

1. International experience as a preferred attribute for CEO appointment. Chances to executive career development.

Abstract

Limited research is available on internationality as a preferred attribute for CEO selection. This paper contributes to the human capital literature by focusing on the impact of executive international experience and contingency aspects (i.e., origin, function, and industry) on CEO appointment. Leveraging a dataset of Dutch and Swiss executives over the five-year period from 2008-2012, which provided 302 individual-firm-year combinations, we discovered that international experience indeed represents a preferred attribute for CEO appointment. We found that while output functional background decreases the odds of appointment, a throughput functional background does not enhance them. Our findings are relevant for the human capital literature and allow for a more refined understanding of international experience and regional effects. Managerial implications and future research opportunities are also discussed.

Keywords: executive director; CEO appointment; cultural region; international experience; functional background

1.1. Introduction

Chief executive officer (CEO) appointment represents a crucial moment in a firm's life because it can affect its strategic decisions (Beatty & Zajac, 1987), performance, and future survival (Karaevli, 2007; Zhang & Rajagopalan, 2004). Selecting and hiring a CEO is a serious decision for any firm and represents a key stepping point in its lifecycle: CEOs guide the TMT and interact with all its members according to the demands imposed by internal and external contexts (Sanders & Carpenter, 1998). Zajac supported the relevance of the topic and found that “almost 20 percent of the variance in firm performance could be explained solely by reference to issues relating to CEO selection [...]” (1990, p. 227). Nevertheless, there is dearth of research on “how selection decisions for top managers and especially CEOs [...] are made” (Vinkenburg, Jansen, Dries, & Pepermans, 2014, p. 4).

The extant literature has paid attention to the effects of new CEO origin, arguing whether insider or outsider contenders lead to better results. While there has been a tendency to promote insiders, the role of outsiders is becoming increasingly relevant. Outsider CEOs, by definition, bring new knowledge to a firm and promote innovation and learning (Menon & Pfeffer, 2003). However, they lack firm familiarity and may easily contrast with incumbent TMT members (Friedman & Saul, 1991), thus negatively affecting firm performance (Zhang & Rajagopalan, 2004). Insider CEOs when more comparable to other executives (Agrawal, Knoeber, & Tsoulouhas, 2006), are chosen to prevent dissimilarity and informational disadvantage. More recently, Georgakakis and Ruigrok (2017) reconciled the above results by identifying some of the conditions that lead to better performance by outsiders, namely when outsiders: resemble incumbent executives, possesses experience heterogeneity, and work in a munificent industry.

International experience represents a pivotal benefit for individuals due to increased information-processing capability and knowledge about foreign markets. CEO international experience is strongly linked to firms internationalization, both in SMEs (Reuber & Fischer, 1997) and MNCs (Sambharya, 1996). Among other factors that influence CEO selection (e.g., education, industry expertise), international experience is regarded as relevant (Magnusson & Boggs, 2006).

For example, CEOs with previous assignments abroad are better able to improve financial performance (e.g. Carpenter, Sanders, & Gregersen, 2001; Daily, Certo, & Dalton, 2000) and can exploit the benefits of international diversification (Sousa & Bradley, 2008; Tihanyi, Ellstrand, Daily, & Dalton, 2000).

This study aims at contributing to the human capital literature by theoretically arguing to what extent and under what conditions international experience represents a preferred attribute for being appointed as a CEO, as advanced by Daily et al. (2000). While recent literature has successfully argued that international experience affects the time it takes for CEOs to move from the beginning of their career to the helm of a TMT, finding that international experience plays a relevant role in “time to the top” (Georgakakis, Dauth, & Ruigrok, 2016), the topic needs to be developed further by theoretically determining who can actually make it. Gregersen, Morrison, and Black (1998) and Caligiuri and Di Santo (2001) underlined the lack of consensus about the “absolute” value of overseas assignments, with a research focus on *knowing how*, but partially disregarding the *knowing why* and *knowing whom* of the career capital construct (Dickmann & Harris, 2005; Suutari & Mäkelä, 2007). While some scholars have argued that foreign experience can be a powerful career booster (e.g., Judge, Cable, Boudreau, & Bretz, 1995; Ng, Eby, Sorensen, & Feldman, 2005), others believe longer and frequent international assignments slow time to the top (Hamori & Koyuncu, 2011). Previous studies provide mixed results on the effects of international experience on career development, with the literature proposing theoretical frameworks about possible contingent factors such as effective performance in overseas tasks or strategic importance of the foreign unit of assignment (Bolino, 2007). In other words, international experience can help, or hamper, career development, depending on the degree to which individuals are exposed abroad, as well as on the contingencies that characterize the company-specific context.

Our study offers relevant theoretical and empirical contributions. First, it extends our knowledge of the human capital theory by focusing on executives’ personal demographics that may affect the CEO selection process (Magnusson & Boggs, 2006). We argue theoretically and demonstrate empirically that international experience positively affects CEO appointment preference among other executives, thus proving that it represents an important aspect of individual human capital.

Second, implementing cultural measures within the independent variable, instead of employing them as a control or moderator variable, advances a more nuanced understanding of the balance between the benefits and drawbacks of international experience (Georgakakis et al., 2016) and the ways the same balance changes according to the above mentioned contingences.

Finally, leveraging on the work of Vinkenburg et al. (2014), who proposed a framework of an “arena” that represents an allegory of the top management selection and conceptualizes the direct comparison among candidates, we perform the comparison among executives and argue that international experience represents a preferred attribute for CEO appointment, especially if the executive comes from the same cultural zone. We find support for the relevance of regions as a unit of analysis in the IB literature (Rugman & Oh, 2013; Rugman & Verbeke, 2004), and for a significant moderating effect of functional background as suggested by Hamori and Koyuncu (2011). The managerial implications of this chapter are twofold. On the one hand, firms are interested in finding out more about whom to nurture to move to the C-Suite: investments into talent management programs should be focused on managers that possess international experience. This is contingent upon the exploited sample: focusing on the Netherlands and Switzerland may have pushed the relevance of MNCs. All in all, we can say that within the context of MNCs, international experience represents relevant human capital. On the other hand, individuals themselves are interested in understanding the features companies are looking for when deciding who will become CEO and who will not.

We test our hypotheses on a sample of 302 Dutch and Swiss executives for which complete career details were gathered for the five-year period from 2008-2012. The paper is structured as follows. Section 1.2 provides background on the human capital theory and the career capital concept, on which the hypotheses are grounded. Section 1.3 describes the sample and the variables used to test our model. Section 1.4 and 1.5 describe the exploited methods and the employed robustness checks. The final section presents our conclusions and outlines future research opportunities offered by the limitations of this study.

1.2. Theoretical review

Assignments abroad affect the cognition sphere of individuals, their managerial competences, and the strategic choices they make. In other words, international work experience supplies individuals with knowledge and skills, which are leveraged to improve firm-level outcomes (Carpenter et al., 2001; Daily et al., 2000; Roth, 1995). This “extra value” can be measured by firm performance, as well as by other firm-level aspects. For example, combining human capital and signalling theories, Patzelt (2010) argued that CEO international experience is positively related to the marginal amount of venture capital acquired by a technology firm.

Assignments abroad are considered developmental experience in that they challenge, and eventually broaden, managers’ current knowledge and skills, contact networks, and self-awareness (Dragoni, Tesluk, Russell, & Oh, 2009; Suutari & Mäkelä, 2007). This continuous process brings in the adoption of an international perspective, which is highly valued, especially by MNCs, and supports executives’ understanding of foreign countries’ cultures, thus leading to the development of realistic internationalization expectations (Black & Mendenhall, 1990).

International experience, like other kinds of current or past experience, represents an aspect of human capital, defined as the stock of competences, knowledge, and social and personality attributes embodied in the ability to perform labour with higher employee performance and productivity rates, so as to produce economic value (Becker, 1975). The human capital theory suggests that knowledge and skills acquired during international assignments improve individuals’ employability and income potential, generating cumulative rents for themselves that usually translate into a higher, sustained personal income (Becker, 1975).

Being at the helm of the top management team, CEOs are the guardians of a firm’s managerial expertise, which plays a key role as a rent-generating firm resource: the skills and know-how of managers are difficult to codify, especially in international contexts, thus suggesting their relevance and the importance of learning by doing (Castanias & Helfat, 1991).

Selecting and hiring a CEO is thus a serious decision for any firm and represents a key stepping point in its lifecycle: CEOs guide the TMT and interact with all its members according to the demands imposed by internal and external contexts (Sanders & Carpenter, 1998). Internationally experienced executives may have an edge over their locally focused contenders for a number of reasons. First, Magnusson and Boggs (2006), leveraging on the upper echelons theory, argued that candidates with international experience were more likely to be nominated as CEOs of US firms. They sustained that international experience brings a more nuanced perception of strategic alternatives and thus explains why CEOs with international experience were prevalent in highly internationalized firms, as suggested by the previous literature (e.g., Carpenter et al., 2001). Second, internationally experienced CEOs have more long-term career success and are better able to manage the international interdependence of firms (Roth, 1995). Third, they better understand the threats and opportunities deriving from international experience (Finkelstein, Hambrick, & Cannella, 2009; Nielsen, 2010) as they can leverage their world views, knowledge, and network ties (Athanassiou & Nigh, 2005; Maruca, 1994). Finally, they show an early responsiveness to international opportunities due to their work experience abroad (Child & Hsieh, 2014).

In a nutshell, research has suggested that CEOs with international experience hold a competitive advantage and are better able to manage the global complexity of MNCs (Daily et al., 2000; Gregersen et al., 1998).

While the effects of international experience represent an evolving process, scholars have argued that proficient levels of learning international competences take place only during wide-ranging global careers, which are accompanied by several adjustment processes in different contexts (Cappellen & Janssens, 2005; Suutari, 2003). Stahl, Miller, and Tung (2002) introduced the concept of the “boundaryless career”, basically arguing that expatriates consider international assignments great opportunities for personal and professional development, but not for career advancement within a company (Bossard & Peterson, 2005; Gregersen & Black, 1996; Suutari & Mäkelä, 2007). This implies that companies bear an opportunity cost associated with international experience: while they invest in developing the international expertise of their employees, the latter regard it as an opportunity for professional advancement

outside the incumbent company. This suggests that there are pros and cons of international experience, both at the individual and firm levels.

Are there other aspects, apart from international work experience, which shape the knowledge and skills of individuals? Recently, authors have maintained that both international work experience and nationality affect international decision making (Nielsen & Nielsen, 2011). Their argument stems from the team level, as they have argued and found support for the fact that international work experience diversity and nationality diversity lead to differing market entry preferences: internationally experienced teams are more inclined to greenfield or mergers and acquisitions (M&A) investments, while nationality diversity in teams is associated with shared control (i.e., joint ventures) preferences.

This suggests that research should be able to disentangle the separate effects of international work experience and nationality diversity. While Nielsen and Nielsen proposed and found support for a team-level argument, the focus here is on the individual level: accordingly, nationality and international work experience are gathered together and represent a sole “knowledge tank” where the individual seeks information. Accordingly, we expect that higher levels of international experience¹ at the individual level translate into a wider base of knowledge and skills, which turn into a higher likelihood of CEO appointment.

The above represents a natural extension of the career capital argument: international experience fosters *knowing how* career capital (Dickmann & Harris, 2005), which represents work-relevant knowledge and the comprehension that is needed for performance (Defillippi & Arthur, 1994). *Knowing how* career capital could also be affected by an executive’s nationality. The culture executives come from strongly affects their mindsets and information processes (Geletkanycz, 1997) and has a direct effect on the way executives interpret and size problem solving for their decision making (Schneider & de Meyer, 1991). We propose that international experience is a preference attribute for being appointed to the CEO position as a result of the benefits coming from

¹ In this context international experience refers to having experienced international contexts, in terms of origin and/or work experience, and differs from the concept of pure international work experience.

increasing capabilities and skills gained from working abroad and from increasingly solid social networking.

H1: Executives with higher international experience are preferred for a CEO appointment over those with lower international experience.

Multinationals are companies whose activities are spread in many different countries, of which they exploit different economic, financial, and fiscal opportunities. The relevance of the benefits and threads linked to internationalization is witnessed by the number of top-tier articles, all focused on finding the “secret level(s)” of multinationality associated with superior performance: research about the effects of multinationality on firm performance has come up with a variety of different relationships, such as positive linear (Delios & Beamish, 1999), U-shaped (Lu & Beamish, 2001), inverted U-shaped (Hitt, Hoskisson, & Kim, 1997), and, more recently, horizontal S-curve (Lu & Beamish, 2004), ultimately arguing against even a theoretical base of the relationship itself (Hennart, 2011).

After noting that few companies have successfully acted globally, alternative explanations emerged in practice and academia. Ohmae (1985) proposed the *triad* concept, clustering the world into North America, the EU, and Asia, each of which share a number of peculiarities, and maintained that most MNCs face issues in replicating the success of their home triad in other triads. Using these concepts as a starting point, regions have emerged as a relevant unit of analysis in international business, outclassing countries (Rugman & Oh, 2013; Rugman & Verbeke, 2004). Instead of focusing on the peculiarities of each country, these scholars have supported a regional perspective, where countries are clustered according to their similarities. In other words, Austria, Germany, and Switzerland would not be considered three separate countries, but would belong to the German region (according to the definition proposed by Ronen & Shenkar, 1985, 2013). A recent paper argued and found support for the fact that European MNEs adopting a regional orientation outperform firms with a global strategic posture (Ruigrok, Georgakakis, & Greve, 2013): CEOs within the region, rather than outside the region, are more aligned to understand the needs of the firm.

Previous studies have argued that firms aim to combine within their TMTs, executives possessing characteristics and capabilities that fit with organizational-level needs (Breiden, Mohr, & Mirza, 2006; Leontiades, 1982), with a recent focus on fitting internationalization strategy and TMT composition (Kaczmarek & Ruigrok, 2013; Kirca et al., 2011). Similarly, Greve, Biemann, and Ruigrok (2015) argued that foreign nationality acts as a boundary spanner, both at the organizational and geographical levels. This suggests that the international experience of individuals can be applied more easily when the individuals have the same regional origin as the firm, thus increasing the preference for CEO selection vis-a-vis individuals coming from a different region. All in all, we advance that the benefits deriving from international experience are more pronounced when executives come from the same cultural zone of the company.

H2: Origin from the same cultural region positively moderates the relationship between executive international experience and CEO appointment preference.

Industry munificence refers to the extent to which the environment supports sustained growth (Aldrich, 2008): industries that foster organizational growth limit the effects of external threats and favour the generation of slack resources (Finkelstein & Hambrick, 1996). This results in companies being less subject to go abroad and, in turn, to hire CEOs equipped with internationally exposed human capital.

The prior literature has already linked industry munificence and CEO appointment, arguing in favour of outsiders in that they bring external knowledge and information (e.g., Georgakakis & Ruigrok, 2017; Karaevli, 2007).

Industry characteristics such as munificence or dynamism are relevant because they interact with executive demographics and may represent either opportunities or threats (e.g., Cannella, Park, & Lee, 2008). Nielsen and Nielsen (2013) found that industry munificence positively interacts with team nationality diversity and represents an opportunity for improving firm performance but a threat when interacting with educational diversity. This stresses the importance of considering environmental aspects in association with executive demographics.

Patzelt (2010) found that capital markets give a higher amount of financial resources to those ventures lead by internationally experienced CEOs. Highly munificent industries are less attractive from a financial market point of view as they are able to self-sustain their growth, accumulate slack resources, and rely on higher degrees of certainty and predictability (Dess & Beard, 1984; Finkelstein et al., 2009). Therefore, we posit that industry munificence limits the appointment of executives whose human capital has been enriched by their international experience.

All in all, in industries characterized by sustained growth (i.e., high industry munificence), information-processing requirements are lower and time pressure is lower. Thus, there is less need for high levels of international human capital.

H3: Industry munificence negatively moderates the relationship between executive international experience and CEO appointment preference.

It matters not only the extent to which executives have had international experience (H1) and the regional origin (H2) but also their functional background (Schmid & Wurster, 2017). The *boundaryless career* concept (Stahl et al., 2002) conveys that the utility of international assignments has to be assessed not only by individuals, but by companies as well.

According to the human capital theory, every individual chooses between increasing his human capital via education and on-the-job experience (Becker, 1975). Similarly, firms cannot educate their employees in too many disciplines, without affecting their productivity (Bouchard, 1998). This results in a trade-off between general training and specialized training. The above-mentioned trade-off depends on several factors, such as individual expectations, firm goals, industry membership, and environmental contingencies. “Most on-the-job training presumably increases the future marginal productivity of workers in the firms providing it; general training, however, also increases their marginal product in many other firms as well” (Becker, 1975, pp. 19-20). As opposed to general training, specialized training enhances employees’ productivity almost exclusively in the firm providing it and is thus firm specific and usually more

expensive and lengthier compared with general training as well as strongly linked to the context in which it was acquired (Becker, 1975).

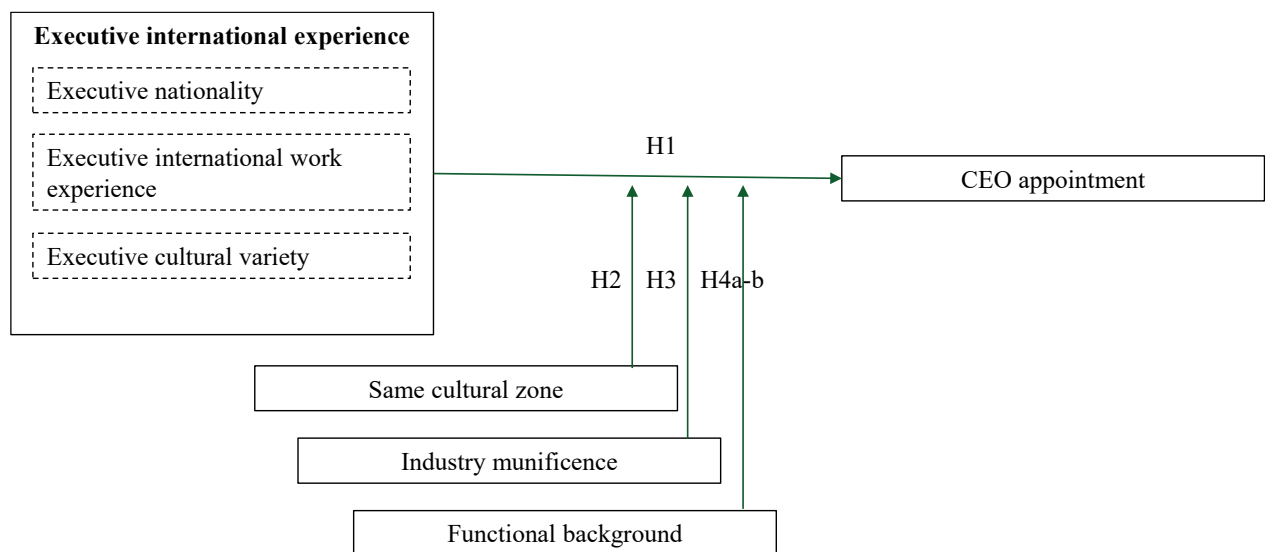
Finkelstein et al. (2009) argued that the functional background of a CEO has relevant effects on firm level outcomes. In a recent paper, Koyuncu, Firfiray, Claes, and Hamori (2010) offered empirical evidence on this topic supporting this claim and found partial support for the fact that CEOs with a functional background in operations attain higher post-succession performance than CEOs with a finance background, which could be regarded as less firm specific and thus exploitable in contexts other than the incumbent one. However, they did not find support for better performance compared to other functional backgrounds (except finance). While their argument about the prevalence of supply chain-related topics is also currently relevant, the focus is not directly on the effect of functional background on firm performance but on the preference for CEO appointment. In other words, since results are mixed and CEO functional experience is not a strong predictor of firm performance (Koyuncu et al., 2010), we argue that there is an effect on the preference for CEO appointment due to the fact that firms' supply chains are currently more fragmented internationally (Gereffi, Humphrey, & Sturgeon, 2005). This was initially suggested by Hamori and Koyuncu (2011), who advanced that the nature of the assignment itself could influence the relationship between international assignment and career advancement. They split the functions into four categories (i.e., output, throughput, administrative, and other functions), suggesting that developmental assignments are more company specific and thus less transferable when compared to functional assignments. This is in line with the theoretical argument adopted by Fitzsimmons and Callan (2016), who recently advanced that firms value CEO capitals who were developed in specific industries or contexts: in other words, they showed that international experience is important not only per-se, but also in addition to context dependent characteristics, namely what executives have done and where (Hamori & Koyuncu, 2011; Ramaswami, Carter, & Dreher, 2016).

Therefore, we maintain that output functional backgrounds are specific to the firm they were developed within and hardly usable in other firms: thus, they negatively affect the likelihood of CEO appointment.

H4a: An output functional background negatively moderates the relationship between executive international experience and CEO appointment preference.

H4b: A throughput functional background positively moderates the relationship between executive international experience and CEO appointment preference.

Figure 1: Theoretical model for Chapter 1



Source: Author

1.3. Methods

1.3.1. Sample

The sample of this study includes 166 listed companies headquartered in two European countries (i.e., the Netherlands, and Switzerland) over the five-year period from 2008-2012. The companies of this study were selected according to the manual adopted by the FIM Institute for the “Data Collection Project”, summarized below. Listed companies in the Netherlands and in Switzerland, between 2008 and 2012, were first selected. All firms listed in each country on December 31st of each year were ranked by market capitalization at the year end. The following eligibility criteria were applied for each year of assessment. First, small and medium enterprises, as defined by the European Union (European Union, 2015) as those with less than 250 full-time

employees, Euro 50 million annual turnover, or Euro 43 million total assets, were excluded. Second, all companies whose primary SIC code starts with the digits 67 were also excluded, as they represent primarily portfolio investors or investment vehicles. Finally, companies that were acquired or ceased operations within the period from 2008-2012 were excluded. The remaining 166 companies (830 firm-year observations) represent the final balanced sample of companies that can make independent strategic decisions, with 63 Dutch firms and 103 Swiss firms. These choices were made to create a sample of product- and service-based companies that were active both locally and internationally and characterized by a certain degree of complexity, within a post-financial crisis time frame.

1.3.2. Variables

1.3.2.1. Dependent variable

Prior research using potential CEO candidates has relied on current executives of a firm - other than the incumbent CEO - whose position is executive vice president (Zhang & Rajagopalan, 2004) or higher (O'Reilly, Main, & Crystal, 1988), with lower ranks (e.g., vice presidents, senior vice presidents) disregarded. The above-mentioned studies focused on the US, whereas this thesis focuses on Europe. Following the suggestion of Vinkenburg et al. (2014), who argued in favour of a relative rather than absolute selection, in this paper the pool of potential candidates (i.e., the “arena” to whom Vinkenburg and colleagues refer) is represented by the managing board or top management team. This is due to a number of reasons. First, they already have the experience and managerial skills to be considered viable candidates (Harris & Helfat, 1997; Ocasio, 1999). Second, board members that appoint a prospective CEO have already been able to assess their skills (Zajac, 1990). Finally, the potential candidates themselves have already networked and established connections with the above-mentioned board members (Ocasio, 1999). For this reason, only members with a team tenure of at least one full year were considered. A positive slope coefficient for the independent variable implies a positive effect on the preference of CEO appointment. The distribution of observations for the two categories (i.e., 1 for CEOs, 0 for all the others) is displayed in Table 1.

1.3.2.2. Independent variable

Rather than measuring international experience as the total number of years spent abroad (e.g., Carpenter & Fredrickson, 2001; Daily et al., 2000), because individual internationalization is a multidimensional phenomenon, a comprehensive measure is required to fully capture this (Lee & Park, 2008). According to the concept of international human capital, individual internationalization was measured as a composite index of nationality, international education, international work experience diversity, and cultural variety.

Nationality is measured as a binary variable with a value of 0 if the executive has a local nationality (i.e., Dutch or Swiss for firms headquartered in the Netherlands or Switzerland, respectively) and a value of 1 otherwise. National origin affects individual personality, behaviour, how a person is perceived in a multinational team (Hambrick, Davison, Snell, & Snow, 1998), and strategic decision making (Geletkanycz, 1997). It is true that international experience may partially overcome national origin differences, but the latter cannot be easily erased (Hambrick et al., 1998; Hofstede, Hofstede, & Minkov, 1991) and is likely to prevail (Nielsen & Nielsen, 2013). This is due to the fact that foreign executives possess a better information-processing system about their own country and are able to optimize it (Luo, 2005), both as individuals and as team members (Sanders & Carpenter, 1998).

International education, which consists, among other things, of network contacts and access to sources of information about foreign countries (Athanassiou & Nigh, 2002), increases the competitive advantage of the firm (Daily et al., 2000; Roth, 1995). Therefore, international education is measured as a binomial variable with a value of 1 if the executive has ever studied outside the country of nationality and a value of 0 otherwise.

International work experience is measured with the Blau's index (1977), which represents the intrapersonal diversity of assignments clustered by country. This is a well-established measure because it allows differentiation between a single, short experience and multiple, longer experiences. This is an important aspect as new forms of international assignments (e.g., shorter-term assignments) are emerging (Collings,

Scullion, & Morley, 2007). To capture the full information potential and avoid using simplistic indices, which could lead to significant distortions (Bolino, 2007; Sommer, 2013), this index gauges the extent to which an individual has had a highly diversified international career:

$$Blau_Index_{IE} = 1 - \sum_{i=1}^n p_i^2$$

where n is the number of countries in which an individual has worked and p_i is the relative proportion of the individual's career spent in a country i (Bunderson & Sutcliffe, 2002; Engeler, 2013). This measure simultaneously highlights the breadth and depth of individual international career experience, as advocated by Rivas (2012), taking into account both the number of countries in which an executive has worked and the length of time spent in each one. Low values indicate that executives concentrated their career in a few countries, while high values stand for a more diverse international experience. The Blau's index is not without drawbacks. For example, it attributes the same relevance to each year of the career, disregarding that more recent experiences should weight more than those that occurred at the beginning of an executive's career. Nevertheless, this measure has been used by several scholars involved in intrapersonal experience diversity research (Cannella et al., 2008; Dahlin, Weingart, & Hinds, 2005).

Cultural variety takes into account the cultural clusters where individuals have had international experience. It was operationalized according to the cluster definition suggested by Ronen and Shenkar (2013). It is relevant to include a measure of cultural variety due to the fact that executives in developmental assignments typically achieve higher levels of competence thanks to their experience (Dragoni et al., 2009). The zones are, namely: Anglo, African, Arab, Confucian, East Europe, Far East, Germanic, Latin America, Latin European, Near East, Nordic, and others. Each zone has a weight of 1/12 (for example, past work experience in three zones generated a score of .25).

1.3.2.3. Moderating variables

The same *cultural regions* categorization introduced by Ronen and Shenkar (2013) was exploited to create a binary variable called *same cultural region*, with a value of 1 if the executive comes from the same cultural region of the company, and a value of 0 otherwise. This variable allows consideration of the similar information-processing capacity (Luo, 2005) of people coming from the same geographical region.

Industry munificence was computed as the rate of growth (regression coefficient of time on annual average sales for each industry) divided by the mean value of sales for the study period (Dess & Beard, 1984), similar to previous research (Nielsen & Nielsen, 2013).

The *dominant functional background* was operationalized for each individual with three categorical variables: output functions² (sales, marketing, and product R&D), throughput functions³ (operations), and other functions (residual category).

1.3.2.4. Control variables

Several control variables were used in the current study. Exploiting the definition proposed by Sullivan (1994), *degree of internationalization* was computed taking into account a composite measure of the proportion of foreign sales, foreign assets, and foreign employees on total sales, total assets, and total employees, respectively. Moreover, firm-level control variables were added to control for eventual impact: firm size (number of employees) and previous performance as a two-year average of return on assets (Carpenter & Fredrickson, 2001). *Year* and *country* fixed effects were taken into account with dummy variables.

The information-processing benefits of foreign national or internationally experienced executives may be affected by the environment in which they operate (Cannella et al., 2008). *Industry munificence* represents the extent to which the environment can back sustained growth (Aldrich, 2008), thus representing a more flexible context in which the mindsets and perspectives deriving from foreign origin and past international assignments can emerge and be proven valuable. Industry munificence is calculated as

² I.e., the codes “RESE” or “MASA” according to the definition adopted in the DDP Manual.

³ I.e., the code “PROD” according to the definition adopted in the DDP Manual.

the rate of growth (regression coefficient of time on annual average sales for each industry) divided by the mean value of sales for the study period (Dess & Beard, 1984; Nielsen & Nielsen, 2013).

Individual demographics such as *age*, *gender*, and *company tenure*, which is the number of years an executive has spent within the company (Zhang & Rajagopalan, 2004), may affect the appointment decision. A binomial variable called *multiple appointments* was included to control for companies that made two or more appointments in the analysed time framework.

1.4. Results

A preliminary test presented in Table 1 was conducted to assess whether there is a statistically significant difference in terms of international experience between appointed CEO and other candidates. A total of 65 out of 97 CEOs had international experience, compared to 211 out of 361 executives with international experience. Chi-square test⁴ results show that there is no significant difference between the two groups, with similar results for international education. Nevertheless, CEOs had a higher likelihood of possessing international experience than other executive contenders. Moreover, a two-sample t-test with equal variances⁵ shows that CEOs have both higher intrapersonal international experience diversity (i.e., the IE Blau's index) and cultural variety: while there is no remarkable difference, this is indeed statistically significant. Finally, the chi-square test supports a significant difference in terms of nationality between the two groups: we found evidence that nationality may play a role.

These tests provide initial partial support for the rest of the more rigorous analysis.

⁴ Used when looking at categorical variables.

⁵ Used when looking at the means of different populations.

Table 1: Preliminary tests on internationality components

International experience	CEOs=97	Insider executives=361	chi-square / t-stat	p-value
International work experience				
Dummy	67.01%	58.45%	2.3403	0.1260
IE Blau index	.2924	.2388	-1.8395	0.0665
Cultural variety	.1653	.1494	-1.8968	0.0583
Foreign nationality	.3500	.4610	4.7710	0.0290
International education	.5478	.5558	0.0234	0.8790

Source: Author

The analysis was conducted using logistic regression. This methodology has already been exploited (e.g. Magnusson & Boggs, 2006) and is regarded as suitable when (a) the dependent variable is binary (such as in the case of appointed vs. not appointed CEO) and (b) there are both continuous and non-continuous independent variables. Moreover, the *cluster* option was used to compare each executive with TMT members of the same firm: this allows us to consider, indirectly, the international experience of the other team members.

Table 2 presents the means, standard deviations, and correlations between the variables of study. The high negative correlation between nationality and region of origin ($r=-0.75$, $p<.05$) is due to the fact that individuals are either foreigners or come from the same cultural region of the firm (i.e., Nordic or Germanic, respectively, for the Netherlands or Switzerland). As expected no perfect correlation was found due to the fact that regions encompass various countries. Moreover, the high positive correlation between international education and foreign nationality ($r=0.71$, $p<.05$) is explained by the likelihood of foreigners attending universities in their home country. Finally, cultural variety and individual IE Blau scores were highly positively correlated ($r=0.80$, $p<.05$): while the former measures country heterogeneity in an individual's career, the latter measures how many cultural regions in which the individual has worked.

A confirmatory factor analysis was run to find support for the multidimensionality of the international experience construct of executives. Two out of four dimensions (i.e.,

individual international work experience Blau score and cultural variety) loaded significantly on the internationality construct, which is coherent with their high positive correlation ($r=.80$). This returned a single, unambiguous factor with an eigenvalue of 1.46 (loading factors are $\beta=0.8346$ and $\beta=0.7463$, respectively), which is above the recommended threshold of 1.0 (Kaiser, 1960). The third and fourth dimensions (i.e., individual international education and foreign nationality dummies) did not load significantly on the same factor and cannot be regarded as useful for describing individual internationality. This concurs with the arguments of previous scholars, suggesting different effects of international work experience and nationality (Nielsen & Nielsen, 2011). To obtain a robust construct only individual IE Blau scores and cultural variety were retained. We validated the above mentioned composite with Cronbach's alpha coefficient. The value of .67 is in line with the generally accepted threshold in social science research (Nunnally & Bernstein, 1994).

Finally, running a model with all variables included was not feasible due to the high (or very high) correlation coefficients, which led to multicollinearity issues.

Table 2: Means, standard deviations, and intercorrelations among variables

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. CEO dummy	0.21	0.41	1													
2. Age	50.99	6.44	0.06	1												
3. Female dummy	0.04	0.20	-0.07	-0.09	1											
4. Foreign dummy	0.43	0.50	-0.01	0.02	0.00	1										
5. Same cultural region dummy	0.70	0.46	0.07	-0.08	-0.03	-0.75*	1									
6. Company tenure	12.76	10.61	-0.11*	0.40*	0.02	0.12*	-0.18*	1								
7. Previous performance	5.44	5.05	-0.07	-0.02	0.13*	0.05	-0.05	0.21*	1							
8. DOI	0.64	0.31	-0.09	0.01	0.08	0.27*	-0.22*	0.21*	0.22*	1						
9. Multiple appointments	0.26	0.44	0.10	-0.03	-0.06	0.02	-0.04	-0.12*	-0.21*	-0.19*	1					
10. Industry munificence	0.05	0.03	-0.05	-0.12*	-0.04	0.02	0.05	0.02	-0.06	0.22*	-0.08	1				
11. International education dummy	0.54	0.50	0.06	0.00	-0.05	0.71*	-0.56*	0.04	-0.01	0.27*	0.03	0.09	1			
12. Individual IE Blau	0.28	0.26	0.10	0.09	-0.08	0.50*	-0.39*	0.10	0.05	0.27*	0.05	0.04	0.44*	1		
13. Cultural variety	0.16	0.08	0.11*	0.19*	-0.08	0.33*	-0.38*	0.10	0.03	0.23*	0.01	0.01	0.28*	0.80*	1	
14. Output function	0.13	0.33	-0.03	-0.06	0.11	0.02	0.06	-0.01	0.11*	0.05	-0.17*	0.03	-0.03	-0.04	-0.06	1
15. Throughput function	0.30	0.46	0.02	0.09	-0.14*	0.14*	-0.10	0.15*	0.03	-0.03	-0.10	0.06	0.09	0.08	0.06	-0.25*

Observations: 320, with the exception of international education dummy (#307) and functional dummies (#302) *p<0.05

Table 3 shows that results of the logit regressions (please refer to **Error! Reference source not found.** in the Appendix, where odds ratios are reported). Model 1 includes all the control variables, neither of which was found to have a statistically significant effect on the preference for CEO appointment. Model 2 and Model 3 test the effects of individual international experience heterogeneity and cultural variety, respectively, on the preference of CEO appointment. We found that firms value the human capital generated during international assignments and thus their boards of directors appoint to the helm TMT executives that have high IE diversity (*vid* Figure 2) and cultural variety (*vid* Figure 3). We found support for Hypothesis 1, which was tested with Model 4 (*vid* Figure 4).

The hypothesized positive moderating effect of the same cultural region origin (*cf* Hypothesis 2) was tested with Model 5: even though the main effect of international experience on CEO appointment preference is still present and the same cultural region origin categorical variable becomes significant, the interaction effect between same cultural region origin and international experience is only marginally significant (p-value of 0.11), leading to the rejection of Hypothesis 2.

We rejected Hypothesis 3, predicting a negative moderating effect of industry munificence CEO appointment preference for highly internationally exposed executives (*cf* Model 6).

Finally, we tested Hypotheses 4a and 4b with Model 7 and Model 8, respectively: we found support for the negative moderating effect of output functional background, while the positive moderating effect of throughput functional background was not supported. Despite the non-significance, the control variables are theoretically relevant and should be kept in the model.

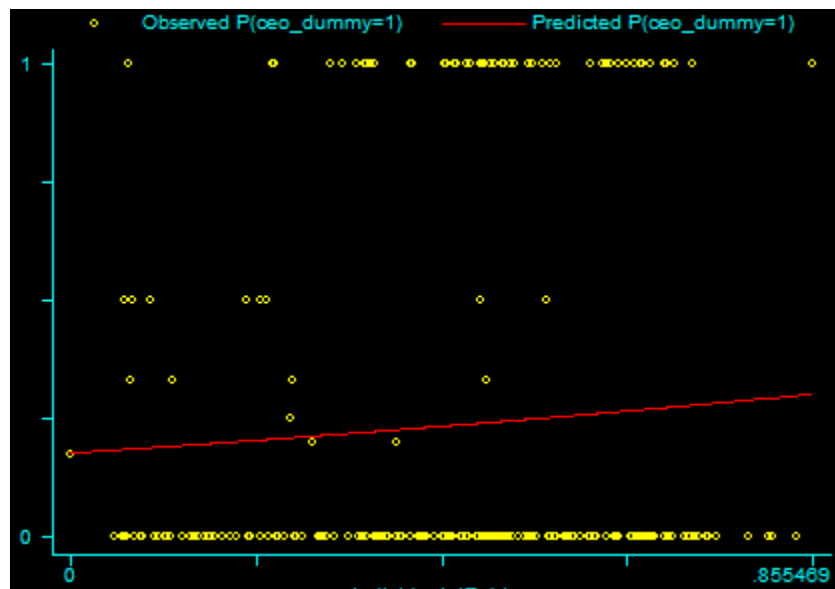
Table 3: Results of logistic regressions, log odds

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	-3.47 *	-3.27 *	-3.33 *	-2.70	-3.86 *	-2.71	-2.91	-2.8
	(1.62)	(1.67)	(1.63)	(1.74)	(1.85)	(1.74)	(1.89)	(1.79)
Age	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Female dummy	-1.06	-0.96	-0.98	-0.96	-0.99	-0.98	-1.25	-1.00
	(0.82)	(0.86)	(0.83)	(0.85)	(0.81)	(0.84)	(0.67)	(0.82)
Foreign dummy	0.13	-0.26	-0.06	-0.18		-0.18	-0.20	-0.21
	(0.31)	(0.37)	(0.35)	(0.37)		(0.37)	(0.38)	(0.37)
Same cultural zone dummy					1.05 *			
					(0.50)			
Company tenure	-0.01	-0.01	-0.01	-0.01	0.00	-0.01	-0.01	-0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Previous performance	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
DOI	-0.27	-0.62	-0.55	-0.62	-0.40	-0.61	-0.52	-0.56
	(0.51)	(0.58)	(0.54)	(0.56)	(0.56)	(0.57)	(0.57)	(0.56)
Multiple appointments	0.44	0.37	0.39	0.38	0.47	0.38	0.31	0.37
	(0.33)	(0.38)	(0.36)	(0.37)	(0.38)	(0.37)	(0.37)	(0.37)
Industry munificence	1.43	1.22	1.52	1.40	0.67	1.31	1.09	1.75
	(3.20)	(3.44)	(3.35)	(3.41)	(3.63)	(3.52)	(3.75)	(3.54)
Output function dummy	0.01	0.07	0.06	0.08	0.09	0.08	-0.63	0.07
	(0.55)	(0.55)	(0.56)	(0.56)	(0.56)	(0.56)	(0.92)	(0.55)
Throughput function dummy	0.25	0.27	0.26	0.27	0.32	0.27	0.28	0.15
	(0.36)	(0.35)	(0.36)	(0.36)	(0.36)	(0.36)	(0.36)	(0.40)
Individual IE Blau		1.69 *						
		(0.79)						
Cultural variety			3.75 *					
			(2.00)					
International experience				0.42 *	0.89 **	0.47	0.54 *	0.30
				(0.20)	(0.32)	(0.31)	(0.22)	(0.24)
International experience X Same cultural region					-0.54			
					(0.34)			
International experience X Industry munificence						-1.05		
						(5.27)		
International experience X Output function							-2.23 *	
							(1.03)	
International experience X Throughput function								0.43
								(0.35)
Goodness-of-fit		OK	OK	OK	OK	OK	OK	OK
Area under ROC curve		.6854	.6800	.6865	.7046	.6863	.7112	.6919
Correctly classified		84%	84%	84%	84%	84%	84%	84%

Observations: 302. Country and year dummies were included in all models.

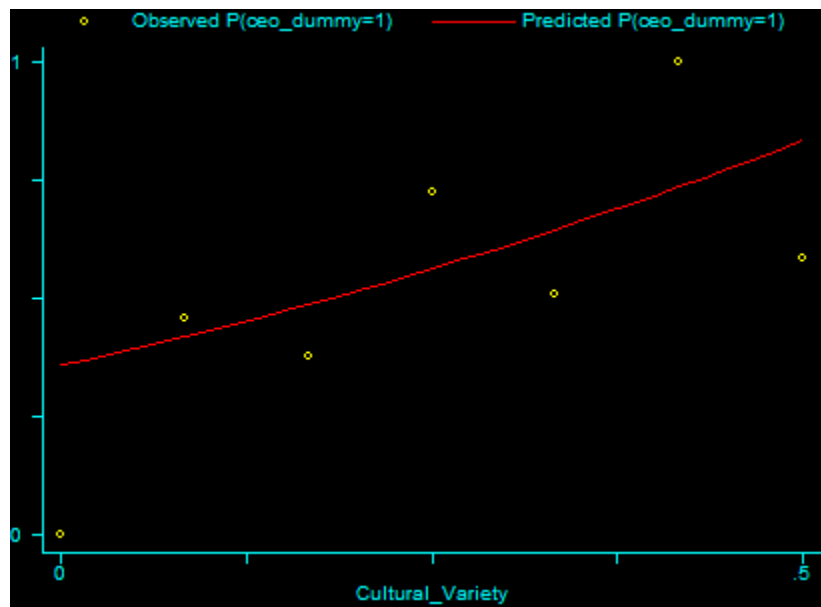
Unstandardized coefficients are reported. Robust standard errors are reported in parentheses, † p<0.10, * p<0.05, ** p<0.01, *** p<0.001. Source: Author

Figure 2: International experience Blau and odds of CEO appointment



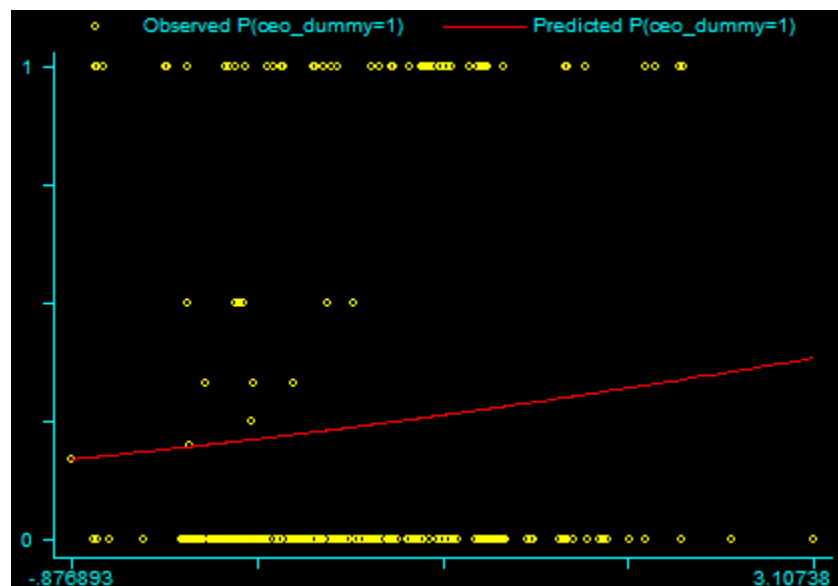
Source: Author

Figure 3: Cultural variety and odds of CEO appointment



Source: Author

Figure 4: International experience and odds of CEO appointment



Source: Author

1.5. Robustness checks

A number of checks was performed to test the robustness of results displayed in section 1.4. The Stata command *linktest* was used to detect specification error. The linear predicted variable “_hat” is indeed a statistically significant predictor while its squared term “_hatsq” is not, in all the tested models. We can safely assume that all the models are properly specified. In other words, we found no additional predictor that is statistically significant except by chance. We added the squared term to the equation to test whether appointment preference is related to executive international experience in a non-linear way, which resulted in a non-significant result (cf. **Error! Reference source not found.**, Model 1A and Model 2A, in Appendix). Therefore, we can be confident that the results are not a product of undetected non-linear effects. This supports the idea of the *boundaryless career* patterns suggested by Defillippi and Arthur (1994) and later by Tung (1998).

Furthermore, excluding outliers from the sample in a logistic regression requires saving the standardizing residuals (using the Stata *predict* command) and running the regression

excluding the outliers. This procedure confirmed the previous results (cf. **Error! Reference source not found.**, Model 3A, in Appendix)

In addition, to tackle multicollinearity issues that may have affected the interpretation of results, the variance inflation factors (VIF) measure of independent variables was computed for our basic model and returned a maximum value of 1.67 and an average value of 1.30, which are below the threshold of 10 (Hair, Black, Babin, Anderson, & Tatham, 2006), confirming multicollinearity is not an issue.

Finally, prospective CEO candidates may have been groomed differently from other executives, who may thus not have the same ambition. For example, our database does not show cases of foreign chartered accountants or lawyers that were appointed CEOs. To address this point we employed an alternative measure of functional background with one dummy variable for each category, and the results remained unchanged.

1.6. Discussion: theoretical contributions and managerial implications

The present paper aimed at contributing to the human capital theory by shedding light on the impact that international experience has on preference in the CEO selection process. Work experiences abroad translate into competences, new knowledge, and social networks, which lead to higher employee performance and, ultimately, firm value (Becker, 1975): our conceptualization of international experience encompasses the breadth and depth of international experience (i.e. international work experience), as well as the cultural span encountered by executives.

This study favoured a sounder understanding of the impact that international experience has on executive human capital in a number of ways. First, we found support for the fact that international experience and cultural dimension together, as suggested by Georgakakis et al. (2016), do matter at the individual level. We theoretically argued and found support for the preference for internationally exposed CEOs, in line with the US-based results of Magnusson and Boggs (2006). These findings confirm that less international experience

could be driven by unsuccessful adjustment to foreign environments (Caligiuri, 2000), which harms future career development of individuals.

Second, we found marginal support for the relevance of adopting a regional perspective, as suggested by Rugman and Oh (2013). This may be due to the fact that origin and international experience have an effect on each other (Nielsen & Nielsen, 2011; Oxelheim, Gregoric, Randoy, & Thomsen, 2013) and, after a certain threshold of international experience, the origin of individuals becomes less relevant. Moreover, the same cultural region argument may not be true at the individual level, but instead at the team level: Nielsen and Nielsen (2011) found support for differing effects of international experience and nationality diversity, thus suggesting that origin is not relevant alone, but in interaction with the origin of all team members. All in all, this suggests that international experience is a relevant executive characteristic: where executives collected their experience may become statistically significant leveraging a larger sample.

Third, there is a strong individual component of international experience that research has not yet realized, as witnessed by the few studies available (e.g., Magnusson & Boggs, 2006). The interaction effect of industry munificence, although confirmed in the hypothesized direction, was not significant: this could be due to the fact that, regardless of an industry's capability to sustain its own growth, firms are constantly looking to secure access to particular human capital such as international experience.

Finally, we found support for the fact that the functional background of CEOs is relevant (Finkelstein et al., 2009): there is a negative moderating effect of output functional background. This kind of *knowing how* (Dickmann & Harris, 2005) is not efficiently transferable between firms or is not useful for them so it consequently negatively affects the preference of CEO appointment. This suggests that it represent on-the-job experience, whose replicability is bounded to the firm which cultivates it (Becker, 1975). We did not find support for the positive effect of throughput functions, as suggested by (Hamori & Koyuncu, 2011), even though the coefficient of the interaction effect is positive. This is in line with the results presented by Magnusson and Boggs (2006) and suggests that the

knowledge acquired from throughput functions has an effect on time to the top, but does not represent a CEO appointment preference factor.

This study provides two exploitable managerial implications for executives aiming at a CEO position. First, they should gain human capital in the form of international experience and regions visited, as this represents a preferred attribute for CEO appointment. Second, they should gain international experience paired with on-the-job experience that is transferable between companies rather than firm specific.

1.7. Limitations and future research opportunities

Obviously, the findings of this study must be viewed in light of its limitations. First, secondary data settings make it difficult to quantify subjective career outcomes (e.g., career satisfaction, degree of internalization of foreign cultural schemas). While demographic data are frequently used in human capital research, there is still space for better measures of executives' personal attributes (e.g., Carpenter, Geletkanycz, & Sanders, 2004).

Second, this study focused only on the characteristics of top management members. Since CEOs are appointed by boards of directors, whose characteristics (e.g., number of independent directors, compensation committee structure) may impact their decision process. Future studies could take into account some of these such as the international experience or the nationality of the board members. Executives characterized by extensive international experience are part of an attractive recruitment pool, where companies gather prospective candidates due to their international skills and competences (Suutari & Mäkelä, 2007). The use of logit regression with a clustering option implies a focus on internal candidates only, while outsiders are actually neglected. Information about demographic characteristics of shortlisted candidates would make it possible to model the selection decision. In addition, international career capital, as conceived according to the conceptualization of Ployhart and Moliterno (2011), resides at the individual level but emerges at the unit level. Therefore, scholars could compare the international experience

of each team member with the international experience of the rest of the TMT, arguing, for example, for the existence of a substitution effect.

Finally, including the characteristics of the social network to which executives belong may provide interesting results (Fitzsimmons & Callan, 2016). Social capital plays a determining role in current CEO appointments, due to the fact that it boosts the “ability, scope, and speed of international market expansion” (Andersen, 2006, p. 93), which are highly required in the current competitive environment. While our research did not support the inclusion of international education as a proxy of network access, other factors such as interlocks or memberships may prove more gauging.

In conclusion, this study aimed at advancing knowledge of human capital by studying the international experience of individuals as a preferred attribute for CEO selection. Our results may spark scholars’ interests in investigating other contingencies that affect international experience as a preference for CEO appointment.

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