of the degree of firm internationalization constitutes a robust construct. Also, the four-item variable has a reliability coefficient (Cronbach's alpha) of 0.93. The data for the degree of firm internationalization construct were collected from Compact Disclosure/Worldscope Global, 1996 and the *Directory of Corporate Affiliations*.

Past research has strongly urged the reliance on multiple measures, spanning both accounting and market return measures, to adequately capture

firm performance (e.g., Chakravarthy, 1986). Accordingly, we include return on assets (ROA) and return on investment (ROI) as our accounting measures and market-to-book ratio as our market measure. Gomez-Mejia and Palich (1997) suggest that ROA is an appropriate performance measure due to the relative inability of firm management to manipulate this measure. Moreover, ROA is "perhaps the most common measure of firm performance in management research" (Gomez-Mejia and Palich, 1997: 318) and particularly useful for examining performance for firms with international exposure (Kim, Hwang and Burgers, 1989). We also include ROI. Based on an extensive analysis of performance data, Woo and Willard (1983) concluded that ROI provides the most comprehensive measure of firm performance.

Market-to-book ratio constitutes our market-based measure of firm performance. Whereas accounting-based measures reflect past and present firm performance, a market measure such as market-to-book ratio provides an indication of the firm's future performance potential (e.g., Keats and Hitt, 1988). Specifically, market-to-book ratio reflects the firm's ability to exceed expected returns in the future (e.g., Brigham, 1995; Chakravarthy, 1986).

All performance measures are computed as three-year averages. Reliance on three year averages smoothes fluctuations in the performance measures specific to a given year (e.g., Gomez-Mejia and Palich, 1997). All performance data are collected from Compact Disclosure/Worldscope Global for the years 1994–1996. Where CEOs have not been in office for the entire period, we rely only on those years for which they have held the position of CEO.

CEO age, CEO functional background, and firm size are control variables. Associations involving CEOs may often be a function of unobserved, spurious effects of their age (e.g., Hambrick and Mason, 1984; Finkelstein and Hambrick, 1996). CEOs' functional background is used because of its demonstrated relationship with corporate outcomes (e.g., Finkelstein and Hambrick, 1996; Hambrick and Mason, 1984; Hayes and Abernathy, 1980; Thomas, Litschert and Ramaswamy, 1991). The notion is that CEOs from "output" (e.g., marketing, sales, R&D) and "throughput" (e.g., production, process engineering) functions may be associated with more favorable corporate outcomes as compared to functions not

integrally involved in organizations' core activities (e.g., legal, finance). Firm size is a common control variable due to its reported relationship with firm performance (e.g., Gomez-Mejia and Palich, 1997). Firm size has also been found to be positively related to top management team experience (Sambharya, 1996). Consistent with past international management research we rely on firm sales as our measure of size (e.g., Gomez-Mejia and Palich, 1997; Roth, 1995).

ANALYSES AND RESULTS

Hypotheses 1 through 3 may be simultaneously addressed with a hierarchical multiple regression (Table 1). The control variables—firm size, CEO age, CEO functional background—are entered in the first step in all models. There is no support for the first hypothesis that there will be a negative relationship between CEO tenure and CEO international experience. The second hypothesis, positing that the degree of firm internationalization will moderate the relationship between CEO tenure and CEO international experience, also received no empirical support. Hypothesis 3—that outside CEO succession will moderate the relationship between CEO tenure and CEO international experience—is strongly supported. Both outside succession and the outside succession/CEO tenure interactive term add substantially to the regression model. Indeed, the total explanatory power of this model results in an r of 0.58 ($r^2 = 0.34$).

The remaining hypotheses (H4-H6) may be simultaneously assessed as well. Table 1 provides the results of hierarchical multiple regressions with ROA, ROI, and market-to-book ratio as dependent variables. Hypotheses 4, 5, and 6 were supported across all three dependent variables. There is consistent evidence that CEO international experience is positively related to corporate financial performance. Moreover, there is evidence of the two posited interactive effects. The CEO international experience with degree of firm internationalization term is related to the three indicators of corporate financial performance, as is the interaction of CEO international experience and outside succession. The explanatory power for the respective models is 0.311 ($r^2 = 0.097$) for ROI, 0.278 ($r^2 = 0.077$) for ROA, and 0.272 ($r^2 = 0.074$) for market-to-book ratio.

DISCUSSION

We noted in an earlier section that one of the more prevalent cautions about executives accepting assignments abroad was the risk of their being distant from corporate headquarters for extended periods. One could imagine a series of executive-level changes in personnel, practices, and responsibility about which the expatriate manager may not be well informed, due simply to the distance from headquarters. Perhaps it is accurate that the cliché “out-of-sight, out-of-mind” is a legitimate risk. That, in addition to the often cited family and social tensions associated with expatriate assignments (e.g., Black *et al.*, 1992; Yurkiewicz and Rosen, 1995), the cliché may underscore the resistance to such relocations (Dalton and Wimbush, 1998). This study, however, may provide an alternative perspective. For those who would aspire to the executive suite, such a view toward international assignments may be shortsighted.

Consider, for sake of discussion, that international reassignment does have a substantial downside with respect to one's advancement in the focal organization. Such effects do not necessarily apply to other organizational contexts. The main effect for CEO succession and the interactive term between outside CEO succession and CEO tenure on CEO international experience may demonstrate that organizations increasingly consider international experience to be of fundamental importance in the selection of outside successor CEOs. Our results further indicate that international experience may be of fundamental importance to the firms for which internationally seasoned executives may work in the future. The interactive term between outside CEO succession and international experience with corporate financial performance provides an interesting result. Firms with CEOs joining a company with international experience enjoyed firm performance advantages with regard to all three performance measures (ROA, ROI, and market-to-book ratio). It is also notable that CEO international experience interacts with the extent of firm internationalization for higher corporate financial performance.

It may be that firms with substantial foreign exposure do seek executives with international credentials. They do not, however, always select such individuals from within the firm.

Table 1. Results of hierarchical multiple regression¹

| Dependent Variable: CEO International Experience | | | | | |
|--|--|-------|----------------|--------------|------------|
| Step# | Variables | R | R ² | ΔR^2 | ΔF |
| 1 | Control Variables: Firm Size, CEO Age, CEO Functional Background | 0.331 | 0.109 | 0.109 | 17.87*** |
| 2 | CEO Tenure (CT) | 0.336 | 0.113 | 0.004 | 1.13 |
| 3 | CEO Succession (CS) | 0.368 | 0.135 | 0.022 | 7.60** |
| 4 | Degree of Firm Internationalization (DFI) | 0.368 | 0.135 | 0.000 | 0.047 |
| 5 | CT \times DFI | 0.369 | 0.136 | 0.001 | 0.036 |
| 6 | CT \times CS | 0.579 | 0.335 | 0.199 | 65.77*** |
| Dependent Variable: Return on Investment | | | | | |
| Step# | Variables | R | R ² | ΔR^2 | ΔF |
| 1 | Control Variables: Firm Size, CEO Age, CEO Functional Background | 0.096 | 0.009 | 0.009 | 0.821 |
| 2 | CEO International Experience (IE) | 0.173 | 0.030 | 0.021 | 4.76* |
| 3 | CEO Succession (CS) | 0.180 | 0.032 | 0.003 | 0.667 |
| 4 | Degree of Firm Internationalization (DFI) | 0.183 | 0.033 | 0.001 | 0.366 |
| 5 | IE \times DFI | 0.261 | 0.068 | 0.034 | 9.39** |
| 6 | IE \times CS | 0.311 | 0.097 | 0.029 | 6.66** |
| Dependent Variable: Return on Assets | | | | | |
| Step# | Variables | R | R ² | ΔR^2 | ΔF |
| 1 | Control Variables: Firm Size, CEO Age, CEO Functional Background | 0.034 | 0.001 | 0.001 | 0.101 |
| 2 | CEO International Experience (IE) | 0.176 | 0.031 | 0.030 | 7.18** |
| 3 | CEO Succession (CS) | 0.186 | 0.035 | 0.004 | 0.980 |
| 4 | Degree of Firm Internationalization (DFI) | 0.190 | 0.036 | 0.001 | 0.393 |
| 5 | IE \times DFI | 0.243 | 0.059 | 0.023 | 6.22* |
| 6 | IE \times CS | 0.278 | 0.077 | 0.018 | 3.93* |
| Dependent Variable: Market-to-Book Ratio | | | | | |
| Step# | Variables | R | R ² | ΔR^2 | ΔF |
| 1 | Control Variable: Firm Size, CEO Age, CEO Functional Background | 0.014 | 0.001 | 0.001 | 0.015 |
| 2 | CEO International Experience (IE) | 0.128 | 0.016 | 0.015 | 4.24* |
| 3 | CEO Succession (CS) | 0.137 | 0.019 | 0.003 | 0.639 |
| 4 | Degree of Firm Internationalization (DFI) | 0.138 | 0.019 | 0.000 | 0.075 |
| 5 | IE \times DFI | 0.229 | 0.052 | 0.033 | 8.96** |
| 6 | IE \times CS | 0.272 | 0.074 | 0.022 | 5.19* |

¹The ΔF -ratio test assesses the statistical significance of the incremental ΔR^2 from step to step in the hierarchical multiple regression.

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

Instead, when replacing a current CEO, they are apparently able to identify an outside executive with the requisite international experience. This view is consistent with our finding that the interactive term between CEO international experience and degree of firm internationalization is related to ROI and market-to-book ratio. This finding may have interesting implications for management development.

On-the-job experiences are increasingly recognized as important for management development (e.g., Ohlott, Ruderman and McCauley, 1994). Wick (1989), for example, found that on-the-job experiences account for 70 percent of all managerial development experiences. Such development is believed to occur when managers are challenged in their jobs (McCauley *et al.*, 1994). Few experiences are likely to be as challenging for managers as international assignments. As evidence of the challenges associated with international assignments, McCauley *et al.* (1994) found that managers with foreign assignments, as compared to those with domestic assignments, experienced greater job overload, greater external pressure, and greater pressure from the visibility and responsibility of their jobs.

While international assignments may present a host of attendant problems (i.e., pressure from both the work and non-work settings), the results of this study suggest that having this type of experience in one's career portfolio may enhance the likelihood of being appointed CEO at another firm. These results may have interesting implications for organizations seeking to retain talented managers with international experience.

We would also note that outside CEO successors with international experience are significantly and positively related with all three of the performance measures, ROI, ROA, and market-to-book ratio. This finding indicates that not only are firms hiring outside talent with international experience, but that this strategy is apparently effective. Outside successor CEOs with international experience would appear to be a promising investment with regard to corporate financial performance.

Conclusion

It is difficult not to be struck by a notable irony. Some executives may not be comfortable with international assignments as they believe that the

distance from headquarters puts them at an informational and networking disadvantage. But, it seems that some executives with substantial international activity in their portfolios are very attractive to other firms. Of course, these executives presumably have little direct information and internal networks in these outside firms that apparently seek their services. It may be, then, that demonstrated international experience does, in fact, increase opportunities for a position in the executive suite, even though that position may not be in the focal organization.

Sullivan (1994), in his review, expressed some frustration in summarizing the literature on the degree of firms' internationalization and performance. There is also continuing discussion about CEOs' actual role in the performance of the firm (e.g., Thomas, 1988; see also Daily and Dalton, 1993 for related discussion). It may be that the results reported here constitute a modest step in synthesizing these concerns, especially with regard to internationalization of the firm, outside successors, and their apparent interaction.

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