

RESEARCH NOTES AND COMMUNICATIONS

FOREIGN EXPERIENCE OF TOP MANAGEMENT TEAMS AND INTERNATIONAL DIVERSIFICATION STRATEGIES OF U.S. MULTINATIONAL CORPORATIONS

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This paper extends upper echelon theory to the international business arena and tests the hypothesis that the foreign experience of top management team (TMT) members is associated with international diversification strategies. Regression analyses indicate that TMTs with a higher mean, greater heterogeneity, and a higher proportion of managers with foreign experience in 54 U.S. multinational corporations were significantly associated with the firm's international involvement.

Hambrick and Mason's (1984) upper echelon theory has become an important topic in the field of strategic management, as reflected in the volume of research in academic journals that it has generated. Much of the current research on top management teams (TMTs) has focused almost exclusively on the domestic context of the U.S.A. The business world, however, is becoming increasingly global in nature due to the intensity of international competition. Most U.S. multinational corporations (MNCs) and a growing number of small to medium size companies are dependent on substantial foreign sales and thus profits. Empirical research suggests that TMTs influence organizational outcomes such as corporate diversification strategy (Michel and Hambrick, 1992; Wiersema and Bantel, 1992), firm performance (Murray, 1989), and strategic orientation (Chaganti and Sambharya, 1987).

Key words: top management teams; international diversification; multinational corporations; international human resource management; foreign experience

The purpose of this paper is to test whether the international experience of TMTs of U.S. multinational corporations is associated with their international diversification strategies. Researchers have studied demographic characteristics such as age, tenure, education, functional background, and outsider orientation but have neglected the international experience of TMTs. This paper will examine the international experience of TMTs and its relationship to international diversification strategies.

BACKGROUND

Several studies have shown that international diversification leads to better performance (Buhner, 1987; Grant, 1987). The success of international diversification has been attributed to market opportunities (Buhner, 1987), stabilization of returns (Caves, 1982), market power and returns to intangible assets (Grant, 1987). While the literature on the reasons for international

diversification is vast, the internal processes which lead firms to diversify internationally have yet to be explored. Although international diversification has been shown to be successful in the literature, it is fraught with risks and uncertainty. The management of a firm that diversifies internationally has to deal with unknown cultures, new competitors, and a strange and complex environment characterized by a different set of economic, political, and legal factors. The degree to which a firm diversifies internationally indicates its multinational/transnational nature (Perlmutter, 1969).

In an exhaustive review of the diversification literature in general, Hoskisson and Hitt (1990) stated that the antecedents of diversification need to be examined in order to understand the phenomenon. The strategic choice paradigm states that managers have a tremendous impact on the future direction of the firm. Hoskisson and Hitt (1990) further state that researchers need to identify managerial competencies and incentives which drive diversification. Prahalad and Bettis (1986) state that the 'dominant logic' of the firm is a prime motivator for firm diversification. They define 'dominant logic' as the attitudes, beliefs and mindsets of top management teams (TMTs) that shape the character and personality of the firm. Buckley (1993) made a strong plea for the incorporation of the role of management in internalization theory. The motivation to diversify internationally is a function of the extent to which TMTs have a mindset which incorporates a worldwide outlook.

The study of TMTs has its roots in the notion of the 'dominant coalition' and is the focus of Hambrick and Mason's (1984) upper echelon theory. Building on the concept of strategic choice, the upper echelon perspective makes a strong case for the influence of managers on organizational outcomes over other variables such as environment and industry influences. Three studies have examined the relationship between TMTs and organizational outcomes in the international context. Norburn (1987) compared TMTs from the U.S.A. and U.K. He found that there were significant differences between American and British top management teams in terms of corporate experiences, education, and self-concept with regard to aspiration and executive succession traits. Sambharya (1989) examined the TMTs of 53 American MNCs and found that the diversity

of age, mean tenure, and proportion of MBAs had a strong influence on firm performance after controlling for firm size and size of TMT. Wiersema and Bird (1993) looked at the composition of Japanese TMTs and its relationship to executive turnover in a four industry sample. They found that age, tenure, and prestige of university were strong predictors of TMT turnover. However, to the best of our knowledge no study has dealt with the international demographics of the top management team and their relationship with international strategy.

THEORY AND HYPOTHESES

Strategic decision making is the primary task of TMTs (Wiersema and Bantel, 1992). Each top executive's perception and interpretation is a reflection of his or her 'cognitive state' which influences his or her decisions. Hambrick and Mason's (1984) model of upper echelon theory is based on capturing beliefs and values through demographic variables. Demographic characteristics have served as surrogates for measuring cohort behavior (Pfeffer, 1983). The advantages of using demographic variables include their objectivity, parsimony, comprehensiveness, logical coherence, predictive power, and testability (Hambrick and Mason, 1984; Pfeffer, 1983). Demographic composition has been studied in terms of traits (mean levels) and diversity (heterogeneity).

Hambrick and Mason (1984) stated that other career experiences besides functional track can be expected to influence organizational outcomes. Executives are influenced by their backgrounds and develop biases, attitudes, values, aspirations, and behaviors based on their experiences throughout their lives. Managers are guided by their belief systems in interpreting their business environments. Unlike the other demographic variables such as age, tenure, functional background, and education, not every executive has international experience. Managers, however, can acquire international experience either through education or tenure abroad.

There exists a substantial body of literature which supports the upper echelon theory. The profile of the TMT in terms of its demographic composition such as age, tenure, education, and functional orientation is the focus of most studies

in this area (e.g., Chaganti and Sambharya, 1987; Murray, 1989; Wiersema and Bantel, 1992). Despite the vast amount of research done on TMTs, scholars have largely ignored internationally oriented demographic variables. In this paper we investigate the effect of international demographic variables on organizational outcomes such as international diversification. We measure international demographics in this paper in terms of the international experience of the TMTs. International experience represents three separate but interrelated issues. First, international experience is a proxy for the reduction of uncertainty. Second, it is a surrogate for accumulating cultural knowledge. Third, international experience represents the response of firms to internationalize their TMTs to the forces of an expanding global economy and markets. All three processes contribute to organizational learning and build a reservoir of expertise resulting in a global mindset. The accumulation of international experience is reflected in the 'dominant logic' of the firm TMT which in turn leads to international diversification (Prahalad and Bettis, 1986). Two concepts popular in the international business literature deal directly with the psychological profile of the firm: geocentrism (Perlmutter, 1969) and administrative heritage (Bartlett and Ghoshal, 1989).

In a seminal paper, Perlmutter (1969) stated that the transnational nature of the firm is more a state of the mind. Perlmutter (1969) suggested that international firms evolved from an ethnocentric orientation to polycentric to eventually a geocentric orientation. Calof and Beamish (1994) found that firms which were geocentric had better performance. They also stated that one of the most critical issues in the development of the firm towards a geocentric organization was international assignments and training for managers.

Bartlett and Ghoshal (1989) state that a fundamental task facing MNCs is to maintain a balance between business, functional, and geographical management capabilities. They state that the administrative heritage of the firm defined as norms, values, and attitudes has a tremendous effect on the strategic posture and direction of the firm. Administrative heritage is a function of the organization's history, national culture, and the role of its top management. Although Bartlett and Ghoshal (1989) state that there are three types of firms (multinational, international, and

global) the goal of each type is to become a transnational corporation. The path to becoming a transnational corporation requires three strategic capabilities: global competitiveness, multinational flexibility, and worldwide learning. All three characteristics require changing the existing mindsets of top management. The job of top management is to legitimize and support the geographical dimensions of a firm in order to become a truly transnational company. MNCs strive to obtain a transnational (Bartlett and Ghoshal, 1989) or geocentric (Perlmutter, 1969) orientation by overcoming home country biases and develop an international outlook free of parochialism. The internationalization of TMTs is one of the prerequisites for transforming the firm into a truly transnational firm.

Black, Gregersen, and Mendenhall (1992) state that international assignments is one of the key factors in a firm's global competitiveness. They state that global assignments have three strategic functions: (1) succession planning and management development; (2) coordination and control of international operations; (3) information flow and exchange between parent and affiliates and among affiliates. According to Adler and Bartholomew (1992), the transnational manager's competence is essential to the success of any international strategy. The key transnational skills required are cross-cultural interaction, global perspective, collaboration with foreign firms, and local responsiveness. All these qualities can be gained only by a significant international assignment. Basically the foreign assignment is a surrogate for global mindset which captures many of the skills Adler and Bartholomew (1992) deem essential for international performance. International experience helps executives in formulating and implementing international strategies (Tung and Miller, 1990).

Several studies have reported some association between the level of international orientation and international activities. Kobrin (1994) found that geocentrism was positively associated with the percentage of sales and employees abroad and manufacturing presence in a number of countries. Dichtl, Koeglmayr, and Mueller (1990), in a study of small- and medium-sized firms from West Germany, Japan, Finland, South Africa, and South Korea, found that the international orientation was a predictor of their export success. Among their measures of international orientation

was the amount of time spent abroad in the form of foreign assignments or education or vacations. Norburn (1987) found that the international experience of British TMTs was higher in growth industries compared to declining industries. Kobrin (1994) found that geocentrism was positively associated with the belief that international experience is necessary to be promoted to top management and that international expertise is a critical factor in serving global markets.

Michel and Hambrick (1992) demonstrated that a firm's overall diversification posture is reflected in its composition of the TMT due to the differences in degree of integration required. Wiersema and Bantel (1992) found that changes in TMT composition were related to the organizational diversification changes. We expect the international experience of TMTs in MNCs to be reflected in their international diversification strategies. Conversely the international posture of a firm will be reflected in its TMT. If a firm is truly serious about international business and global competition then it should legitimize the power of those dealing with such issues by elevating them to the upper echelons.

Hypothesis 1a: The mean number of years of international experience of the top management team will be positively related to the amount of international diversification in an MNC.

Hypothesis 1b: A higher proportion of managers with international experience in the top management team will be positively related to the amount of international diversification in an MNC.

The homogeneity or heterogeneity of a TMT captures the breadth of perspective in organizational decision-making. Homogeneity is linked to maintaining the status quo, greater cohesion, and stability (Hambrick, 1994; Pfeffer, 1983). The literature links heterogeneity to adaptability, innovation, high-quality decision-making (Hambrick, 1994; Pfeffer, 1983), and creativity (Murray, 1989). Heterogeneity is expected to bring a diversity of viewpoints to the decision-making process as individual members have different interpretations and perspectives (Wiersema and Bantel, 1992) which are expected to enhance the information-processing capabilities of the group (Hambrick, 1994). Heterogeneity of demographic

variables has been negatively related to product diversification in empirical research. Michel and Hambrick (1992) found that functional homogeneity was positively related to a firm's diversification strategy. Wiersema and Bantel (1992) also indicated that heterogeneity of team age, team organizational tenure, team executive tenure, and educational specialization were all negatively related to changes in diversification strategy.

Heterogeneous groups are expected to take a novel approach to nonroutine problems (Hambrick and Mason, 1984). Since international diversification is a nonroutine situation that requires the attributes of novelty, adaptability, and innovation, we expect greater heterogeneity of international experience in TMTs to be associated with international diversification. Diverse TMTs may have a competitive advantage in identifying new market opportunities (Hitt, Hoskisson, and Ireland, 1994).

Furthermore, Jackson (1992) suggests that in addition to differences in perspectives, heterogeneous groups consider a broader range of information and solutions. Faced with environmental challenges, homogeneous groups cannot draw on diverse beliefs, whereas adaptive firms are characterized by diversity and take a broader range of factors into consideration. Dutton and Duncan (1987) also argue that varied beliefs increase the frequency with which strategic issues are triggered and increase the momentum for change.

Hypothesis 1c: The heterogeneity of international experience of the top management team in an MNC will be positively related to the amount of international diversification.

METHOD

Two selection criteria were used to define an MNC: (1) at least 10 per cent of total sales are from foreign operations; and (2) it must have operations in at least six countries (Vaupel and Curhan, 1973). Starting with the 1985 *Fortune* 500 firms as a base, 280 firms met the above criteria. The final sample consists of 54 U.S.-based manufacturing MNCs that responded to a questionnaire from two mailings. Thus, the response rate was 19.28 percent, which is typical for international business studies. The respondents were Senior Vice Presidents—International who

provided information on percentage foreign sales and foreign assets.

Firms conduct international business by some combination of exporting/importing, licensing, foreign direct investment (FDI), and joint ventures. All these strategies require international expertise, particularly the latter two. International experience is particularly relevant for firms which have substantial FDI. The present study focuses on MNCs which have tangible foreign assets and foreign sales. International diversification strategy was measured in terms of the percentage of foreign sales to total sales (%FORSALES) and percentage of foreign assets to total assets (%FORASSETS) (Daniels and Bracker, 1989). %FORSALES is a measure of foreign market dependence whereas %FORASSETS is one of foreign production dependence (Daniels and Bracker, 1989). The TMT was defined as those managers who held the rank of vice-president and above (Chaganti and Sambharya, 1987; Murray, 1989).

The international experience of each executive on the TMT was measured as number of years spent abroad on assignment and/or higher education, or spent in the international division from Dun and Bradstreet's *Reference Book of Corporate Managements* (1986). Three variables measuring international experience of TMTs were obtained. INTEXPM denotes the mean number of years of international experience. The homogeneity of international experience was called INTTHOMO. The proportion of top managers who had international experience was denoted by PINT#. We expect higher levels of INTEXPM and PINT# and lower levels of INTTHOMO to be significantly related to %FORSALES and %FORASSETS based on the earlier discussion. Size of the TMT was used as a control variable in this study and named TOPMGT. Sales served as a control for size of company in this study and was normalized by taking logarithmic values (LOGSIZE).

RESULTS

Summary statistics for all variables are reported in Table 1. Note the high Pearson correlations among the three international experience variables: mean (INTEXPM), homogeneity (INTTHOMO), proportion of TMT (PINT#). They

were moderately but significantly related to %FORSALES and %FORASSETS. Since the three international experience variables were highly correlated they were not used together in regression analysis due to the problem of multicollinearity.

We report the results of regressing %FORSALES and %FORASSETS on each of the three international experience variables separately after controlling for size of MNC (LOGSIZE) and size of top management team (TOPMGT) in Table 2. Results of regressing %FORSALES on INTEXPM, INTTHOMO, and PINT# are reported in Models I, II, and III respectively. The findings indicate that all three models were highly significant and accounted for 21, 28 and 18 percent of the variability in %FORSALES, respectively. All three international experience variables are highly significant with the appropriate sign. Thus, the higher the mean, the greater the heterogeneity, and the higher the proportion of managers with international experience on the TMT of MNCs, the higher their international sales. The results of regressing %FORASSETS on INTEXPM, INTTHOMO, PINT# are reported in Models IV, V, and VI, respectively. Results indicate Models IV and V were marginally significant and accounted for a variance of 13 and 12 percent respectively. Thus, Hypotheses 1a and 1c were upheld but Hypothesis 1b received only partial support. Both involvement in foreign markets and to some extent foreign direct investment were influenced by the TMTs of MNCs. Thus, we found support for upper echelon theory in the international context.

DISCUSSION AND CONCLUSION

The present study extends Hambrick and Mason's upper echelon theory to international aspects of firm behavior. The international experience of TMTs is reflected in the MNC's international diversification strategy. One way firms can respond to global competition is by giving power and importance to managers with international experience, thus legitimizing the international career path. Companies such as Ford, Sara Lee, and 3M have made it a policy that the road to the TMT lies via vital international assignments. Even though several studies show that U.S. managers feel that an international assignment is detri-

Table 1. Means, standard deviations and correlations of all variables

Variable	Mean	S.D.	2	3	4	5	6	7
1 INTEXPM	3.43	2.93	-0.78***	0.80***	0.27**	0.36***	0.47***	0.39***
2 INTHOMO	2.21	0.86		-0.70***	-0.01	-0.42***	-0.57***	-0.36**
3 PINT#	0.27	0.20			0.26**	0.23**	0.41***	0.35**
4 TOPMGT	14.27	5.63				0.34***	0.12	0.20*
5 LOGSIZE	8.23	1.02					0.23**	0.17
6 %FORSALES	0.27	0.15						0.55***
7 %FORASSETS	0.26	0.13						

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

Table 2. Results of regressing international diversification strategies on foreign experience of TMTs

Model	%FORSALES			%FORASSETS		
	I	II	III	IV	V	VI
LOGSIZE	0.09	-0.02	0.15	0.00	-0.05	0.05
TOPMGT	-0.02	0.12	-0.02	0.10	0.20	0.11
INTEXPM	0.42**	-	-	0.32***	-	-
INTHOMO	-	-0.53***	-	-	-0.31***	-
PINT#	-	-	0.37***	-	-	0.25***
R^2	0.21	0.28	0.18	0.13	0.12	0.10
F	4.78	6.77	3.70	2.62	2.41	1.98
Significance	0.007	0.0006	0.02	0.06	0.08	0.13

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

mental to their careers, the global expansion of American businesses continues unabated in response to the international marketplace. Our study indicates that large U.S. MNCs that have a substantial international presence are recruiting and promoting executives to senior management positions. MNCs need to do a better job of selling the notion of international assignments to their managers as a stepping stone to entry into the upper echelon and not into obscurity.

The present study links international demographic characteristics to international strategies. We have shown that higher mean years, greater heterogeneity, and a higher proportion of managers with international experience in the top management team are all significantly related to a stronger international presence and posture of an MNC. These results confirm Bartlett and Ghoshal's assertion that a true global manager's job is to integrate and coordinate the functional, product, and geographical aspects of doing business all over the world.

Bartlett and Ghoshal (1992) state that the biggest constraint facing globalization is the paucity of managerial talent with international expertise. They suggest that MNCs should identify management potential in their worldwide operations and develop their geographical capabilities. Clearly, MNCs need to integrate the international human resource function with their global strategy. There are many other aspects of international demographics which can be studied. Diversity of nationality can be examined and related to how geocentric an MNC has become. International experience and its association with international strategies should be empirically tested on European and Japanese MNCs. What kind of fit is needed between international human resources and global strategies and multidomestic strategies? Does an executive's exposure to a particular culture or country predispose or cause him or her to invest or expand into that market, and what are the strategic implications for these actions? Numerous areas of research have yet to

be investigated in the domain of international strategy and human resource fit.

There are several limitations to the present study. A longitudinal study may shed more light on the causal link between international diversification strategies and international experience of TMTs. The distribution of international experience by region or countries was not measured in this study. International experience can be potentially accumulated in various functional areas such as marketing and sales, operations, finance and accounting, administration and personnel, research and development, and production and engineering. However, such fine-grained data are difficult to obtain and thus international experience was taken as a whole. We did not control for industry effects in this study due to the nonavailability of industry data for both the international demographics and international diversification. We hope, however, that the present study will stimulate future research linking the demographic characteristics of top management teams to other international strategies and outcomes in different countries, contexts, and cultures.

ACKNOWLEDGEMENTS

The author thanks Briance Mascarenhas, Milton Leontiades, Sam Rabinowitz, and Irene Goll for their helpful comments on an earlier version of the paper.

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