

THE INTERNATIONALISATION OF TOP MANAGEMENT TEAMS AND BOARDS IN NORDIC COUNTRIES

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Abstract

As firms internationalise, they face increasingly complex environments and must learn to deal with the challenges that go along with the establishment of foreign operations. Appointing foreign directors at board and top management team level is one way of handling such challenges, as this enables the company to draw upon a larger knowledge-base at the top of the organisation and extends the company's international business networks. A sample of 118 companies from Denmark, Finland, Norway and Sweden was employed in order to test whether higher levels of internationalisation increases the likelihood of appointing foreigners board and top management level. The effects of foreign ownership, government interest, and large-scale merger activity were also studied. Results show broad support for the hypothesised relationships between internationalisation indicators and composition of boards and top management teams.

Keywords: internationalisation, top management team, board of directors

1. INTRODUCTION

A key topic in the international business literature in recent years has focused on how multinational companies (MNCs) increase and extend their organisational capabilities, networks and resources. One element of this process is the appointment of foreign directors to the Board of Directors (BoD) and the top management team (TMT). Building on the argument that 'TMT' composition patterns may be influenced by the requirements of the organisation, Athanassiou and Nigh (1999) show that the need for larger international business advice network density¹ of TMTs is positively influenced by the extent of firm internationalisation. They argue that higher levels of internationalisation increases the need for tacit knowledge sharing among TMT members. Elron (1997) studied the process and performance implications of diverse TMTs in international subsidiaries and found evidence to support the argument that culturally heterogeneous TMTs are more effective and have higher overall capabilities than culturally homogeneous teams. Oxelheim and Randøy (2003) suggest that the appointment of foreign BoD members will improve both internal governance structures and have a positive symbolic effect in the external environment of the firm.

These studies show that there are realisable advantages of appointing foreign directors, as these individuals will enable the MNC to accumulate knowledge about foreign markets or regions, obtain new business perspectives, widen international networks, improve internal structures and processes, and send positive signals to the external environment of the firm. Companies aiming to achieve sustainable growth in foreign markets will need to facilitate the simultaneous notions of global competitiveness and local adaptation (Bartlett and Ghoshal, 1989). The appointment of foreign directors could very well

support this process as it enables the company to acquire valuable knowledge about foreign markets and enriching cultural perspectives. In recent years, some companies have recognised these potential advantages and appointed one or more foreign company directors. A few companies have gone one step further and developed mixed-nationality teams at the top of their company. These are primarily companies with a high level of foreign ownership, a truly global business outlook, or a combination of these two. Evidence provided by Ruigrok and Wagner (2003) shows that firms which achieve a fit between the level of 'TMT' cultural heterogeneity and the degree of MNC internationalisation will display superior performance.

This paper employs a year 2000 dataset of BoD and 'TMT' member nationalities in 118 Nordic companies in order to analyse whether certain indicators of firm internationalisation influence the likelihood of appointing foreign BoD and 'TMT' members in these countries. A Blau index (Blau, 1977) of nationality diversity at BoD and 'TMT' level will be employed in order to assess the extent to which company internationalisation, foreign ownership, government ownership, and merger activities can explain the presence of foreign directors on Nordic BoDs and TMTs.

The subsequent chapter will contain a comprehensive literature review, which aims to further clarify the background and purpose of this study. This will be followed by chapter three, which identifies and defines the main constructs employed in the paper. Subsequently, the literature review will provide the basis for the development of the hypotheses in chapter four. In chapter five, the data and statistical methods will be further elaborated, and chapter six will present the results emerging from the statistical

¹ "Advice network density describes the number of manager pairs which form among TMT members to facilitate the exchange of advice and information on international operations divided by the total possible pairs in the TMT network." (Athanassiou and Nigh, 1999: 88)

analysis of the data. Comparative reference will be made to previous studies in this area.

Finally, the limitations of the study will be pointed out in the final chapter, and some implications for future research will be proposed.

2. BOARDS AND TOP MANAGEMENT TEAMS ON THE PATH TO INTERNATIONALISATION

About two decades ago, Hambrick and Mason (1984) instigated an entirely new stream of research on upper echelons theory and the influence of management on organisational outcomes. The upper echelons perspective is based on the behavioural view of the firm (Cyert and March, 1963), and proposes that managerial cognitions, attitudes and value systems can be used to predict firm strategic choices and company processes. Combining upper echelons theory with Pfeffer's (1983) assertions on organisational demography, a substantial body of research has surfaced over the last 20 years, attempting to link the demographic characteristics of top management teams to firm performance and various other organisational outcome variables. Finkelstein and Hambrick (1996) outline and describe the vast strategic effects that TMTs and BoDs can have on their organisations. They comprehensively review the functioning of TMTs and the various ways in which top managers influence organisational outcomes, and examine the strategic role of BoDs. The authors suggest that in an advisory and strategy-setting capacity, the BoD is indeed relevant to upper echelons research, provided that its involvement level in operational matters is reasonably high.

However, relatively small progress has actually been made towards a coherent and synthesised theory derived out of the upper echelons perspective. This is mainly due to the many contradictory findings and the high level of uncertainty resulting from the reduction of human behavioural differences into measurable variables based on demographic characteristics such as age, gender, company tenure, or indeed nationality.

The resource-based view of the firm (Barney, 1991; Wernerfelt, 1984) is to a large extent congruent with the upper echelons perspective of the organisation. A resource-based view of the firm would present TMT members as valuable, rare, inimitable and non-substitutable resources (Barney, 1991) that contribute various types of knowledge and expertise to the firm. In their capacity as top managers they have a significant ability to influence organisational outcomes. However, many proponents of the resource-based view would disagree with the attempts to establish a more or less direct link between top management characteristics and firm performance or other organisational outcomes, instead arguing the importance of studying the influence of TMTs on intermediary processes and process outcomes within the organisation (Lawrence, 1997). While upper echelons theory is conceptually appealing, it is a theory that needs to be applied with caution, as it has become increasingly clear that demographic characteristics can at best be employed as rather indirect predictors of organisational outcomes. In addition, upper echelons theory has been found to be more applicable under certain types of environmental conditions. For example, Carpenter (2002) argues that the link between TMT composition and firm performance can be properly examined only if the analysis incorporates contextual factors that are likely to influence firm performance. Similarly, Keck (1997) found that a resource-based view of the TMT would be applicable only under conditions of high environmental complexity.

Most upper echelons research has focused on financial performance of companies as the ultimate organisational outcome. Past studies have found positive, negative and inconclusive relations between BoD/TMT composition and performance. Dalton, Daily, Ellstrand and Johnson (1998) carried out a meta-analytic review of a large body of research linking BoD composition to financial performance. Very little evidence was found to support the claim of a direct link between organisational leadership and

outcomes. In an article on the study of managerial elites, Pettigrew (1992) noted that “...inherent difficulties in separating out the multitude of endogenous and exogenous factors that influence company performance, make the assumed effects of board demographic characteristics on board effectiveness very difficult indeed to establish” (Pettigrew, 1992: 170). Although the literature does not suggest that BoDs or TMTs do not have an impact on the financial performance of firms, it is evident that the number of other factors influencing performance makes the direct link seemingly impossible to establish.

The overall organisational impact of BoD and TMT diversity may be more closely associated with other organisational outcomes than financial performance. Therefore, a number of different organisational outcomes have either been identified in the literature as intermediary variables which again can be linked to performance, or they have been studied as organisational outcomes in their own right. Existing research has evaluated the effect of BoD and TMT heterogeneity on organisational outcomes such as strategic processes (Knight et. al., 1999), competitive moves (Hambrick, Cho and Chen, 1996), corporate diversification (Michel and Hambrick, 1992), innovation (Bantel and Jackson, 1989), and internationalisation (Tihanyi, Ellstrand, Daily and Dalton, 2000). Michel and Hambrick (1992) questioned the one-way causal relationship implied by upper echelons theory and the resource-based view of the firm when researching intermediary organisational outcomes, arguing that there may well be interactive effects between certain organisational outcomes and the human characteristics sought after at the top of the company. Indeed, Ruigrok, Peck and van der Linde (2001) found overall support for a positive impact of company internationalisation on international diversity of BoDs and TMTs.

Over the years, nationality has been identified as an important demographic concept, despite the fact that it has been devoted relatively little attention in the academic literature within upper echelons theory. Heijltjes, Olie and Glunk (2003) attribute the distinct lack of attention to nationality as a demographic variable in upper echelons research to the limited scope of studying nationality in an American context, where diversity of nationalities on BoDs and TMTs is a rare occurrence and offers limited scope for any meaningful investigation beyond the examination of individual cases. However, in the literature on group functioning and effectiveness, a number of studies have examined the effects of nationality diversity on group process and performance outcomes. For instance, Hambrick, Davison, Snell and Snow (1998) studied the behavioural traits of multinational groups and examined the effects of group members with diverse national backgrounds on group outcomes. They outline the implications of using nationality as a determinant of cultural orientation and background of individuals. It is argued that nationality has a unique ability to predict individual attitudes, behaviour, and psychological attributes along four dimensions, namely values, cognitive schema, demeanours, and language.

Perlmutter and Heenan (1974) initially identified the importance of internationalising TMTs of MNCs. They described the inherent misfit between multinational operations and ethnocentric headquarters, and challenged American Chief Executive Officers (CEO) to appoint TMT level executives without any consideration of nationality as a selection criterion in the recruitment process. The typical attitude of MNCs was that it would require “at least another 15 years or so before we have a great variety of nationalities at corporate headquarters” (Perlmutter and Heenan, 1974: 123). Almost 30 years later most MNCs still do not have the suggested extent of nationality diversity at TMT level. Derr and Oddou (1991) recognised that the large majority of American

MNCs had not yet been able to respond to the increasing importance of foreign markets by developing a multinational culture at executive level. Prahalad and Lieberthal (1998) put forward a rather visionary argument of fit between international operations and TMT composition. Their challenge to imperialist MNCs in Europe and America is that MNCs with ambitions to be successful in massive emerging markets such as China, India and Brazil must be prepared to rethink their organisation at all levels in order to accommodate the very different consumer demographics in emerging markets. They predict that MNCs which are successful in emerging markets will be transformed over the next decades, as the emerging markets grow in importance. One likely source of corporate transformation will be the increasing pressure to compose top management in a manner that reflects the future prospective demographics of sales and production. Prahalad and Lieberthal (1998) affirm the importance of a fit between the international dispersion of operations and multicultural TMT composition, and reiterate the importance of adequate nationality representation in future TMT composition.

While the propensity to appoint foreign TMT members may mainly be determined by internal factors at the operational level such as the overall internationalisation of the workforce and the presence of the company in foreign markets, an alternative explanation for internationalisation at BoD level is offered by the agency theoretical perspective. With the separation of ownership and control in publicly traded firms (Berle and Means, 1932), there is an inherent need to align the interests of the owners with those of the managers, also referred to as the monitoring or control role of the BoD (Johnson, Daily and Ellstrand, 1996). Potential shareholders will naturally seek out companies with BoDs that are believed to be most capable of maintaining their interests. Thus, the presence of foreigners on BoDs can have a positive signalling effect in the external environment of a firm and help build trust between the company and its

international investors and other stakeholders. Along these lines, Oxelheim and Randøy (2003) considered the effect of the presence of foreign company directors on firm value in 256 Swedish and Norwegian companies. Their results indicate that higher firm value is positively related to the presence of Anglo-American BoD members in Norwegian and Swedish firms.

Only a limited number of other studies have employed nationality as a central construct in BoD and TMT research. Elron (1997) studied the process and performance implications of culturally diverse TMTs in international subsidiaries and found support for the claim that cultural differences in teams improve team effectiveness. The literature linking nationalities of BoD and TMT members to the level of firm internationalisation is particularly scarce. In a study of the presence of foreigners on Dutch and Swedish TMTs, Heijltjes, Olie and Glunk (2003) found that TMTs in the two countries have taken some steps towards appointing foreign directors as a response to increasing levels of company internationalisation. However, the authors conclude that MNCs in the two countries have yet to reach TMT internationalisation levels that reflect the level of firm internationalisation found in the companies in the study. Moreover, the authors show that TMT internationalisation is a relatively recent phenomenon in the Netherlands. In a similar vein, Ruigrok, Peck and van der Linde (2001) investigated the nationalities of BoD and TMT members in the 100 largest German, Dutch, Swiss, Japanese, British and U.S. firms in 1995 and analysed the impact of country differences, industry differences, ownership effects, size effects, and overall degree of internationalisation on the patterns of BoD and TMT composition. They found strong empirical support for the hypothesis that the levels of foreign sales and foreign employment are positively related to internationalisation of BoDs and TMTs. They also found evidence of country differences.

European integration of markets and a lack of knowledge about its effect on TMT composition in large European corporations prompted the European Corporate Governance Institute to embark on a research project dealing with the presence of foreign nationals in European BoDs and TMTs. Preliminary results indicate some traces of European integration at director level, particularly in the smaller countries, but little general support was found for a significant wave of integration across Europe in the upper echelons of organisations (Sapir, 2002). Mahoney (2000) produced a report on the 100 largest U.S. corporations and the presence of foreigners on their BoDs. Although the 100 largest American companies generated on average approximately 40% of their revenues abroad in 1998, less than 10% of the total number of non-executive directors were foreigners, and only 55% of companies had at least one foreign non-executive. Mahoney (2000) described the typical company he found in his study as a global company with an American CEO and largely American directors, leaving significant room for improvement in order to align internationalisation of sales with BoD internationalisation.

3. DEFINITIONS AND ASSUMPTIONS

Nationality as an analytical construct

Nationality of BoD and TMT members will be used as a proxy for the degree of BoD and TMT internationalisation in each company in the study. This is a composition variable which has been devoted little attention in previous literature, with a few notable exceptions (Elron, 1997; Heijltjes, Olie and Glunk, 2003; Ruigrok, Peck and van der Linde, 2001).

The study of demographic variables in TMTs and BoDs can be viewed as an attempt to single out proxies that closely resemble real value systems, attitudes and behavioural traits in the teams (Hambrick and Mason, 1984). Certain demographic variables function as cultural proxy variables. Proxies for cultural background and understanding include for example first language, international education, international business experience, regional background, or nationality. Demographic proxy variables will never entirely determine individual cultural mindsets, and many different nationalities on the BoD or TMT of a company does not necessarily signify that it is a highly heterogeneous team (Hambrick et. al., 1998; Priem, Lyon and Dess, 1999). Some foreigners are highly assimilated and may have stronger ties to their country of residence than to their original home country. Technically they will count as foreigners due to their foreign passports, although the added cultural perspectives they contribute may well be limited. Conversely, home country nationals may have accumulated vast experience from abroad and a profound understanding of foreign cultures (Hambrick et. al., 1998). Therefore, a key assumption when using nationality as a proxy for the cultural heterogeneity of a team is that the special cases will even out over a sufficiently large sample, and that the presence of members with different nationalities will generally indicate the level of cultural

heterogeneity and the international orientation of a team. Stereotyping by nationality is used in this paper as a proxy for cultural values and cognitions, behavioural characteristics and personal attitudes associated with a specific national culture (Hambrick et. al., 1998; Adler, 1986). When studying nationality of TMT and BoD members, it should be borne in mind that the real determinants of team heterogeneity are the underlying patterns of behaviour, measured through the use of demographic stereotypes such as nationality.

Despite the limitations outlined above, studying nationality as a cultural construct has some important benefits. Nationality is a clear, concise variable and is relatively simple to measure. There is very little scope for problems of interpretation. Furthermore, in a statistical study it is vital that the variable can be categorised and used for comparability purposes (Hambrick et. al., 1998).

BoDs and TMTs in the Nordic countries

Existing literature on management in Nordic countries have proposed that there are certain inherent similarities in Nordic management styles, while some intra-Nordic cultural differences persist. This has resulted in a Nordic management culture which can be described as similar but not homogeneous across the Nordic countries. The Nordic management style is typically characterised by high levels of delegation of responsibility, direct communication and close interpersonal relationships (Lindell and Arvonen, 1997). The Nordic countries can all be characterised as relatively small but open economies where firms need to internationalise in order to achieve any substantial growth and size by international standards. It has frequently been argued that small and open economies are suitable grounds for investigating the effects of internationalisation of the firm, as

companies are forced to internationalise at a relatively early stage in order to achieve substantial growth rates (eg. Johansson and Vahlne, 1977; Johansson and Wiedersheim-Paul, 1975; Oxelheim and Randøy, 2003; Randøy and Dibrell, 2002).

The four countries involved in the study practice similar corporate governance systems. The prevalent governance system in the Nordic countries is a two-tier structure with a non-executive BoD and a TMT in charge of daily operations. However, it should be noted that the Nordic governance system is in legal terms a one-tier system, as companies are technically only required to have a BoD.

The BoD is an easily identifiable organisational unit, which carries out normal non-executive governance functions, also defined as the controlling role, the advisory role, and the resource generating role (Johnson, Daily and Ellstrand, 1996). The definition problems are of a somewhat greater magnitude at TMT level, which has generated a prolific academic discussion on the issue. In the academic literature, TMTs have most frequently been defined as the CEO and all direct reports, including both line and staff functions (Hambrick, 1995). In most companies this definition is equivalent to the level of vice president (VP) and above (Sambharya, 1996). Pettigrew (1992) outlines some difficulties of defining TMTs, and suggests that the most valuable definition would be derived from observations and interviews with the top teams themselves. Hambrick (1995) asked CEOs who they perceive to be included in their TMTs, and found that nearly all CEOs stated all of their direct reports, including line functions and staff functions, and some also included key people who were technically two tiers below the CEO.

Moreover, Carpenter (2002) defined TMTs as the executives above VP level, in accordance with the suggestions of for instance Finkelstein and Hambrick (1996) and Sanders and Carpenter (1998). This resulted in U.S. teams of approximately six members on average. He states further that "...results were substantively similar to those reported when I defined the TMT more broadly as all executives at the VP level and above, which yielded a mean TMT of eleven members" (Carpenter, 2002: 279).

Measuring the degree of internationalisation

This paper acknowledges the extended academic discussion on the development of a universally applicable composite index of internationalisation (Sullivan, 1994; Ramaswamy, Kroeck and Renforth, 1996; Sullivan, 1996), and incorporates both structural and financial dimensions in one composite measure of internationalisation. The firm internationalisation measure applied in this study consists of equally weighted ratios of foreign sales to total sales (FS/TS) and foreign employees to total employees (FE/TE). Although this internationalisation measure is not optimally defined and could have included a number of other internationalisation proxies capturing for example the psychological dimension of internationalisation or the international dispersion of operations, this paper will work from the assumption that an internationalisation measure capturing both structural and financial dimensions is sufficient for the purpose of this study (and for practical reasons). This is largely in accordance with the final conclusions drawn by Ramaswamy, et. al. (1996) and Sullivan (1996).

As most Nordic companies report the number or percentage of shares held by shareholders located abroad, a unique opportunity arises in the Nordic countries to study the effect on BoD and TMT internationalisation of foreign shareholdings. The variable

foreign ownership to total ownership (FO/TO) was extracted from company annual reports and defined as a separate internationalisation variable in order to investigate whether this variable has a different effect on BoD and TMT internationalisation than the composite measure of the internationalisation of production activities described above. In a study of the degree of internationalisation of German firms, Hassel, Höpner, Kurdelbusch, Rehder and Zugehör (2003) show that variables such as foreign ownership, number of listings on foreign stock exchanges, and the use of international accounting standards capture a separate dimension of firm internationalisation related to financial and corporate governance factors of the firm.

4. HYPOTHESES

During the 1990s, a distinct trend both in multinational firms and in the academic literature was the increased attention and awareness surrounding governance issues. Increasingly large and complex organisations forced many companies to think more thoroughly through their leadership practices and make necessary improvements. Internationalisation of sales, assets and employment have been the main drivers of increasing complexity, and complexity increases with the extent and dispersion of international operations (Sanders and Carpenter, 1998). Particularly in relatively small domestic markets, the pressure to commence operations abroad in order to sustain growth will rapidly emerge, as the home market becomes saturated relatively soon (Randøy and Dibrell, 2002). It is likely that the increased awareness of corporate governance issues throughout the 1990s combined with increased organisational complexity, partly derived from internationalisation pressures on large companies in small markets, convinced the largest Nordic companies to appoint more foreigners on their TMTs and BoDs.

As companies increase their presence in foreign markets, they will naturally attract foreign investors, which will put pressure on the company to include foreign representatives on the BoD. Any foreign investor with a sufficiently large stake in the company will normally ask for a BoD member to be included which will preserve its interest (Oxelheim and Randøy, 2003). Furthermore, there is an incentive for any international company to achieve a certain degree of alignment between the composition of the BoD and TMT and the degree of firm internationalisation. This will enable the company to better understand its foreign markets and customers and to acquire specific knowledge of markets abroad. Moreover, Athanassiou and Nigh (1999) pointed out the

need for greater international business advice network density as firms internationalise. The need to extend international business networks could be facilitated by the appointment of foreigners to the TMT. Heijltjes, Olie and Glunk (2003) argued that a company is likely to benefit from having an internationally diverse TMT as it internationalises its operations. Ruigrok, Peck and van der Linde (2001) found a positive relationship between the degree of company internationalisation, measured in terms of foreign sales and foreign workforce, and the tendency of companies to have foreign members on their TMT and BoD. Out of the six countries included in their study at least two (Switzerland and the Netherlands) are relatively comparable to countries in the Nordic region in terms of country size and cultural inclinations. Thus, there is reason to believe that similar results may be found among Nordic companies.

However, the effects of internationalisation can not be expected to be of exactly the same nature for BoDs and TMTs, as these two units serve very different functions within a company. Oxelheim and Randøy (2003) found that foreign ownership amounted to 31% for listed Norwegian companies and 33% for companies listed on the Swedish stock exchange at the end of 1998. Although it can be expected that most companies have foreign ownership spread across a large number of foreign shareholders, neither of whom have a controlling or near-controlling interest, it is likely that a certain degree of foreign ownership interest will trigger the appointment of foreign BoD members, and that the presence of foreign BoD members will at the same time attract more foreign investment. The study by Oxelheim and Randøy (2003) showed that companies with foreign (Anglo-American) board members are valued more highly by the market, implying that there is a market premium to be gained from internationalising the BoD. Moreover, Hassel et. al. (2003) suggest that foreign ownership as an internationalisation measure will be related to corporate governance aspects of the firm.

Conversely, the appointment of foreigners at 'TMT' level is expected to be more closely related to business-level considerations such as the presence of a company in foreign markets and the extent to which the company has a highly international workforce. Due to the high expected correlation between company internationalisation in terms of sales and workforce and ownership internationalisation, there is reason to believe that there will be sufficient 'spillover effects' to find positive relationships between all the above-mentioned internationalisation variables and BoD/'TMT' internationalisation. Nevertheless, the extent of foreign ownership is expected to be more strongly related to BoD internationalisation, whereas the composite measure of foreign sales and foreign workforce is expected to be more closely related to 'TMT' internationalisation.

H1a: The degree of company internationalisation in terms of foreign sales and foreign workforce is positively related to BoD internationalisation.

H1b: The degree of company internationalisation in terms of foreign sales and foreign workforce is positively related to TMT internationalisation.

H1c: The degree of company internationalisation in terms of foreign sales and foreign workforce is more strongly related to TMT internationalisation than to BoD internationalisation.

H2a: The degree of company internationalisation in terms of foreign ownership is positively related to BoD internationalisation.

H2b: The degree of company internationalisation in terms of foreign ownership is positively related to TMT internationalisation.

H2c: The degree of company internationalisation in terms of foreign ownership is more strongly related to BoD internationalisation than to TMT internationalisation.

High levels of government ownership are typically associated with large industrial companies with a strong domestic orientation. Companies with the government as a major or controlling shareholder are usually viewed by the market as secure investments, albeit with low growth potential. Large government ownership stakes tend to come about as a result of macroeconomic motives such as the protection of a particular industry or to secure domestic employment within a particular sector. Companies that serve an alternate purpose as domestic political vehicles are not particularly attractive to foreign investors, neither are such companies usually very interested in large foreign ownership stakes as this would mean a loss of domestic control. It is therefore likely that companies in which the state is the largest investor will be unlikely to have many foreigners in their ranks, neither on the board nor as part of the TMT.

H3a: Companies whose largest shareholder is the government or a public body acting on its behalf will display a negative relationship with BoD internationalisation.

H3b: Companies whose largest shareholder is the government or a public body acting on its behalf will display a negative relationship with TMT internationalisation.

Large-scale merger and acquisition activity tends to trigger major organisational changes that have repercussions for BoD and TMT composition in a company. Walsh (1988) showed that companies involved in merger and acquisition activities have abnormally high executive turnover rates. The immediate effect on director turnover appears to be particularly strong at TMT level (Hambrick and Cannella, 1993), as some executives will be bound to lose their relative position in the post-merger process.

Any large-scale merger will automatically lead to a shake-up of the status quo, as questions will be raised with regard to critical organisational issues such as strategic

direction and structural integration. Vermeulen and Barkema (2001) advocates the merger and acquisition process as a key source of learning and dynamic progress, while driving out organisational inertia. The post-merger process is an ideal time to get rid of inefficiencies and give the organisation a fresh start at all levels. It is therefore likely that any large-scale merger activity will have a positive impact on the internationalisation of BoDs and TMTs. The effect on appointment of foreigners to BoDs and TMTs is expected to be particularly strong in cases of cross-border mergers. Moreover, it is likely that the effect will be more immediate at TMT level than at BoD level.

H4a: Large-scale merger activity has a positive impact on BoD internationalisation.

H4b: Large-scale merger activity has a positive impact on TMT internationalisation.

H4c: The impact of large-scale merger activity on TMT internationalisation will be more immediate than the impact of such activity on BoD internationalisation.

H4d: The impact of large-scale merger activity on BoD and TMT internationalisation will be particularly strong in cases of cross-border merger activity.

5. RESEARCH METHODS

Data

Data from the 50 largest listed companies in the year 2000 in each of the four largest Nordic economies (Denmark, Finland, Norway and Sweden) were collected for this study. Iceland was not included in the study due to the relatively much smaller size of the economy and the limited number of MNCs based in the country.

The 200 companies were chosen on the basis of a list of the 1000 largest publicly listed companies in the Nordic region in the year 2000. The Nordic 1000 list is published annually by the Danish financial publication Børsen. In the Nordic 1000 list the companies are ranked according to market capitalisation, meaning that the sample contains publicly listed companies only. Market capitalisation is a conceptually suitable basis for ranking companies as it ensures that the 50 companies with the highest net present value of expected future revenues in the year 2000 are chosen. Technically, this measure is not vastly different from historical revenues, which would be the natural alternative. The main drawback of linking size with historical revenues is that different companies may define revenues differently, while market capitalisation is an objective measure of market value disconnected from internal company definitions and reporting practices. However, market capitalisation has some notable limitations as a measure of actual company size. In a few instances, market capitalisation will overstate the realistic value of excellent public relations companies that generate very low revenues. This should be particularly noted as the company sample is taken from the year 2000, around the time when the hype surrounding such companies was at its peak. Nevertheless, the 50 largest companies in each country were chosen on the basis of market capitalisation,

mainly due to the fact that the Nordic 1000 company ranking was readily available from one reliable source.

A customised standard e-mail enquiry was sent out to each company, asking for the nationalities of their BoD and TMT members in the year 2000. Incomplete or unsatisfactory responses were followed up by e-mail or telephone. The questionnaire survey generated a total of 118 responses on team member nationalities, which equals an overall response rate of 59.0%. The response rate by country was somewhat uneven, as the percentage of useful replies varied from 50.0% in Sweden and Norway to 68.0% in Finland and Denmark.

In order to determine whether the company respondents were skewed towards the larger or smaller companies in the sample, the average rank of company respondents was calculated for the whole sample and for each country. The average ranking of company respondents was 24.1 for the whole sample and ranged between 23.3 and 24.7 on a country by country basis. As each country sample contained 50 companies the respondents were slightly skewed towards the larger companies in each country, although by a fairly small margin.

Defining the individuals who are BoD members was generally a straightforward task in the Nordic governance structure. For TMTs, a satisfactory definition was provided by the company itself in the large majority of cases. In cases of doubt, Hambrick's (1995) definition of the TMT as comprising the CEO and all direct reports was applied. In the substantial number of cases where the CEO is a member of the BoD, in addition to being a TMT member, the CEO's nationality was counted once as a TMT member and

once as a BoD member. The same procedure was followed in the small number of other cases of overlap between BoD and TMT membership.

Data on the degree of firm internationalisation, foreign ownership, government ownership, merger activity, and company size were primarily collected from company annual reports and corporate websites. For the purpose of defining company size, annual turnover figures from the year 2000 were deemed to give a fairer representation of the magnitude of company operations in real terms, as opposed to the market capitalisation figures that were used to rank the companies relative to each other, in order to define the initial list of target participants for the survey. To the extent possible, the same-source principle was applied when collecting this data in order to maximise reliability and comparability.

The definitions of firm internationalisation variables used in this study have already been discussed in chapter three. With regard to government ownership, any company that had the government, or a related body acting on its behalf, as the largest shareholder was assumed to be under substantial influence by the domestic authorities. Government ownership was therefore introduced as a dummy variable, taking the value of 1 if the government constitutes the largest shareholder in the company, and 0 otherwise. Merger activity was rather strictly defined as only large-scale mergers of equals or approximate equals, where the outcome of the merger changed the company in a substantial manner, e.g. by changing the name of the company or moving the company headquarters to a new location. This definition was applied in order to single out those companies that had gone through a substantial change process as a result of its merger activities. Any mergers between 1980 and 2000 were taken into account and coded with dummy variables where 1 meant that merger activity had taken place, 0 otherwise. Four further time periods were

defined (1990-2000, 1995-2000, 1997-2000, and 1999-2000) in order to capture the possibility of stronger effects of more recent mergers, and finally a dummy was introduced to account for cross-border merger activity.

Five broad industry categories were defined for this study, namely mining, extraction and construction (a); manufacturing (b); transportation and communications (c); services (d); and miscellaneous (x). The industry categories are derived from SIC code classifications, although it should be borne in mind that any industry classifications within such a relatively small sample will be somewhat arbitrary as every company must find a way into one of the five categories above.

Statistical methods

Hypotheses H1-H4 were analysed using 118 useful datasets from the year 2000. The final sample consisted of 34 Danish firms, 34 Finnish firms, 25 Norwegian firms and 25 Swedish firms.

In order to define the dependent variable, a Blau index measure of BoD/TMT international diversity was employed (Blau, 1977). This measure incorporates both the magnitude of foreign presence on the BoD or TMT, and the spread of nationalities. It is defined as $(1 - \sum p_i^2; i=1, n)$, where p is the percentage of BoD/TMT members with the i th nationality, and n is the number of nationalities on the BoD/TMT.

Separate regressions were performed for each hypothesis, as the independent variables were otherwise expected to correlate.

Ordinary least squares (OLS) estimation was used to estimate the following models:

BoD/TMT nationality diversity =

f (firm internationalisation composite FS/TS and FE/TE, company size, industry)

$= \alpha + \beta_1 \text{ firm internationalisation} + \beta_2 \text{ company size (log)} + \beta_3 \text{ industry} + \varepsilon$

[Hypothesis 1]

BoD/TMT nationality diversity =

f (foreign ownership FO/TO, company size, industry) =

$\alpha + \beta_1 \text{ ownership internationalisation} + \beta_2 \text{ company size (log)} + \beta_3 \text{ industry} + \varepsilon$

[Hypothesis 2]

BoD/TMT nationality diversity =

f (government ownership, company size, industry) =

$\alpha + \beta_1 \text{ government ownership} + \beta_2 \text{ company size (log)} + \beta_3 \text{ industry} + \varepsilon$

[Hypothesis 3]

BoD/TMT nationality diversity =

f (merger activity, company size, industry) =

$\alpha + \beta_1 \text{ merger activity} + \beta_2 \text{ company size (log)} + \beta_3 \text{ industry} + \varepsilon$

[Hypothesis 4]

The beta estimates indicate the expected change in the dependent variable for a unit change in the independent variables.

6. RESULTS

See Appendix, Table 1.

See also Appendix, Table 2a and Table 2b (Descriptive statistics)

Hypothesis 1

The first hypothesis predicts that degree of company internationalisation is positively related to BoD and TMT internationalisation. H1a is supported by the results of the linear regression analysis, indicating that there is a positive relationship between the level of company internationalisation and BoD internationalisation in the Nordic countries, statistically significant at the 5% level. H1b predicts that the degree of internationalisation is positively related to TMT internationalisation. Rather strong support is found for this hypothesis in the statistical analysis, as the proposed relationship is significant at the 0.1% level. The level of internationalisation of a company appears to strongly influence the extent of TMT internationalisation. Furthermore, the results are in line with H1c. There appears to be a stronger influence on TMT internationalisation than on BoD internationalisation from factors at the company activity level.

Hypothesis 2

The second hypothesis posits that foreign share ownership will be positively related to BoD and TMT internationalisation. In accordance with hypothesis H2a and H2b, there is a statistically significant positive relationship between foreign ownership and both BoD and TMT internationalisation. Moreover, the results lend some support to H2c, as foreign ownership appears to be a particularly strong predictor of foreign BoD

membership (0.1% level), whereas the explanatory power of the foreign ownership variable is slightly lesser in the case of TMT internationalisation (5% level).

Hypothesis 3

The third hypotheses propose that large government interests in the sample companies will lead to a rather domestic orientation and less presence of foreigners both at BoD and TMT level. The results back up this hypothesis at the 5% level of significance for both BoDs and TMTs, meaning that there is indeed some connection between large government ownership stakes and a lack of foreign presence on Nordic BoDs and TMTs.

Hypothesis 4

Hypothesis four suggests that there is a link between large-scale merger activity and BoD and TMT internationalisation. The data suggests that a weak degree of support can be found for H4a (10% level of significance), while no general support is found for a connection between large-scale merger activity and TMT internationalisation (H4b). Interestingly, and according to the predictions in H4c, the only indications of an impact of large-scale merger activity on TMT internationalisation can be found when measured immediately after the merger. On the other hand, BoD internationalisation appears to be connected to such merger activity in general, as companies that have been through a large-scale merger between 1980 and 2000 all appear to be more likely to have foreign BoD members, the only exception being those mergers that took place in the most recent time period, in which there appears to be no traceable impact on BoD internationalisation.

The strongest support is found for hypothesis H4d, as expected. Companies that have been through a large-scale international merger in its relatively recent past will be more inclined to have foreigners both at BoD and TMT level.

7. IMPLICATIONS

Discussion

This paper has shown that there are a number of different reasons why companies may appoint foreigners to their BoD and TMT. Firstly, it can be argued that there are different antecedents or paths leading to BoD and TMT internationalisation. Despite the fact that there is a certain overlap, there are indications suggesting that two main theories are needed in order to separately explain the phenomena of BoD and TMT internationalisation. BoD internationalisation appears to lend itself more to agency theoretical perspectives. The appointment of foreign non-executive directors seems to be more strongly related to company ownership factors and pressures from the investor community, and less closely related to the internationalisation of the business itself. The opposite tendency was found for TMT internationalisation. The appointment of foreigners to TMTs is rather a result of strategic business requirements and can be related to the view of top managers as unique and valuable resources for the firm. Ownership factors appear to play a less direct role in the decision to appoint foreign top managers.

The second main finding of this study pertains to the manner in which large-scale merger activity influences BoD and TMT internationalisation differently. Although any cross-border merger activity appears to have the same strong effect on both BoDs and TMTs, the effects of large-scale mergers in general creates a very different picture. For BoDs, going through a large, company-changing merger once appears to be the key to realising the potential benefits of appointing foreigners at BoD level in the aftermath of the merger. The hypothesised effects on BoDs can in fact only be traced in the medium- to

long-run. On the contrary, TMTs display an entirely opposite pattern of change in composition following a merger. It appears that, in accordance with previous research that found high levels of executive turnover in conjunction with a merger, the change in TMT composition can only be traced immediately after the merger occurred.

Limitations of the study

Due to the rapidly changing characteristics of companies and industries, the time period of this study will rapidly become obsolete, and further investigation will be required. It is also interesting to note that some firms who replied to the survey were particularly keen to point out that they have internationalised their BoDs and TMTs after the year 2000.

Another limitation is related to response rates per country. Since Denmark and Finland, who had the lowest average percentages of foreign BoD and TMT membership, generated the highest number of responses (see **Appendix, Table 2a and Table 2b**), it is possible that the overall trends would have followed somewhat different patterns if more Swedish and Norwegian companies had been part of the sample.

Conclusions

The findings of this paper provide impetus for further research in the field of BoD and TMT internationalisation in various ways. Firstly, there are major unanswered questions with regard to causality. This applies not only to the question of causality in the relationship between TMT and BoD internationalisation and firm internationalisation, but to upper echelons research in general. As a positive and statistically significant relationship appears to exist between BoD and TMT internationalisation and all the internationalisation, ownership and merger activity variables included in this study,

further examination of the antecedents and consequences of BoD and TMT internationalisation might provide valuable insights into the question of causality.

In order to address the question of causality in a meaningful manner, it will be necessary to identify the key factors that drive the internationalisation process. These may exist both in the internal and external environment of the firm. Furthermore, it will be necessary to examine the team processes at BoD and TMT level in order to gain a greater understanding of the forces that trigger internationalisation moves within the company.

For the concept of BoD and TMT internationalisation to be applicable in contexts where nationality diversity is less widespread, it may be necessary to develop a multivariate composite index measure of director internationalisation, including for example international experience, foreign education, and language skills. This would enable the study of BoD and TMT internationalisation in contexts where it would otherwise be meaningless due to a lack of international diversity. More studies on this topic beyond European contexts would add substantially to the understanding of internationalisation processes in MNCs.

Finally, it would be possible to analyse this data on a regional basis. Such an approach would provide insights into whether companies that expand intra-regionally also seek company directors that represent these markets. The Nordic countries would provide a particularly interesting platform for this type of research due to the fact that there is a clearly defined regional boundary within which cultural and language differences are small, and this would make it possible to study the role of foreign BoD and TMT members in the incremental internationalisation process that Nordic MNCs typically go through.

APPENDIX

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Tables

Table 1 – Regression analysis

Hypothesis (1): BoD/TMT nationality diversity = $\alpha + \beta_1$ firm internationalisation
+ β_2 log company size + β_3 industry + ε

Hypothesis (2): BoD/TMT nationality diversity = $\alpha + \beta_1$ foreign ownership
+ β_2 log company size + β_3 industry + ε

Hypothesis (3): BoD/TMT nationality diversity = $\alpha + \beta_1$ government ownership
+ β_2 log company size + β_3 industry + ε

Hypothesis (4): BoD/TMT nationality diversity = $\alpha + \beta_1$ merger activity
+ β_2 log company size + β_3 industry + ε

	Hyp. (1)		Hyp. (2)	
	BoD	TMT	BoD	TMT
Firm internationalisation	0.202*	0.364***		
	(0.082)	(0.079)		
Foreign ownership			0.463***	0.359*
			(0.132)	(0.146)
Company size (log)	0.067*	0.070*	-0.001	0.021
	(0.036)	(0.035)	(0.043)	(0.048)
Industry (a)	0.071	-0.109	0.122	-0.036
	(0.074)	(0.071)	(0.077)	(0.085)
Industry (b)	0.006	-0.098	0.041	0.001
	(0.068)	(0.065)	(0.066)	(0.073)
Industry (c)	0.049	-0.108	0.028	-0.110
	(0.074)	(0.071)	(0.084)	(0.093)
Industry (d)	0.070	-0.035	0.080	-0.078
	(0.076)	(0.073)	(0.083)	(0.092)
Constant	-0.260	-0.272*	-0.011	0.009
	(0.162)	(0.155)	(0.196)	(0.217)
R ²	0.135	0.286	0.202	0.162
N	118	118	118	118

Key: Coefficient^{level of significance} Significance levels: ♣ p<0.10 ** p<0.01
(Standard error) * p<0.05 ***p<0.001

Table 1 (cont.)

	Hyp. (3)		Hyp. (4)	
	BoD	TMT	BoD	TMT
Government ownership	-0.132*	-0.157*		
	(0.065)	(0.067)		
Merger			0.085*	0.023
			(0.050)	(0.053)
Company size (log)	0.085*	0.122**	0.057	0.081*
	(0.040)	(0.041)	(0.039)	(0.042)
Industry (a)	0.123*	-0.022	0.121	-0.039
	(0.074)	(0.076)	(0.075)	(0.080)
Industry (b)	0.086	0.037	0.075	0.018
	(0.064)	(0.065)	(0.065)	(0.068)
Industry (c)	0.072	-0.025	0.083	-0.066
	(0.078)	(0.079)	(0.077)	(0.081)
Industry (d)	0.081	0.010	0.079	0.001
	(0.077)	(0.079)	(0.080)	(0.085)
Constant	-0.231	-0.313*	-0.160	-0.170
	(0.173)	(0.178)	(0.171)	(0.181)
R ²	0.107	0.168	0.093	0.094
N	118	118	118	118

Key: Coefficient^{level of significance} Significance levels: ♣ p<0.10 ** p<0.01
(Standard error) * p<0.05 ***p<0.001

Table 1 (cont.)

	Hyp. (4)		Hyp. (4)	
	BoD	TMT	BoD	TMT
Merger 1990-2000	0.118*	0.038		
	(0.055)	(0.059)		
Merger 1995-2000			0.159*	0.101
			(0.061)	(0.065)
Company size (log)	0.048	0.078*	0.048	0.071*
	(0.040)	(0.042)	(0.039)	(0.041)
Industry (a)	0.106	-0.043	0.089	-0.055
	(0.074)	(0.079)	(0.074)	(0.079)
Industry (b)	0.066	0.015	0.061	0.011
	(0.064)	(0.068)	(0.063)	(0.067)
Industry (c)	0.072	-0.069	0.069	-0.071
	(0.076)	(0.081)	(0.075)	(0.080)
Industry (d)	0.049	-0.010	0.031	-0.036
	(0.082)	(0.087)	(0.082)	(0.087)
Constant	-0.114	-0.154	-0.107	-0.128
	(0.172)	(0.183)	(0.169)	(0.180)
R ²	0.112	0.096	0.135	0.118
N	118	118	118	118

Key: Coefficient^{level of significance} Significance levels: ♣ p<0.10 ** p<0.01
(Standard error) * p<0.05 ***p<0.001

Table 1 (cont.)

	Hyp. (4)		Hyp. (4)	
	BoD	TMT	BoD	TMT
Merger 1997-2000	0.183**	0.089		
	(0.065)	(0.071)		
Merger 1999-2000			0.115	0.145*
			(0.079)	(0.081)
Company size (log)	0.044	0.072*	0.058	0.070*
	(0.039)	(0.042)	(0.040)	(0.041)
Industry (a)	0.086	-0.053	0.104	-0.047
	(0.073)	(0.079)	(0.075)	(0.078)
Industry (b)	0.073	0.018	0.066	0.012
	(0.063)	(0.068)	(0.065)	(0.067)
Industry (c)	0.068	-0.071	0.066	-0.078
	(0.074)	(0.080)	(0.077)	(0.079)
Industry (d)	0.021	-0.031	0.063	-0.038
	(0.082)	(0.089)	(0.083)	(0.086)
Constant	-0.093	-0.133	-0.140	-0.120
	(0.169)	(0.182)	(0.174)	(0.180)
R ²	0.145	0.109	0.085	0.126
N	118	118	118	118

Key: Coefficient^{level of significance} Significance levels: ♣ p<0.10 ** p<0.01
(Standard error) * p<0.05 ***p<0.001

Table 1 (cont.)

	Hyp. (4)	
	BoD	TMT
Cross-border merger	0.354***	0.265**
	(0.077)	(0.085)
Company size (log)	0.022	0.049
	(0.036)	(0.040)
Industry (a)	0.122*	-0.032
	(0.068)	(0.075)
Industry (b)	0.031	-0.012
	(0.059)	(0.065)
Industry (c)	0.067	-0.073
	(0.069)	(0.076)
Industry (d)	0.007	-0.062
	(0.075)	(0.082)
Constant	0.001	-0.038
	(0.159)	(0.176)
R ²	0.258	0.190
N	118	118

Key: Coefficient^{level of significance} Significance levels: ♣ p<0.10 ** p<0.01
(Standard error) * p<0.05 ***p<0.001

Table 2a – Descriptive BoD statistics

	FE/TE	FS/TS	Foreign/Total	□ 1 Foreign BoD Member	Avg. BoD Size
Denmark	41.2%	69.2%	9.0%	40.0%	9.1
Finland	40.5%	55.2%	9.0%	32.4%	8.4
Norway	46.1%	68.8%	18.4%	58.8%	7.7
Sweden	54.2%	65.1%	17.0%	50.0%	10.3
Total	45.9%	63.5%	12.3%	42.9%	8.9

Table 2b – Descriptive TMT statistics

	FE/TE	FS/TS	Foreign/Total	□ 1 Foreign TMT Member	Avg. TMT Size
Denmark	41.2%	69.2%	12.1%	33.3%	4.8
Finland	40.5%	55.2%	6.8%	23.5%	9.0
Norway	46.1%	68.8%	20.4%	47.1%	7.1
Sweden	54.2%	65.1%	17.4%	45.8%	9.0
Total	45.9%	63.5%	12.9%	35.2%	7.5