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Top managers' national diversity and boundary spanning

Attitudinal indicators of a firm's internationalization

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Abstract Using a sample of 76 US-based multinational firms, this study tests two hypotheses: whether top management teams' national diversity, and the number of countries of operation worldwide are related to other established indicators of internationalization. Results suggest that both hypothesized indicators are aspects of the nomological network for a firm's internationalization.

In today's increasingly complex and competitive global economy, it is critical for organizations to pursue the expansion of their markets around the world to remain successful. International expansion enables a firm to increase markets, gain access to low cost resources, leverage economies of scale, utilize the best technology worldwide, and recruit the best talent worldwide (Bartlett and Ghoshal, 1992). Determining a firm's "internationalization" is one metric by which stakeholders will assess a firm's overall performance and future competitiveness (Ramaswamy *et al.*, 1996). Given this, the indicators suggesting the extent to which the firm has achieved internationalization have become critical for a multinational organization's viability. This focus on assessing internationalization is evidenced by the fact that most multinational organizations will include information about their company's international growth in their annual report.

To date, various indicators of a firm's internationalization have been proposed – the most common being the ratio of foreign sales to total sales (see Sullivan, 1994a for a review). While this sales ratio is a useful indicator, it is limited in scope. Other indicators have been proposed to more fully describe the complexities of a firm's global involvement. For example, the United Nations Conference on Trade and Development (UNCTAD, 1996) uses three dimensions to determine a firm's transnationality (or internationalization): the ratio of foreign sales to total sales, the ratio of foreign assets to total assets, and the ratio of foreign employees to total employees. This UNCTAD measure combines these three ratios to form an overall internationalization index.

Recent research does utilize more comprehensive measures of internationalization. For example, in a study of the relationship between multinationality and performance,



Journal of Management Development Vol. 23 No. 9, 2004 pp. 848-859 © Emerald Group Publishing Limited 0262-1711 DOI 10.1108/02621710410558459 Gomes and Ramaswamy (1999) suggested a measure similar to the one proposed by UNCTAD. They created a composite index consisting of the ratio of foreign sales to total sales, ratio of foreign assets to total assets, and the number of foreign countries in which the firm has foreign subsidiaries. The authors argue that all three indicators need to be present in a measure of internationalization since each of them reflects a different element of a multidimensional construct.

Similarly, Sullivan (1994a, b) offers a more comprehensive measure to reflect the complexity of a firm's internationalization. Sullivan's measure includes three general attributes of the firm's internationalization:

- (1) performance,
- (2) structure, and
- (3) attitudes.

According to Sullivan, international performance can be evidenced in the ratio of the firm's foreign sales to total sales. Evidence of international structure is indicated by two ratios: the ratio of foreign assets to total assets and the ratio of foreign subsidiaries to total subsidiaries. Lastly, Sullivan suggests that the firm's international attitudes are evidenced by two indicators: the number of years of the top managers' foreign experience and the psychic dispersion of operations worldwide. Sullivan combines these five ratios into a unitary construct called the degree of internationalization index (DOI).

While Sullivan (1994a, b) recommends a unitary index, Ramaswamy *et al.* (1996) are concerned with the equal weighting of the various indicators within an aggregated construct. The fundamental debate is whether these indices should be combined or considered as separate constructs (Ramaswamy *et al.*, 1996; Sullivan, 1996). It is not the intention of this paper to debate whether various indices should be aggregated into a unitary construct. Rather, our intention is to further examine the construct domain of internationalization by offering additional variables to be included in the nomological network of internationalization (Sullivan, 1996; Ramaswamy *et al.*, 1996). Thus, this paper will examine the various constructs comprising the indicators of a firm's internationalization – with special focus on the least studied components of the construct and attitudinal indicators. In addition to the enriching measures of internationalization to better reflect a complex environment, attitudinal indicators have implications for the human resources of multinationals, an aspect on internationalization rarely examined in the relevant past research.

Indicators of attitudinal internationalization

The three-attribute framework (performance, structure, and attitudes) suggested by Sullivan (1994a) is useful for understanding the concept of internationalization and for organizing the various indicators that comprise it. Of these three attributes proposed by Sullivan (1994a) the performance and structure dimensions have been more thoroughly examined in the literature (see Sullivan, 1994a for a review). The least studied, and most controversial, is the attitudinal dimension (i.e. the firm's collective international orientation and global cognitive complexity). The challenge with the attitudinal dimension is that it is more subjective than the other two dimensions. This attitudinal dimension is subjective because it often aggregates attributes of individuals (i.e. global experience) to proxy the "attitudes" of the entire organization. While the

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proxy of individual attributes for an organization's international attitude is useful, the assumptions in doing so should be considered.

Two operational definitions of attitudinal internationalization have been proposed by Sullivan (1994a). The first operational definition of attitudinal internationalization is the "years of international experience of top managers". This measure is used as a proxy for top managers' international orientation. The second operational definition is "psychic dispersion", which is an attempt to assess the scope of international cognitive complexity (i.e. the more complex the dispersion, the more international the attitudes). Both operational definitions, years of foreign experience and psychic dispersion, have been considered problematic due to the assumptions they make (Ramaswamy *et al.*, 1996). Each of these indicators of attitudinal internationalization is addressed in the subsequent sections, assumptions are considered, and alternative measures are proposed.

International orientation: national diversity of a firm's leadership

Attitudes are individual characteristics that affect a person's values, behaviors, interests, decisions, etc. (Reggio, 1996). As such, people within an organization can affect the firm by making decisions based on their attitudes. Some individuals, namely the top managers (e.g. executives, board of directors), can greatly influence the organization as a direct result of their attitudes – through their decisions, values, vision, and the like (Ancona and Nadler, 1989; Hambrick and Mason, 1984; Pettigrew, 1992). Therefore, it is important to understand the impact of top managers' collective attitudes on a variety of organizational outcomes.

Top management team (TMT) attributes have been related to a variety of organizational outcomes, such as firm performance (Glick *et al.*, 1993; Murray, 1989), firms' actions (Hambrick *et al.*, 1996), strategic orientation, (Chaganti and Sambharya, 1987), corporate strategic change (Boeker, 1997; Wiersema and Bantel, 1992), innovation and creativity (Bantel and Jackson, 1989), strategic consensus (Knight *et al.*, 1999), firms' functioning (O'Reilly *et al.*, 1993), and diversification (Michel and Hambrick, 1992). Top managers' attributes while affecting these organizational outcomes, should also affect a firm's internationalization (Sullivan, 1994a). Thus, we agree with Sullivan's (1994a) focus on TMT attributes as an important factor for understanding a firm's internationalization. However, while recent studies have found important relationships between executives' international experience and firm level outcomes (Athanassiou and Nigh, 2002; Carpenter *et al.*, 2001; Daily *et al.*, 2002; Sambharya, 1996), we believe that the scope of international attitudes may not be complete by focusing solely on international experience of top managers.

The index "years of foreign experience of top managers" makes intuitive sense as a proxy for a firm's international orientation (Reuber and Fischer, 1997; Sullivan, 1994a). However, this index assumes that individual managers gain something, such as a "global mindset", while on global assignments. In fact, there is dearth of methodologically rigorous research determining what people actually develop during their global assignments (Caligiuri and DiSanto, 2001) and a corresponding lack of consensus on the real value of the global assignments for management development (Carpenter *et al.*, 2001). To this point, researchers have argued that it is the quality (e.g. extensive interaction with host nationals) rather than quantity (i.e. the number of years of international experience) distinction that is relevant in shaping

individuals' global attitudes while on global assignments (Kobrin, 1994; Ramaswamy et al., 1996).

In addition to the quality of international experience affecting the top managers attainment of international orientation on global assignments, there is also variation in the type of global assignments for producing the conditions where global attitudinal development will occur (Caligiuri, 1997; Caligiuri *et al.*, 1999). Research has found that there are different types of international assignments, some of them notably less conducive to develop international orientation compared to others (Caligiuri, 2004; Edstrom and Galbraith, 1977; Evans *et al.*, 2002; Harzing, 2001). Given that the quality of international experience and the type of global assignment will affect the nature of top managers' global orientation, the index using TMT international experience may be more complex than the way it was originally conceived. In short, while international experience of the TMT is certainly an important consideration, we believe that it is inappropriate to aggregate years of international experience to suggest a firm's international orientation. We believe that the top managers' national diversity is also an important component of a firm's internationalization.

National diversity of TMTs

Rather than the years of foreign experience of individual top managers as an indicator of international orientation, we propose to use a ratio of the national diversity among the TMT and the board of directors (i.e. number of foreign nationals to the total number of members as indicators of international orientation). National diversity is important given that individuals' values, attitudes, and behavior tend to vary depending on nationality (Francesco and Gold, 1998; Hambrick *et al.*, 1998; Hofstede, 1980; Ronen and Shenkar, 1985). Managers from a variety of countries are likely to possess a diversity of cultural values, attitudes, preferences, etc. Their diversity is likely to provide them with broader information resources, skill sets, and "cultural capital". Given the heterogeneity of opinions, this national diversity, when aggregated, should be a reasonable proxy for the international orientation of the firm's top leaders.

The use of top leaders' national diversity as a proxy for international attitudes is supported for two reasons. First, there is a positive relationship between team diversity (most often defined in terms of demographic diversity, such as gender, race, age, and team performance) for tasks requiring creativity, judgmental decision-making, and innovation (Milliken and Martins, 1996; Sessa and Jackson, 1995; Tsui et al., 1995). Given the complexity of the decisions made by the top managers of global firm, having a wide diversity of cultural attitudes should result in better decisions. Second, there is a positive relationship between TMT diversity (in terms of tenure, functional backgrounds, industry experience, and educational level) and firm's competitive performance in a turbulent industry, innovation, corporate strategic change, action propensity, and strategy (Bantel and Jackson, 1989; Boeker, 1997; Hambrick et al., 1996; Milliken and Martins, 1996; Wiersma and Bantel, 1992). Preliminary research has established relationships between national diversity in team composition and international expansion decisions (Punnett and Clemens, 1999) and has also linked the national composition of foreign subsidiary management teams to the performance of the team and the subsidiary (Elron, 1997). Given the positive effects of other aspects of top leaders' diversity on firm performance, top leaders' national diversity should be an important indicator of internationalization.

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- H1a. There will be a positive relationship between the TMTs' (i.e. executives) national diversity ratio and other indices of firm-level internationalization (foreign sales ratio, foreign assets ratio, foreign subsidiaries ratio, and foreign employees ratio).
- H1b. There will be a positive relationship between board of directors' national diversity ratio and other indices of firm-level internationalization (foreign sales ratio, foreign assets ratio, foreign subsidiaries ratio, and foreign employees ratio).

Scope of global cognitive complexity: countries of operation

Sullivan's (1994a) second operational definition of international attitudes is "psychic dispersion". Using Ronen and Shenkar's (1985) ten country clusters, Sullivan estimated that the greater dispersion across the ten zones, the greater the scope of a firm's international cognitive complexity. The creation of country clusters may be overly sensitive to the dimensions of culture considered (Gomez-Mejia and Palich, 1997). Ronen and Shenkar (1985) offered their classification as a preliminary framework to be tested further. Their classification was a review of existing literature and not intended to be a comprehensive classification of cultural and social traits within a country. Using the Ronen and Shenkar's (1985) classification in the manner that Sullivan (1994a) suggests may result in significant underestimation or overestimation of a firm's international complexity (Ramaswamy *et al.*, 1996).

An alternative index for international complexity is geographic dispersion, a straightforward count of the number of countries in which a firm operates (Gomes and Ramaswamy, 1999; Ramaswamy *et al.*, 1996; Sanders and Carpenter, 1998). We agree that this is a plausible indicator of international attitudes. From the perspective that organizations are metaphorically like brains (Morgan, 1986), greater cognitive complexity should result from the information processing that must ensue across all countries of operation. Therefore, greater the number of countries of operation, greater is the cognitive complexity.

H2. There will be a positive relationship between the number of countries of operation worldwide and other indices of internationalization (foreign sales ratio, foreign assets ratio, foreign subsidiaries ratio, and foreign employees ratio).

The following study has been designed to test the two hypotheses relating indices of attitudinal internationalization with other performance and structural indices of internationalization.

Method

Sample

Our sample included all companies appearing in the 1998 Fortune 500 list. A total of 101 companies responded to the survey. Twenty-one of them, however, indicated that in view of the extremely high volume of surveys they received, they had adopted a company policy of not responding to surveys of any kind. Thus, the effective response rate of the survey was 16 percent (N=76).

While the response rate of our study is only 16 percent, we believe that this number is acceptable in view of the fact that the survey was sent to the top manager of each of the companies on the list and surveys of top management generally have relatively lower response rates. An additional factor that needs to be considered is that, as indicated by over 20 percent of the actual responses to the survey, many companies have a policy of not participating in any surveys. A careful examination of the sample suggests that it provides solid representation of the companies included in the Fortune 500 list.

The participating companies came from twenty-nine industries, with some industries having more than one representative company (e.g. utilities, gas and electric, chemicals, petroleum refining). The range of the ranking of the participants was from 2 to 474, and the average ranking was 216, thus suggesting that companies from all levels of ranking responded to the survey. Further, the mean value of their total assets was 22,400 million dollars, the average number of their employees was 7,000 domestically, and about 43,000 internationally. The average number of countries of operation was 14.

Procedure

A short survey and letter by the researchers explaining the purpose of the research were sent to the CEO of the company. The letter informed the CEOs that their responses were highly confidential and collected for academic research purposes only. They were assured that their company would not be identified by name at any time during the study, that data were collected by code numbers only, and that the results would be presented only in an aggregate and anonymous form. In return for their participation, respondents were promised a copy of the results of the study.

The survey contained questions related to the proportion of foreign nationals in the companies' executive teams and boards of directors. The remaining data were provided by a customized report prepared by Dun and Bradstreet specifically for the purposes of this research project. The report contained data on companies' total and foreign assets, total and foreign sales, total and foreign employment, total number of subsidiaries and number of subsidiaries outside the US, and total number of countries of operation.

Measures

Foreign assets ratio. The foreign assets ratio was computed by dividing the company's foreign assets to its total assets. Data for the latter two measures were provided by the Dun and Bradstreet report. This measure was included in Sullivan's DOI and UNCTAD's index of transnationality. The mean value of the foreign asset ratio was 0.31 and the range was from 0 to 0.72.

Foreign sales ratio. The foreign sales ratio was computed by dividing the company's foreign sales to its total assets. Data for the latter two measures were provided by the Dun and Bradsteet report. This measure was included in Sullivan's DOI and UNCTAD's (1996) index of transnationality. The mean ratio for the sample was 0.26 and the range was from 0 to 0.74.

Foreign subsidiaries ratio. Similarly, the foreign subsidiaries ratio was computed by dividing the number of foreign subsidiaries of the company to the total number of subsidiaries. Data for the latter two measures were provided by the Dun and

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Bradstreet report. This measure was included in Sullivan's DOI. The mean foreign subsidiaries ratio was 0.16 and the range was from 0 to 0.68.

Foreign employees ratio. The foreign employees ratio was computed by dividing the number of foreign employees of the company to the total number of employees. Data for the latter two measures were again provided by the Dun and Bradstreet report. This measure was included in UNCTAD's (1996) index of transnationality. The mean ratio for the sample was 0.08 and the range was from 0 to 0.73.

Top management team national diversity ratio. Data for this variable were obtained by asking survey respondents the following questions: How many executives comprise your company's executive committee? How many of these executives are non-US nationals? The foreign executives ratio was computed as a ratio between the number of foreign executives to the total number of executives in the company's TMT. The mean ratio was 0.08 and the range was from 0 to 0.63.

Board members' national diversity ratio. Similarly, data for this variable were obtained from company's responses to the survey. The following questions were asked: how many members comprise your company's board of directors? How many of these members are non-US nationals? The foreign board members ratio was computed as a ratio between the number of foreign board members to the total number of board members in the company's board of directors. The mean ratio for the sample was 0.09 and the range was from 0 to 0.57.

Total number of countries of operation. The data for that measure were provided by the Dun and Bradstreet report. The range of the number of countries of operation was from one to fifty-one and the mean was 14.

Results

To test the two hypotheses and to better understand the nomological network of the indices of internationalization, we computed the bivariate correlations among all variables in this study. These results are presented in Table I.

The TMT national diversity ratio was positively and significantly related to all four indices of internationalization, thus supporting H1a. The board members' diversity ratio was also positively and significantly related to the chosen indices of internationalization providing support for H1b. Similarly, the number of countries of operation was positively and significantly related to all indices, thus supporting H2. While not hypothesized, the three proposed indicators were also positively correlated

	1	2	3	4	5	6
Foreign assets ratio						
Foreign sales ratio	0.67**					
Foreign subsidiaries ratio	0.59**	0.67**				
Foreign employees ratio	0.20	0.25*	0.49**			
TMT national diversity ratio	0.49**	0.44**	0.30*	0.31**		
Board members national diversity ratio	0.52**	0.53**	0.43**	0.28*	0.53**	
Number of countries of operation	0.43**	0.71**	0.73**	0.42**	0.41**	0.43**
Notes: * p < 0.05, two-tailed test; ** p < 0	01, two-tai	led test; c	ases exclu	ded pairv	vise.	

Table I.Bivariate correlations

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Discussion and conclusion

The purpose of this study was to test whether top leaders' national diversity (executive team and board of directors) and the number of countries of operation worldwide were related to four other established indicators of internationalization (foreign assets ratio, foreign sales ratio, foreign subsidiaries ratio, and foreign employees ratio). Results from this study support the use of both as indicators of a firm's internationalization.

Previous research (Bantel and Jackson, 1989; Boeker, 1997; Hambrick et al., 1996; Wiersma and Bantel, 1992) found relationships between leadership teams' diversity and aspects of firm performance. While this past research focused on aspects of diversity, such as age, education, and functional specialty, this study focused on nationality. The focus of this study was not on examining the relationship between national diversity and firm performance, however, the results did suggest a relationship between leadership teams' national diversity and international performance (i.e. the board members' national diversity ratio was positively related to the foreign sales ratio). Future longitudinal studies should examine whether increasing national diversity directly affects a firm's international success through the diverse cultural attitudes reflected in the leaders' decisions, strategic initiatives, etc.

One potential concern with this measure is that a simple count of foreign nationals in the TMT or on the board of directors may not truly reflect diversity but rather only reflect internationalization. A company where, for example, three out of six TMT members are foreign nationals will have a ratio of 0.5. However, two separate sub-cases need to be considered here — one in which all three of the foreign nationals are nationals of the same country (e.g. three Canadians in the management team of an American company) and another one where all three are from different countries (e.g. a Canadian, a German, and a Swede in the management team of an American company). While both hypothetical companies have the same top management diversity ratio, it is clear that the actual diversity in the two companies is not the same.

While this is admittedly a concern, the data from our sample suggest that a scenario where a majority of the top managers or directors are foreign nationals, thus introducing the issue of whether they are compatriots or nationals of different countries, is highly unlikely. The rounded mean values of both the top management and the board of directors' ratio was zero. The modal values were also zero. In other words, in the overwhelming majority of the companies, the number of foreign nationals in top management is very low, thus making the issue described above less of a concern. The available data suggest that currently the issue is whether there is any presence of foreign nationals in top management rather than whether there is "diversity".

Another clarification with regards to terminology is also needed. An additional concern with the metrics we suggest is whether they truly reflect international attitudes. National diversity is indeed not the same as diversity of attitudes. Our use of the term "attitudes" reflects the language proposed by Sullivan (1994a). As previously discussed, the concern about the appropriateness of using this term extends to counting the number of members with international experience in a TMT. Given that our objective is not to suggest an entirely new way of measuring company

internationalization, but rather discuss particular aspects of existing measures and suggest alternatives to components of constructs already in use in the relevant literature, we have chosen to retain the term "attitudes" in our exposition.

In future, assuming an ever increasing pace of internationalization and increasing number of foreign nationals serving on boards of directors and in TMTs, researchers may consider a measure of heterogeneity in place of the ratios discussed here. Further, researchers are well advised to further explore measures such as "cultural distance" between parent country and country of origin of the top team member, or the time of acculturation within the organization's parent country, which appear to be more appropriate indicators of "diversity of attitudes". Presently, however, the proposed ratios appear to be appropriate measures of the attitudinal dimension of internationalization. Moreover, in view of the difficulties involved in data collection, the proposed measures are likely to be more easily available than measures that require data on nationality heterogeneity.

Including national diversity among the indicators, we track on a continuous basis as an additional implication for the human resource function of multinational companies. An increase in national diversity among top company officers would signal a shift from ethnocentrism to geocentrism (Perlmutter, 1969). Anecdotal evidence suggests that opening the top management to foreign-born nationals is a relatively new phenomenon. As discussed here, presence of foreign nationals in upper echelons of the organization remains very limited to this day. Changes in the proposed metrics will indicate changing patterns of staffing top managerial positions in ways reflective of a truly transnational company, by hiring the most talented and qualified people on a global basis. Geocentric staffing, in turn, has important implications for global career development.

In addition to TMT national diversity, this study found that geographic dispersion of a firm's operations is an indicator of attitudinal internationalization. Specifically, this study is a direct test of Ramaswamy *et al.*'s (1996) proposition that a straightforward count of the countries in which a firm operates is related to a firm's internationalization. Consistent with past research using more complicated variations of this count (Gomez-Mejia and Palich, 1997; Reuber and Fischer, 1997; Sanders and Carpenter, 1998), this study supports the use of geographic dispersion as an indicator of a firm's internationalization.

The field of international business is just beginning to uncover the complexities of how a firm develops – and ultimately succeeds – internationally. This study was an attempt to expand our knowledge of the way in which a firm's internationalization is defined. In particular, this study provided greater insight into variables comprising whether the organizational "brain" thinks with an international attitude. We encourage future research to consider the very important attitudinal aspects of internationalization, when examining predictors of firm performance in the global marketplace.

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