THE RISE OF AN INTERNATIONAL MARKET FOR EXECUTIVE LABOUR

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The Rise of an International Market for Executive Labour

Abstract

This paper explores the rise of an international market for top management team members in Europe, identifying patterns and trends, and exploring the antecedents to the emergence of TMT nationality diversity. We analyse a panel dataset of large European non-financial firms based in Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. This dataset consists of more than 7000 individual observations of executives' nationalities at the year-ends of 2005, 2004, 2002, and 2000. We find that over this period Swiss, Dutch, and Finnish firms stepped up the hiring of foreign top executives, while Danish and Norwegian firms employed a lower percentage of foreign top managers. We identify some key antecedents to top management team internationalisation, most notably firms' executive compensation and foreign ownership levels.

1. Introduction

The purpose of this paper is to explore the rise of an international market for executive labour in Europe. The term ‘executive labour' refers to top management team (TMT) members, *i.e.* managers who hold an executive function. While legal systems regulating TMT and board structures vary across nations, the executive function can be easily identified and hence analysed in all European and North American economies. This paper identifies patterns and trends in the nationality of TMT members at firms based in seven of the most open European economies over the period 2000-2005, and explores a number of potential antecedents to the emergence of TMT nationality diversity.

Over the 1990s, some larger European multinational companies (MNCs) made first steps to recruit foreign TMT members (Alexander and Esser, 1999; Heijltjes, Olie, and Glunk, 2003). Several factors have contributed to the international mobility of executives, e.g. a wave of cross-border mergers, the increasing use of English as a *lingua franca* in large multinationals, a convergence of educational formats, and increasingly international capital markets as well as markets for goods and services. Some authors already heralded the 'free float' of executives across national borders as a brave new age in global capitalism (Perlmutter and Heenan, 1974; Prahalad and Lieberthal, 1998). Recent studies by Oxelheim and Randøy (2003), Ruigrok, Peck, Tacheva, Greve, and Hu (2006), and Ruigrok, Peck, and Tacheva (2007) suggest that nationality has become a key factor in the search and selection process of executive and non-executive directors at listed companies in several European countries.

In this paper we examine TMT composition using a large panel dataset of European non-financial firms which have at least one thousand employees and at least €500m turnover at year-end 2005 based in Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. If an international market for executive labour is emerging, it should be possible to detect such a trend within these seven countries. The dataset consists of more than seven thousand individual observations of executive nationalities at the year-ends of 2005, 2004, 2002, and 2000.

The structure of this paper is as follows. First, we describe key components of the executive labour market, identify barriers to the emergence of an international executive labour market, and

propose a number of antecedents to the internationalisation of TMTs. Second, we empirically establish the role of nationality in the international executive labour market and look at trends in the seven countries. Third, we state our conclusions and identify areas for future research.

2. Executive labour: supply and demand

Just like other markets, the market for executive labour is driven by supply and demand. Current and aspiring top managers constitute the supply side, whereas companies exert demand for executive labour. The number of TMT positions is limited and the aspiration to occupy such a position is a key motivational driver in the managerial workforce.

Demand for executive labour is influenced by a large number of factors in the company's internal and external environment. TMT composition is determined especially by (changes in) the firm's environmental configuration and thus by the level of contextual complexity facing the firm. Increasing complexity raises the information-processing needs of the firm, thereby changing the requirements on the TMT. Past research has confirmed such a link between environmental complexity and TMT composition (e.g., Sanders and Carpenter, 1998).

The two main drivers of environmental complexity in an organisation are international diversification and industrial (product) diversification (Hitt, Hoskisson, and Ireland, 1994). Thus, demand for executive labour will be influenced both by the posture of the firm in international as well as product markets. Over the past decade MNCs across Europe and North America have not increased levels of product diversification [if anything, the opposite has been the trend, cf. Ruigrok, Pettigrew, Peck, and Whittington (1999)]. However, degrees of internationalisation have grown considerably (Ruigrok, 2005). In early to mid-stages of foreign expansion, firms typically face significant entrance costs stemming from the "liability of foreignness and newness", i.e., the lack of familiarity with legal, social, and economic regulations, as well as consumer tastes and cultural aspects of the targeted foreign markets (Gomes and Ramaswamy, 1999; Zaheer, 1995). In addition, firms expanding to different cultural zones will face initial learning costs and insufficient economies of scale (Contractor, Kundu, and Hsu, 2003; Ruigrok, Amann and Wagner, 2007). Altogether, these costs may initially outweigh the incremental benefits of internationalisation, e.g. cost savings, tax benefits, and

economies of scale. Foreign TMT members with knowledge of foreign markets, experiences with different cultures and complementary networks may help to reduce these problems.

3. Barriers to an international market for executive labour

Thus foreign executives may help to increase firms' ability to deal with complexity and information-processing requirements. Moreover, by accessing a larger candidate pool in the international executive labour market firms are able to screen a larger number of potential TMT members, increasing the chance to hire a highly suitable candidate.

However, there are a number of structural, emotional and political barriers that slow down the development of an international market for executive labour.

3.1. Executives are not perfectly mobile

An efficient international market for executive labour assumes that executives are ready to move to the country offering the most attractive employment opportunity. Today we are far removed from such a situation. Language and cultural barriers remain, which may discourage executives from leaving the well-known for a less known and riskier environment. Furthermore, executives will often be well-networked in their home countries, while in a foreign environment the value of this network may be lower and past credentials less well known. In addition, executives' spouses and children may prefer to settle down in one place for a longer period rather than move around from one country to the other. Finally, many countries' pension system effectively discourages international executive mobility. To offset all these barriers, executives moving abroad and taking up an uncertain challenge will typically expect a generous compensation package. In many countries executive pay structures do not adequately take these factors into account.

3.2. Emotional and political links endure between a company and its home country

Most companies have more than simply a pro forma relationship with their country of origin. Even to highly international firms, domestic origins and national culture matter. Shareholders, stakeholders, media, and the general public often take pride in their country's largest and most

successful companies and admire their leaders. Under such circumstances, the idea of leaving decision-making powers in the hands of foreigners may be met with scepticism. Where a domestic national might be given the benefit of the doubt based on reputation and past credentials, a foreigner is more likely to be judged on short-term merit regardless of previous achievements in other countries.

3.3. Executives are often recruited via personal networks

The development of an international market for executive labour is impeded by the very mode through which many executives are hired. Because each hiring decision at the TMT level is critically important to the future success of the company, many companies have traditionally sought to reduce risks by hiring individuals from existing networks. As firms become more international, they will get access to an increasingly international pool of candidates. However, executives' personal networks will continue to be dominated by national bonds for a considerable period.

3.4. Moderate levels of diversity may impede team functioning

There is no solid evidence to suggest that firms will actually benefit from moving towards moderate or high levels of TMT internationalisation. If anything, anecdotal evidence and interviews carried out by the authors suggest the opposite, i.e. that moderate levels of TMT diversity may be more detrimental to team functioning than other types of team configurations (cf. Earley and Mosakowski, 2000). Firms that have incrementally internationalised their TMT by appointing a single foreigner may well have stumbled at this first hurdle, slowing down the emergence of an international market for executive labour.

The above four factors suggest that an international market for executive labour will be imperfect and its emergence uneven. The next section explores the antecedents of TMT internationalisation.

4. The antecedents of TMT internationalisation

We propose that the mobility of executives across national borders is a function of executive labour market pricing mechanisms, firm context-specific conditions, as well as country- and industry-

specific factors. This section considers each of these factors in greater detail in order to develop a model of the antecedents of culturally diverse TMTs and derive corresponding hypotheses.

Compensation plays an important role in the evolution of executive careers and functions as a price mechanism in any executive labour market. Candidates for executive positions will be at least partially motivated by prospects of monetary reward and the status that accompanies such rewards. Since there are considerable switching costs for executives to move to another country, firms that have attracted foreign executives will offer higher total remuneration levels than their domestic peers.

H1: Higher average compensation levels are positively associated with foreign TMT membership and TMT nationality diversity.

Several studies have suggested that foreign ownership levels are linked to governance aspects of the firm (e.g. Hassel, Höpner, Kurdelbusch, Rehder, and Zugehör, 2003; Oxelheim and Randøy, 2003). Foreign (incl. minority) ownership is likely to lead the appointment of foreign executives, e.g. from the owners' home country. Some firms may appoint one or more foreign TMT members in order to signal to markets and stakeholders that due attention will be paid to the interests of foreign as well as domestic interests.

H2: Foreign ownership levels are positively associated with foreign TMT membership and TMT nationality diversity.

The overall size of the domestic market determines the point in a firm's evolution at which it is required to enter foreign markets in order to achieve continued growth. Home market size is also an indicator of the size of the domestic executive labour market. Hence, the size of the home market will have a dual and simultaneous impact on the firm's propensity to hire foreign TMT members. First, firms with large domestic markets will typically move into foreign markets at a later stage in the firm growth process, and, second, firms with large home markets will have a larger and more specialised pool of managerial talent to draw upon, reducing the need to search for new executives in the international sphere. Conversely, firms with smaller home markets will need to move abroad at an

earlier stage of evolution, and may at the same time recognise the limitations of homegrown managerial talent in the process of foreign expansion.

H3: The size of the domestic market is negatively associated with foreign TMT membership and TMT nationality diversity.

There is also an indirect home country effect on companies' internationalisation trajectories. Companies based in countries with relatively large culturally, institutionally and linguistically related neighbouring countries have a major advantage over other companies. Such companies may learn the tricks of the internationalisation trade in a foreign environment which will be less hostile and easier to understand (Johanson and Vahlne, 1977). Research confirms that firms facing such starting conditions are less likely to suffer major losses in initial stages of the internationalisation process (Ruigrok, Amann and Wagner, 2007). Since language problems will not be a major barrier for such firms, large related neighbouring markets will also be identified as a recruiting ground for (foreign) executives as the company expands abroad, resulting in a soft introduction to multinational team-working and cross-border spill-over effects of managerial know-how. Thus, the size of linguistically related neighbouring markets is expected to influence foreign TMT membership and TMT nationality diversity.

H4: The size of linguistically related neighbouring markets is positively associated with foreign TMT membership and TMT nationality diversity.

Whereas some industries are highly intertwined across borders (e.g. due to the global integration of markets for products with high asset specificity), others typically have a more regional or local focus (e.g. due to geographically concentrated resources or low cross-border integration of customer preferences). The type of industry is therefore expected to have an impact on the level of cross-border executive mobility.

H5: Firms' industry classification accounts for differences in foreign TMT membership and TMT nationality diversity.

5. Constructs, data, and methods

Nationality is a complex construct that has received relatively little attention in TMT research. Nationality is an approximation of a particular set of values, attitudes, demeanours, and behaviours associated with a particular national culture. Obviously an individual's personality as well as the acculturation and assimilation within one or more other cultures will determine the extent to which a given individual deviates from cultural traits associated with his or her nationality. However, Hambrick, Davison, Snell, and Snow (1998) argue that the main advantage of studying nationalities is the close proximity of nationality to the real underlying values and cognitions of a given individual. The nationality variable can therefore serve as a powerful proxy for the actual diversity of a TMT.

A number of studies have examined the effects of nationality diversity on team (rather than TMT) outcomes and performance (e.g., Cox, Lobel, and McLeod, 1991; Richard, Barnett, Dwyer, and Chadwick, 2004; Watson, Kumar, and Michaelsen, 1993). Meanwhile, there is also a well-documented literature on the impact of nationality on personality suggesting that there is a robust link between these two constructs (for a review, see Triandis and Suh, 2002).

We define nationality as the passport(s) held by an individual at a given date. Generally, we assume that nationalities do not change over time, but in cases where we know that an executive changed nationality or acquired a second nationality during the period of study, we record this in our database accordingly. Dual nationalities are recorded as two half nationalities, except for the count measure recording the number of nationalities represented in a team, for which we count both nationalities due to the fact that a dual passport holder effectively represents two nationalities at the same time. A citizenship is considered to be equivalent to nationality, whereas birthplace and/or residence are considered insufficient as proxies for nationality.

We rely on first-party and third-party definitions of nationalities. This means that all nationalities in our database have been confirmed either by the executives or their representatives themselves, or via at least one reliable archival source. Nowadays, many European companies state their executives' nationalities in the annual report or on the corporate website. When such information was not available we searched a large number of press releases, biographical databases, newspaper

articles, as well as other official corporate documentation for reliable confirmation of executive nationalities. As a last resort, we contacted companies directly (mainly Investor Relations or Corporate Communications departments) and asked them to confirm the remaining nationalities that we had not been able to confirm via the public domain. The willingness to provide such information was generally high, despite some variation across countries. In our analysis, we only include those TMTs where the nationalities of all TMT members in a particular year could be confirmed.

In this study we follow the commonly employed definition of the TMT as the most important group of decision-makers in the company (Murray, 1989; Pettigrew, 1992). The TMT is operationalised as the members of the management board or executive committee, as identified in the company's annual report. To account for different types of structures and hierarchies across the firm population, we rely on the companies' own TMT definitions, only making our own judgments when several levels of top management are presented in corporate documentation (in which case we always choose the smallest unit of the levels presented, i.e. the team closest to the CEO, as long as it consists of at least two members). The TMTs in our sample range from two to 21 members, with an average TMT size of approximately six members across all 1,205 observations.

In Switzerland, the TMT is typically referred to as the *Geschäftsleitung* and consists of approximately six to seven members on average. The TMT has operational responsibilities which are typically separated from the work of the board. The CEO is often a member of the board of directors, functioning as a representative of the management, but the roles of chairman and CEO are only combined in about 22% of cases (Ruigrok, Peck, Tacheva, Greve and Hu 2006). Swiss TMTs increased in size between 2000 and 2002, but have since become smaller again.

In the UK, the labels used to describe the TMT vary widely between companies. The board typically consists of both executive and non-executive members, but the most senior management level (most often referred to as the executive committee) often consists of additional executives (who are not board members) as well. British TMTs on average consist of five to six members and average team size remained stable throughout the period of this study.

Dutch TMTs are referred to as the *Raad van Bestuur* and typically consist of four to five members, with the average TMT size decreasing somewhat between 2000 and 2005. There are no overlaps of board and TMT membership, as such practice is prohibited by legislation.

In the Nordic countries the TMTs are generally referred to as management boards or management committees. There are substantial country differences with regard to TMT size within the Nordic countries. Danish companies typically have small TMTs, with an average of approximately four members per team. At the other extreme, Finnish companies have large TMTs, consisting of eight to nine members on average. Swedish and Norwegian TMTs are also relatively large, with an average size of around seven to eight members in both countries. As in the case of Switzerland, CEOs of Nordic companies often combine their executive function with a seat on the board of directors.

The analysis is based on an (unbalanced) panel dataset covering non-financial companies with at least one thousand employees and at least five hundred million Euro turnover at year-end 2005 in Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. Of the 520 companies satisfying the above criteria at the end of 2005, sufficient information for inclusion in the study could be found for 415 companies (of which 351 for the full period 2000-2005 and the remaining 64 for the period 2002-2005 only). To maintain the panel structure of our database, we required that information on the identity of TMT members had to be available for at least the three most recent time periods (i.e. from year-end 2002 until year-end 2005). Companies that were recently established or only started publishing corporate information during the given period were left out of the sample for this reason (16 companies). Companies that merged, were taken over, or went into administration before we could gather the required information also had to be removed from the sample (19 companies). Finally, companies that did not provide complete information on the identity of TMT members throughout the period, as well as companies reporting that their TMT consisted of only one person, were excluded from the sample (70 companies).

The final dataset consists of 1,205 (out of a possible 1,596) company-year observations (i.e. over 75% of the defined population) and is based on 7,173 individual-company-year observations of executive nationalities in the period between 2000 and 2005. A t-test for sample bias showed no

significant differences between the size of the companies for which we have complete TMT nationality data and the full population (neither in terms of total sales nor total employees).

The *percentage of foreigners per team* is calculated by taking the number of foreigners and dividing by TMT size. This variable indicates the firm's propensity to utilise the international market for executive labour. TMT *nationality diversity* is calculated using Blau's (1977) index, a measure of group heterogeneity which is commonly used in group diversity research, and in top management team and board research in particular (Carpenter, 2002; Finkelstein and Hambrick, 1996).[1] The higher the value, the greater is the diversity of nationalities within the team. This variable is an indicator of the breadth of international executive labour market utilisation.

To measure a firm's level of executive compensation, we employ the *total compensation per executive team member* (including base salary, cash bonus, share awards, valued as the net monetary benefit of the shares as at the grant date, and stock options, calculated using the Black-Scholes option valuation model adjusted for continuous dividends). The executive compensation data have been obtained from a recent study on the antecedents of executive pay among publicly listed firms in Switzerland (Hengartner, 2006). *Foreign ownership* levels have been extracted from company annual reports and refer to the reported number of shares (or in a few cases voting rights if share data were ambiguous or unavailable) held by owners who are domiciled outside the home country. We measure *firm size* as the total amount of sales at the reporting date closest to the end of each year. The variables *home market size* and *size of adjacent markets* are based on total population figures in the respective countries, as reported in the CIA World Factbook in April 2007. Adjacent markets are defined as those country markets that share a border as well as an official language. A border is defined as either a land border or a direct sea border. Languages that are generally mutually understood across borders are considered equivalent to the sharing of an official language (i.e., the three Scandinavian languages). In the case of Finland, where Swedish is an official language but only used by a minority of about 5% of the population, we defined Sweden and Finland as mutually adjacent markets. The classification of all companies into 24 *industry groups* was based on a combination of stock exchange classifications and

Standard Industry Classification (SIC) codes. We employed a step-wise procedure, starting with narrow categories based on three-digit primary SIC codes, then merging these categories to conform with broader categorisations such as those used by the various stock exchanges, until each category contained at least ten companies. The control variable *TMT size* is a count of the number of TMT members. We control for TMT size in the context of this study, as larger TMTs need to fill vacancies more frequently and also have more room to experiment with atypical TMT member profiles.

*** INSERT TABLE 1 ABOUT HERE ***

We test H1 by using a dataset on total remuneration of executives in Switzerland in the year 2002. For reasons of data availability, we test this hypothesis cross-sectionally in a single-country setting using a standard ordinary least squares procedure, controlling for TMT size. The test of H1 is referred to as Model 1 in all tables.

We estimate a series of one-way fixed effects regression models across country and time dimensions to test the remaining hypotheses. A Hausman specification test gives a statistically significant P-value ($p<0.001$), pointing in favour of using a fixed effects model. Poolability tests produce low F-scores (0.39 and 0.01 for country and time respectively) suggesting that the panel data are poolable with respect to both dimensions. All models are tested against two different dependent variables, constituting two distinct types of TMT internationalisation, namely the percentage of foreigners as a measure of magnitude and nationality diversity denoting the breadth of international executive labour market utilisation.

We establish a pooled regression baseline model (Model 2), constituting the control variable TMT size as well as year and country dummies.[2] We introduce the year and country dummies separately in successive operations, with Model 2a containing year dummies to account for temporal effects and Model 2b containing country dummies to account for geographical effects. In Model 3, we

[1] The Blau index is calculated as follows: $B = [1 - \Sigma (p_i)^2]$, where B is the heterogeneity measure and p is the percentage of TMT members in the *i*th group (i.e. nationality). The Blau index takes values between 0 and 1, with 0 implying perfect concentration (i.e. no diversity) and high levels of diversity converging on 1.

[2] In order to be able to include all dummy variables simultaneously (across country and time respectively), we impose the restriction that the sums of dummy variables are equal to zero, and run the regression with a constraint (using the cnsreg command in STATA). This implies that the dummy coefficients indicate the deviation from the average country/time effect (as opposed to the deviation from a base country/year if we had dropped one dummy).

include foreign ownership (H2) as an explanatory variable while retaining TMT size as a control variable. Again, we introduce the year and country dummies separately to test whether there are significant temporal (Model 3a) or geographical (Model 3b) effects. As foreign ownership data are only available on a substantial scale among the Dutch and Nordic firms in our sample, we restrict the test of H2 to these five countries only. The subsequent pooled regression models, employing *home market size* (H3) in Model 4 and *size of adjacent markets* (H4) in Model 5 as explanatory variables and controlling for TMT size, are only tested using year dummies, as the country dummies and the explanatory variables (which are at the country-level) are derived from the same origin.

Finally, we use a pooled model to conduct a test for industry effects (H5). The procedures employed in the preceding models are repeated, separately introducing time and country dummies into the model. Again, we include TMT size as a control variable.

No multicollinearity issues were detected in our data as the variance inflation factors for all models remained well below critical thresholds.

6. Foreign nationals in European TMTs: patterns and trends

We find that the overall receptivity to foreign TMT members has increased steadily over the period between 2000 and 2005. Despite the complex dynamics of culturally diverse TMTs and institutional barriers that hinder the rapid development of an international executive labour market, the majority of companies in our sample had foreigners in their TMT ranks in 2005, and more than one out of four executives originate from abroad. The average level of national diversity has also increased over the five-year period. These trends suggest that an international market for executive labour is indeed emerging in Europe. However, when breaking down our panel dataset into individual countries, we uncover distinct country-specific patterns.

*** INSERT TABLE 2 ABOUT HERE ***

*** INSERT FIGURE 1 ABOUT HERE ***

6.1. Swiss TMTs

Swiss large firms' TMTs are by far the most international in our sample and have become so diverse in the last five years that nationality diversity seems to have become the norm rather than the exception. The average nationality diversity index has grown to nearly 0.5, and the average number of nationalities per TMT is well above three. The interplay between the average number of nationalities, the percentage of foreign members, and team size during the study period shows an interesting trend. Between 2000 and 2002, the total percentage of foreigners increased only slightly, yet the average number of TMT members increased rather sharply and the average number of nationalities per TMT grew as well. In the subsequent period, the average number of TMT members went back down to the same levels as in the past, while the average number of nationalities remained high and the total percentage of foreigners rose substantially.

This suggests that over the period 2000-2005 Swiss TMTs employed a two-step strategy to gradually increase nationality diversity in the long-run while avoiding the loss of too much control into the hands of foreign executives in the short-run. First, Swiss companies *increased* the size of their TMTs and took on more executives with different nationalities, thereby testing how impulses from a broader spectre of foreign countries would impact TMT dynamics. By also hiring domestic executives during this period, the Swiss firms ensured that their TMTs initially retained approximately the same balance of domestic and foreign nationals. Second, companies *reduced* the size of their TMTs by phasing out some domestic nationals while retaining the newly hired foreign nationals, resulting in a higher average number of foreigners as well as substantially higher levels of TMT diversity at year-end 2005.

Thus, Swiss firms appear to be at the forefront of the development of an international market for executive labour. Switzerland is not only the home of some of the most internationalised firms in the world but executive pay levels are also more generous than in many European countries (Hay Group, 2007). These favourable conditions have attracted attention especially of highly qualified German speakers who today constitute the single largest group of foreigners at Swiss TMTs. Cultural, language and physical distances between German-speaking Swiss and German nationals are relatively limited – although not unimportant. In spite of the highly-rated Swiss education system, the pool of

available executives will always be relatively scarce in a small country with a disproportionately high number of large MNCs. The Swiss seem to have become accustomed to their firms being run at least partially by foreign nationals.

6.2. Dutch TMTs

Dutch TMTs are smaller than TMTs in the other European countries in our sample, and have continued to become smaller over the period 2002-2005, from an average team size of 4.5 in 2002 to less than four in 2005. At Dutch firms the foreign presence at the TMT level has increased moderately over the five years. Overall, there has been a slight upward trend in the average nationality diversity levels and the percentage of foreign members on Dutch TMTs. The number of nationalities per team has remained stable throughout the period, but this figure needs to be interpreted in connection with the general decline in size of Dutch TMTs. At the end of the year 2005 the average TMT contained slightly more than two nationalities. The number of Dutch TMTs with at least one foreigner has increased steadily throughout the period, from above half of the sample firms in 2000 to nearly two-thirds of the firms in 2005.

Dutch firms' strategies and trajectories in internationalising their TMTs have been affected by two factors. First, unlike their Swiss counterparts, Dutch TMTs cannot draw foreigners from a large culturally and linguistically related country. As a result, an influx of foreigners will lead to bigger TMT cultural changes at Dutch TMTs. Second, as Dutch TMTs have recently become leaner, every extra foreigner will inevitably have a major impact on TMT cohesion and climate. Thus, Dutch firms appear to have adopted a cautious and incremental approach to TMT internationalisation. Hiring a first foreigner may act as a first step towards developing multinational TMTs, via cultural integration and TMT network extension.

6.3. British TMTs

Of the seven countries in our sample, the UK has the largest domestic market for executive labour. The average internationalisation levels of large UK firms are also lower than those of large Swiss, Dutch or Nordic firms (Ruigrok, 2005).

The international orientation of British TMTs has remained relatively stable throughout the period 2000-2005, aside from a slight increase between 2002 and 2004. Despite a small increase in the total proportion of foreigners, nationality diversity and the average number of nationalities per team have remained rather stable, suggesting that British firms typically limit the scope of their international executive labour market utilisation to a few foreign countries. British TMTs have also become somewhat leaner over the period of investigation, as the average team size has decreased from nearly 5.7 members in 2000 to about 5.3 members at year-end 2005.

Our data on UK TMTs suggest two different trends. First, since average UK firm degrees of internationalisation have remained largely constant between 2000 and 2005, UK firms may not have felt the need to recruit additional foreign TMT members. Indeed, fewer UK TMTs had at least one foreigner in 2004 and 2002 than in 2000, hence some firms appear to have *forsaken* the international executive labour market. This may also be related to the overall reduction in average TMT size, similar as in the Dutch situation. Second, the combined result of (a) initially declining percentages of TMTs with at least one foreigner and (b) a relatively stable ratio of foreigners to total TMT members implies that at least a few firms have continued to internationalise their TMT after the year 2000. Further research will have to establish the nature and strategies of these firms. However, those British firms stepping up TMT internationalisation seem to adopt different approaches than their Continental European counterparts. The fact that there are no substantial increases in nationality diversity or the average number of nationalities per team suggest British firms rather have searched for foreign TMT members within countries with which the British share cultural and language traditions. A closer look at our data supports this notion. We find that around two-thirds of all foreigners in British TMTs originate from other countries where English is the main language (i.e. Australia, Canada, New Zealand, Republic of Ireland, South Africa, and the U.S.) and that the proportion of such foreigners has increased during the period 2000-2005 at the expense of foreigners from Continental Europe.

6.4. Nordic TMTs

The Nordic TMTs were by far the least international in the year 2000, and TMT international profiles increased only moderately from 2000-2005. However, there are vast differences among

Nordic firms. Swedish TMTs were by far the most international in the year 2000, and were still the most international at year-end 2005. TMT internationalisation among Swedish firms has remained fairly stable along all dimensions throughout the period of study. This pattern contrasts with Finnish TMTs, where the ratio of foreigners and nationality diversity has nearly doubled between 2000 and 2005. An opposite trend can be seen in Denmark, where the few foreigners who occupied TMT positions in 2000 had nearly all been replaced with domestic nationals by year-end 2005. A similar trend appears to have taken place in Norway. However, it is difficult to draw robust conclusions in view of our small and temporally unbalanced number of Norwegian observations. Sweden and Finland have not only the largest TMTs among the Nordic firms, but also the most international. The different patterns between e.g. Denmark and Finland over the last five years may be partially explained by TMT size differentials.

Due to the relatively low cultural and language barriers, Nordic companies have typically expanded without much problems to their neighbouring countries. However, an intra-Nordic executive labour market does not appear to have emerged as yet. The Nordic countries have a highly intertwined past and a recent history of non-independence from each other, which has resulted in the development of strong national identities. In addition, the Nordic business climate has had a tradition of rather heavy political interference, with privatisation efforts coming relatively late by Western European standards and several large public companies remaining partially state-owned up until today. The transfer of economic power into the hands of foreigners has therefore often had both emotional and political repercussions, which may have impaired the Nordic companies' willingness to look for suitable executives beyond national borders. Our findings suggest that Nordic firms will require further mental shifts before widely accessing the international executive labour market.

7. Foreign nationals in European TMTs: antecedents

*** INSERT TABLE 3 ABOUT HERE ***

*** INSERT TABLE 4 ABOUT HERE ***

The descriptive statistics can be found in Table 3 and our statistical findings are presented in Table 4. In line with H1, we find a highly significant relation between executive compensation levels and our dependent variables foreign percentage of TMT members and nationality diversity ($p < 0.001$) for Switzerland in the year 2002. Our data also lend statistical support to H2 ($p < 0.001$), suggesting that companies with a high proportion of foreign-based owners are more inclined to search for TMT members outside of the domestic environment. With regard to country-level effects, we find statistically significant ($p < 0.001$) and positive effects on TMT internationalisation of the size of adjacent markets (H4). On the other hand, we do not find statistical support for H3, suggesting that the size of the home market does not have a substantial impact on the rate at which firms utilise the international market for executive labour. Finally, we observe consistently significant positive effects of industry attachment on TMT internationalisation (H5) in the following industry categories: *automotive, chemicals*, *consumer durables & household products, food & beverages, health care, materials & fixtures, metal & mining*, and *oil & gas*. On the other hand, we detect consistent and significant negative associations with TMT internationalisation for firms belonging to the *construction* industry.[3]

The fixed effects models show that there are significant country effects, whereas temporal effects are generally positive with respect to the base year 2000, but not significant. The cross-country effects are in line with the effects that we have observed in our descriptive findings, namely that Swiss, Dutch, and to some extent Swedish firms have higher levels of TMT internationalisation, whereas firms from the other Nordic countries have generally less internationalised TMTs. Despite the overall increase in TMT internationalisation throughout the period of study, significant temporal effects are not extractable from our analysis.

As expected, TMT size has a significant moderating impact on firms' propensity to utilise the international executive labour market. Further analysis shows that a statistically significant association also exists between firm size (measured in terms of total sales) and international executive labour

[3] The findings with regard to industry (H5) are only reported in narrative form and have not been included in Table 4.

market utilisation, suggesting that larger firms typically have a broader international platform from which they can develop future TMT members as well as a more extensive (international) network.

8. Discussion

The descriptive analysis of our data on TMT nationality diversity in seven European countries over the period between 2000 and 2005 has pointed at the following results.

1. There has been an overall increase in the international composition of TMTs and in the degree of nationality diversity. However, the fact that we could not establish any significant temporal effects in our fixed-effects models suggests that an international market for executive labour in Europe is at best emerging very gradually.

2. One of the main reasons for the above finding is that there are starkly contrasting national patterns and trends. This suggests that the international market for executive labour is not emerging in the same way and at the same pace across Europe.

3. Firm strategies to internationalise TMTs appear to be affected by the availability of culturally, institutionally and linguistically related host countries. If available, firms' internationalisation trajectories tend to be directed to such markets first (cf. the UK and Switzerland). This increases the likelihood of firms recruiting foreigners originating from these related host markets, which will reduce (though certainly not remove) cultural integration barriers.

4. Finally, firm strategies to internationalise TMTs appear to be affected by trends in TMT configuration. Especially the simultaneous reduction of TMT size appears to have hampered TMTs' absorption capacity of foreign members, and hence to have served as a moderating factor in the development of an international market for executive labour.

The greatest increases in foreign TMT membership can be found among the Swiss, Dutch, and Finnish firms in our sample, whereas a remarkably strong negative trend can be found among Danish firms. Switzerland was the country with the highest initial level of TMT internationalisation at the beginning of the study period and is also the country in which the influx of foreigners has been among

the highest during the five-year period. In contrast, Finnish TMTs were among the least international in 2000 but foreign presence has almost doubled during the study period. Danish TMTs were also among the least international at year-end 2000, but the trend since then has been entirely opposite to the Finnish case, with hardly any foreigners left in TMT positions in 2005. Dutch TMTs have also become substantially more international during the period of study, whereas British and Swedish TMTs have seen more moderate increases in TMT internationalisation during the five-year period.

In addition to the various barriers identified earlier in this paper, one further barrier to the rise of an international market for executive labour may be the group dynamics that emerges in teams characterised by moderate nationality heterogeneity. Recent research suggests resilient demographic "faultlines" may arise within heterogeneous teams, potentially reducing team effectiveness both below the levels of homogeneous and highly heterogeneous teams (Lau and Murnighan, 1998; 2005). A better understanding of the nature of these faultlines and ways to manage these successfully may be crucial for the further development of a vibrant international market for executive labour.

At the country level, we find that the size of adjacent markets is a positive and significant determinant of TMT internationalisation, while home market size appears to have little influence on firms' use of international executive labour markets. The latter non-finding can probably be attributed i.a. to Nordic industry structures (as outlined in Section 6.4.).

The results presented in this paper point at some new areas of research. Research on the supply side of the international market for executive labour should identify and track more systematically drivers and barriers for executives to pursue international careers. Thus, research could focus on the paradox of EU rhetoric and policies to promote cross-border mobility, while many EU member states today maintain policies that effectively discourage international executive mobility (e.g. barring the cross-border transfer of pensions). In addition, research could compare patterns and trends of domestic and international executives' competencies vs. compensation. Research could also identify the role played by international search consultants. Finally, research could look at the changing nature and reach of TMT networks. These networks are typically used to gain access to new markets and regions. However, an extension of TMT networks may also have a self-reinforcing effect on the

internationalisation of executive labour markets, as personal networks are also used when hiring new TMT members.

Research on the demand (i.e. firm and TMT) side should focus especially on organisational and strategic consequences of international TMTs. Research should address the interplay between firm internationalisation and TMT internationalisation. Furthermore, research should better understand the positive and negative effects on team dynamics and decision-making of increasing nationality diversity at the TMT. In addition, research could look at firm strategies to recruit foreigners *from within*. Firms may do this in order to reduce cultural integration problems at the TMT.

Finally, an international market for executive labour is likely to have implications for firms' relationships with internal and external stakeholders. A greater presence of foreigners in top management is likely to be met with positive reactions from the *foreign* workforce, who may be motivated by the fact that foreign nationals can make it to the very top of the company and at the same time perceive a signal of commitment from corporate headquarters to those working at the foreign subsidiaries. Domestic stakeholders may be less positive though, and their reactions will often absorb considerable management attention.

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Table 1: Overview of statistical analysis

	Sample description	Independent variable	Control variable	Model type	Dummies	Statistical method
Model 1	Switzerland, year 2002	Total compensation per executive team member	TMT size	Cross-sectional	None	Ordinary least squares
Model 2a	All countries, all years	None	TMT size	Panel	Year	One-way fixed effects regression model
Model 2b	All countries, all years	None	TMT size	Panel	Country	One-way fixed effects regression model
Model 3a	Nordic countries and the Netherlands, all years	Foreign ownership	TMT size	Panel	Year	One-way fixed effects regression model
Model 3b	Nordic countries and the Netherlands, all years	Foreign ownership	TMT size	Panel	Country	One-way fixed effects regression model
Model 4	All countries, all years	Home market size	TMT size	Panel	Year	One-way fixed effects regression model
Model 5	All countries, all years	Size of adjacent markets	TMT size	Panel	Year	One-way fixed effects regression model

Table 2: TMT nationality profiles per country and year, 2000 - 2005[a]

Country	Year	TMTs	Avg. TMT Size[b]	Avg. # Foreign Nats./ Team[c]	% Foreign / Total[d]	Avg. % Foreign / Team[e]	Avg. Nationality Diversity Index[f]	% of firms ≥ 1 foreign[g]
Switzerland	2000	43	6.419	1.837	0.4185	0.3459	0.3865	0.6977
Switzerland	2002	54	7.333	2.259	0.4306	0.3723	0.4123	0.7778
Switzerland	2004	56	6.714	2.357	0.4681	0.4064	0.4423	0.8214
Switzerland	2005	56	6.304	2.268	0.4858	0.4441	0.4572	0.8393
Great Britain	2000	115	5.661	0.774	0.1774	0.1543	0.1979	0.4435
Great Britain	2002	142	5.275	0.732	0.1769	0.1586	0.1972	0.4296
Great Britain	2004	138	5.362	0.797	0.2027	0.1669	0.2025	0.4275
Great Britain	2005	135	5.304	0.778	0.1955	0.1622	0.2026	0.4370
Netherlands	2000	34	4.471	1.059	0.3158	0.2442	0.2917	0.5588
Netherlands	2002	37	4.730	1.135	0.3200	0.2555	0.3053	0.6216
Netherlands	2004	35	4.114	1.114	0.3403	0.2752	0.3229	0.6286
Netherlands	2005	36	3.861	1.111	0.3453	0.2787	0.3330	0.6389
Denmark	2000	22	3.818	0.273	0.0714	0.0652	0.0943	0.2727
Denmark	2002	19	3.789	0.211	0.0694	0.0649	0.0881	0.2105
Denmark	2004	19	3.947	0.105	0.0267	0.0307	0.0431	0.1053
Denmark	2005	19	3.789	0.053	0.0139	0.0175	0.0234	0.0526
Finland	2000	27	8.074	0.407	0.0872	0.0730	0.1059	0.2593
Finland	2002	25	9.680	0.720	0.1074	0.1004	0.1553	0.4800
Finland	2004	27	8.630	0.889	0.1245	0.1189	0.1747	0.4074
Finland	2005	27	9.148	0.926	0.1296	0.1195	0.1765	0.4074
Norway	2000	11	7.455	0.545	0.0976	0.0721	0.1078	0.3636
Norway	2002	7	6.571	0.143	0.0217	0.0179	0.0313	0.1429
Norway	2004	7	6.429	0.000	0.0000	0.0000	0.0000	0.0000
Norway	2005	7	8.000	0.286	0.0714	0.0571	0.0800	0.1429
Sweden	2000	25	7.440	1.120	0.1935	0.1678	0.2398	0.5600
Sweden	2002	27	7.889	1.185	0.2066	0.2033	0.2744	0.6667
Sweden	2004	28	8.000	1.143	0.1830	0.1848	0.2553	0.6429
Sweden	2005	27	7.815	1.185	0.1754	0.1733	0.2466	0.5926

Table 2 (cont.): TMT nationality profiles per country and year, 2000 - 2005[a]

Country	Year	TMTs	Avg. TMT Size[b]	Avg. # Foreign Nats./ Team[c]	% Foreign / Total[d]	Avg. % Foreign / Team[e]	Avg. Nationality Diversity Index[f]	% of firms ≥ 1 foreign[g]
Nordic	2000	85	6.706	0.600	0.1211	0.0987	0.1425	0.3647
Nordic	2002	78	7.346	0.705	0.1326	0.1200	0.1690	0.4487
Nordic	2004	81	7.123	0.716	0.1248	0.1107	0.1566	0.3827
Nordic	2005	80	7.325	0.750	0.1285	0.1080	0.1553	0.3625
Overall	2000	277	5.953	0.921	0.2110	0.1780	0.2217	0.4729
Overall	2002	311	6.087	1.039	0.2298	0.1975	0.2403	0.5177
Overall	2004	310	5.926	1.094	0.2433	0.2077	0.2474	0.5097
Overall	2005	307	5.844	1.081	0.2416	0.2132	0.2520	0.5147
Overall	All	1205	5.953	1.037	0.2319	0.1997	0.2408	0.5046

Notes:

a The table is based on 1205 (out of a possible 1596) unique firm-year observations of TMT nationality characteristics of non-financial firms with at least one thousand employees and at least five hundred million Euro turnover (at year-end 2005) for the seven countries and four time periods in our study.

b Average size of TMTs of the observed firms.

c Average number of foreign nationalities per observed TMT (not adjusted for TMT size).

d Percentage of all observed firms' TMT members who are foreigners (i.e., total no. of foreign TMT members / total no. of TMT members).

e Average per-firm percentage of foreign TMT membership for observed TMTs (i.e. sum of percentage foreigners per TMT / number of TMTs).

f Average Blau (1977) nationality diversity index score for observed TMTs (i.e. sum of index scores per TMT / number of TMTs).

g Percentage of observed firms with one or more foreign TMT member(s) out of the total number of observed firms.

Table 3: Descriptive statistics[a]

Variables	N	Mean	s.d.	1	2	3	4	5	6	7
1. Avg. % foreigners	1205	0.20	0.252	1						
2. Nationality diversity	1205	0.24	0.264	0.92**	1					
3. Executive compensation	53	5.90	0.334	0.50**	0.48**	1				
4. Foreign ownership	279	0.37	0.234	0.45**	0.42**	n/a	1			
5. Home market size	1205	7.29	0.453	-0.08*	-0.08**	n/a	0.32**	1		
6. Size of adjacent countries	1205	7.09	0.603	0.33**	0.30**	n/a	-0.10	-0.68**	1	
7. TMT size	1205	5.95	2.880	0.26**	0.30**	0.18	0.01	-0.15**	0.08**	1

[a] Levels of significance: ** $p<0.01$ * $p<0.05$

Table 4: Antecedents of TMT average % foreigners[a]

	Dependent variable: average % foreigners						
	Model 1	Model 2a	Model 2b	Model 3a	Model 3b	Model 4	Model 5
Exec. compensation	0.175***						
	(0.044)						
Foreign ownership				2.297***	2.135***		
				(0.298)	(0.343)		
Home market size						-0.013	
						(0.016)	
Size of adjacent markets							0.122***
							(0.011)
TMT size	0.043***	0.023***	0.029***	0.163***	0.163***	0.023***	0.019***
	(0.012)	(0.002)	(0.003)	(0.021)	(0.027)	(0.003)	(0.002)
Year 2005		0.017		-0.200		0.017	0.015
		(0.012)		(0.122)		(0.012)	(0.012)
Year 2004		0.009		0.041		0.009	0.008
		(0.012)		(0.118)		(0.012)	(0.011)
Year 2002		-0.005		0.090		-0.004	-0.003
		(0.012)		(0.119)		(0.012)	(0.011)
Year 2000		-0.021		0.070		-0.021♣	-0.020♣
		(0.012)		(0.120)		(0.013)	(0.012)
Switzerland			0.213***				
			(0.015)				
Great Britain			0.016				
			(0.012)				
Netherlands			0.150***		0.176		
			(0.018)		(0.196)		
Denmark			-0.055*		-0.131		
			(0.023)		(0.169)		
Finland			-0.141***		-0.164		
			(0.021)		(0.146)		
Norway			-0.154***		-0.294		
			(0.034)		(0.242)		
Sweden			-0.030		0.412**		
			(0.020)		(0.135)		
Constant	-2.326***	0.061***	-0.009	-0.978***	-0.981***	0.156	-0.778***
	(0.590)	(0.016)	(0.018)	(0.200)	(0.208)	(0.121)	(0.079)
R^2	0.412	0.073	0.252	0.226	0.283	0.074	0.156
Adjusted R^2	0.389	0.070	0.247	0.211	0.267	0.070	0.152
F	17.53***	23.70***	57.55***	15.89***	17.85***	19.08***	44.15***
N	53	1205	1205	279	279	1205	1205

[a] Legend: Coefficient[level of significance] (Standard error)

Significance levels: ♣ p<0.10 ** p<0.01 * p<0.05 ***p<0.001

Table 4 (cont.): Antecedents of TMT nationality diversity[a]

	Dependent variable: nationality diversity						
	Model 1	Model 2a	Model 2b	Model 3a	Model 3b	Model 4	Model 5
Exec. compensation	0.145***						
	(0.039)						
Foreign ownership				0.451***	0.375***		
				(0.054)	(0.061)		
Firm size (sales)							
Home market size						-0.005	
						(0.016)	
Size of adjacent markets							0.113***
							(0.012)
TMT size	0.039***	0.028***	0.033***	0.010**	0.012*	0.028***	0.024***
	(0.010)	(0.003)	(0.003)	(0.004)	(0.005)	(0.003)	(0.002)
Year 2005		0.015		-0.032		0.015	0.013
		(0.012)		(0.022)		(0.012)	(0.012)
Year 2004		0.008		0.006		0.008	0.007
		(0.012)		(0.022)		(0.012)	(0.012)
Year 2002		-0.004		0.018		-0.004	-0.002
		(0.012)		(0.022)		(0.012)	(0.012)
Year 2000		-0.019		0.009		-0.019	-0.017
		(0.013)		(0.022)		(0.013)	(0.012)
Switzerland			0.203***				
			(0.016)				
Great Britain			0.020				
			(0.012)				
Netherlands			0.170***		0.087*		
			(0.019)		(0.035)		
Denmark			-0.065**		-0.044		
			(0.024)		(0.030)		
Finland			-0.143***		-0.033		
			(0.022)		(0.026)		
Norway			-0.178***		-0.089*		
			(0.035)		(0.043)		
Sweden			-0.006		0.079***		
			(0.021)		(0.024)		
Constant	-1.831***	0.074***	0.000	-0.045	-0.042	0.114	-0.708***
	(0.521)	(0.017)	(0.019)	(0.037)	(0.037)	(0.125)	(0.082)
R^2	0.398	0.094	0.260	0.214	0.274	0.095	0.160
Adjusted R^2	0.374	0.091	0.255	0.200	0.258	0.091	0.156
F	16.55**	31.27***	59.98***	14.87***	17.11***	25.02***	45.65***
N	53	1205	1205	279	279	1205	1205

[a] Legend: Coefficient[level of significance] (Standard error)

Significance levels: ♣ p<0.10 ** p<0.01 * p<0.05 ***p<0.001

Figure 1: Country trends

