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The role of top management team international orientation in international strategic decision-making: The choice of foreign entry mode

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ABSTRACT

By applying the upper echelons perspective to international strategic decision-making, we examine the impact of managerial characteristics on the choice of foreign entry mode. We distinguish between top management team (TMT) international experience and nationality diversity and propose the latter as a central yet understudied aspect of TMT composition that influences international decision-making with regard to choice of entry mode in a unique way. Our results show that while TMTs with international experience are more likely to choose full-control entry modes over shared-control entry modes, nationally diverse TMTs are more inclined to opt for shared-control over full-control entry modes when entering foreign markets. This highlights the need to treat TMT nationality diversity and international experience as two distinct characteristics influencing international strategic decision-making.

1. Introduction

The international business literature traditionally assumes that internationalization decisions are purely rational and scholars tend to ignore strategic decision-making research in explaining how foreign investment decisions are made (Brouthers & Hennart, 2007). Foreign expansion does not occur in a vacuum, however, but is determined by a certain set of strategic choices made my executive decision-makers. Yet, past research primarily focuses on the rational, measurable attributes of the transaction without considering the top management team (TMT) as decision-maker. While empirical research on entry mode choice for foreign direct investments (FDI) has identified and tested numerous predictor variables, such as firm, industry and country characteristics (for reviews, see Brouthers & Hennart, 2007; Kumar & Subramaniam, 1997), it largely neglects to account for the individuals and teams making the actual decisions (for notable exceptions, see Herrmann & Datta, 2002, 2006 on the role of CEO characteristics).

Based on the behavioral theory of the firm (Cyert & March, 1963; March & Simon, 1958), strategic decision-making research focuses on how decisions are conditioned by bounded rationality of individuals. For instance, upper echelons theory suggests that executives' backgrounds and experiences greatly influence their interpretations of strategic decision-making situations, and, in turn, affect their choices (Hambrick & Mason, 1984). A large body of research has linked manager's education, functional background, age, tenure, etc. to a number of strategic outcomes. Lately, this line of enquiry has been extended to the global arena. The increase in market globalization over the past decades and the ensuing pressures on top management to internationalize their firms puts a premium on decision-makers with international orientations.

Internationally oriented TMTs are believed to be better at coping with diverse cultural, institutional, and competitive environments and make strategic decisions that result in superior performance (Bartlett & Ghoshal, 1989; Gupta & Govindarajan, 2002) than domestically oriented TMTs. Research has linked TMT characteristics, particularly international experience, to firm international involvement (Athanassiou & Nigh, 2002; Reuber & Fischer, 1997; Sambharya, 1996; Tihanyi, Ellstrand, Daily, & Dalton, 2000). Yet, the potential value of heterogeneity in executive's nationalities and the cultural composition of the TMT has thus far been neglected, constituting a critical omission in our understanding of international strategic decision-making.

While both international experience and nationality diversity are likely to influence international decision-making, they lead to different preferences and strategic choices. Specifically, whereas international assignment experience brings benefits such as international market knowledge, skills, and informal network contacts to the decision-making process, such experiences are limited in time and scope (Caligiuri & DeSanto, 2001). Nationality, on the other hand, influences the fundamental values and cognitions of the decision-maker, which are used as lenses to

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scan, identify, organize, interpret, and utilize information, which, in turn, provides the basis for strategic choice (Shaw, 1990). The values embedded in national cultures have a profound and enduring effect on executives' orientations, independent of the logics and wisdom accrued in management development. In a TMT setting, the *diversity* in cognitive bases and values resulting from executive nationalities has a strong influence on strategic decision-making.

The contribution of this paper is threefold. First, we integrate entry mode theories with the upper echelons perspective in order to illuminate the role of managerial characteristics in international entry mode decisions. While existing TMT research focuses primarily on the role of TMT (and CEO) characteristics in determining firm internationalization, the composition of the TMT has not been explicitly linked to the choice of foreign entry mode. By the same token, entry mode research has considered a range of factors at country, industry, and firm level to influence the entry mode decision, however, largely ignoring the influence of the managerial team making such decisions.

Second, our paper compares and contrasts two specific characteristics relevant to firm internationalization: TMT international experience and nationality diversity in order to illustrate their distinct roles in international strategic decision-making. Specifically, we argue that TMT international experience and nationality diversity influence the perception of risks associated with entering foreign markets differently, thereby leading to different preferences for modes of entry. Our results demonstrate that TMT nationality diversity is positively associated with a preference for shared-control entry modes, such as international joint ventures (IJVs), whereas internationally experienced TMTs are more likely to prefer full-control entry modes, such as greenfield or acquisitions, as mode of entry into foreign markets.

Third, as entry mode choice is influenced by variables at multiple levels (e.g., country, industry, firm and decision) it can be considered a multilevel phenomenon (Arregle, Hebert, & Beamish, 2006). Parent firms can have multiple foreign direct investments and hence these cannot be considered as independent. We use hierarchical linear modeling (HLM) to account for the nested structure of the data and thus contribute to the growing literature utilizing multilevel theory and method in international business research.

2. Theory

2.1. International entry mode choice

One of the fundamental questions in international business is how firms expand beyond their national borders. A number of theories have been applied to explain the entry mode decision. Transaction cost (TC) and institutional theory are among the most commonly used theories (Brouthers & Hennart, 2007). Much of this literature is grounded in economic theory with a strong focus on rational choice in relation to cost-minimization and risk-adjusted return on investment (e.g., Anderson & Gatignon, 1986; Hennart, 1988; Williamson, 1985).

According to TC theory, the choice between full and shared ownership of an affiliate depends on the costs and benefits of sharing its equity relative to those of retaining full ownership (Hennart, 1988; Williamson, 1985). When market transactions or contracts are subject to high transaction costs, sharing equity is efficient because it aligns the incentives of the parties and thus reduces the risk of opportunism. In line with this view, the literature suggests that different modes of foreign entry represent different levels of resource commitment, risk, and control (Anderson & Gatignon, 1986). Accordingly, a joint venture (JV) is the pooling of assets in a common and separate organization by two or more firms, resulting in lower commitment and *shared* ownership, risk, and control. Wholly owned subsidiaries (WOS), on the other hand, are chosen when firms seek *full* control and are willing to make maximum commitment and take on maximum risk (Kogut & Singh, 1988).

Several arguments have been advanced to explain why shared-control entry modes are relatively less risky than full-control modes. First, in joint ventures (JVs) equity is shared among partners. This limits the risk of each partner to their share of the investment. In comparison, greenfield and acquisitions entail higher commitment of resources and investments in order to assure full ownership and operational control. While such full-control entry modes may result in potentially higher returns, such returns are accompanied by greater risk (Agarawal & Ramaswami, 1992).

Institutional theory (North, 1990) has recently been applied to the entry mode decision as an extension to TC theory. According to this view, environmental uncertainty is an important factor influencing foreign market entry. Institutional and cultural context variables determine such uncertainty and are included alongside traditional transaction cost variables to explain entry mode choice. Building on new institutional theory (Scott, 1995), Yui and Makino (2002) examined the impact of regulatory, cognitive and normative dimensions of host country institutional environment on entry mode choice while controlling for TC variables and found all three dimensions to exert direct influence on entry mode choice. In addition, the cultural distance between home and host country may influence managerial cost and uncertainty evaluations in target markets (Kogut & Singh, 1988). The greater the cultural distance the higher the perceived environmental uncertainty and risk of foreign direct investments.

Full-control modes of entry are more vulnerable to environmental uncertainties and risks because they are less flexible and involve higher irreversible investments (Hill, Hwang, & Kim, 1990). As environmental uncertainty increases, firms may choose lower-control governance modes over full-control modes in order to limit the risk exposure and increase operational flexibility (Gatignon & Anderson, 1988; Kim & Hwang, 1992; Luo, 2001). At the same time, risk and cost associated with cultural distance between host and target countries may be mitigated by shared ownership (Slangen & van Tulder, 2009).

2.2. Managerial characteristics and behavioral strategic decision-making

Prior entry mode studies are grounded in rational choice models and lack attention to the role of managerial characteristics. In contrast, the behavioral theory of the firm (Cyert & March, 1963) recognizes the influence of bounded rationality on the part of decision-makers. It emphasizes experiential learning as the driving force behind the internationalization process of the firm (Johanson & Vahlne, 1977). According to the behavioral theory of internationalization, managers search in the neighborhood of their past experiences and, as a result, firms tend to stay in the vicinity of their past practices and the routines which govern them. Decisions on how to enter foreign markets are characterized by complexity, incomplete information, and uncertainty related to anticipated outcomes. Under these conditions, decision-makers' backgrounds and experiences are likely to have an important influence on such decisions (Hambrick & Mason, 1984).

The most fundamental challenge faced by top managers is to process many, complex, and often ambiguous stimuli when making strategic decisions under high uncertainty (Starbuck & Milliken, 1988). In such situations, the stimuli do not clearly point to ideal choices; instead top executives are confronted with far more information, both from within and outside the organization, than they can possibly fully comprehend. As noted by March and Simon (1958: 169), "because of the limits of human intellective capacities in comparison with the complexities of the problems that individuals and organizations face, rational behavior calls for simplified models that capture main features of a problem without capturing all its complexities". Research has demonstrated that humans attempt to reduce cognitive effort through the use of heuristics (or "rules of thumb") and cognitive structures (schemas) to integrate pieces of information into a single judgment in making decisions (Schwenk, 1988). Specifically, top managers employ their existing cognitive schemas and heuristics to organize and process information efficiently and simplify the decision process (Shaw, 1990). In this way, decision-makers can make fairly accurate interpretations and evaluations without having to examine all available information.

The cognitive schemas and heuristics are largely determined by executives' backgrounds and experiences (Schwenk, 1988). Upper echelons theory (Hambrick & Mason, 1984) suggests that human limitations influence perceptions, evaluations and decisions by managers about organizational problems and hence influence firm choices and behavior. The starting point of understanding the upper echelons perspective is March and Simon's (1958) notion that managers bring their own set of "givens", such as values and cognitive bases, to a decision-making situation. Thus, strategic choice is made not on the basis of an actual "real" situation, but rather on managers' perception, a so-called "construed reality" (Sutton, 1987). This argument is congruent with the behavioral view of Cyert and March that "the variables that affect choice are those that influence the definition of a problem within the organization" (1963: 163). Similarly, Dutton, Fahey, and Narayanan (1983: 310) argue that managers' "cognitive maps" play the role of a lens through which situations are viewed. Consistent with this, Prahalad and Bettis (1986) find that managers' cognitive schemas determine the approaches they are likely to use in resource allocation and control over operations.

An executive's cognitive base and values influence the decision-making process by (1) directing attention and thereby limiting his/her field of vision; (2) filtering the executive's perceptions to only selected stimuli; and (3) serving as lenses through which these stimuli are interpreted (Hambrick & Mason, 1984). A decision-maker's cognitive base is made up of knowledge or assumptions about future events, knowledge of alternatives, and knowledge of consequences attached to alternatives. Values, in turn, represent the principles for ordering alternatives according to preference. Both cognitive bases and values coexist to filter and distort the manager's perception of the decision-making situation and thus influence strategic choice.

According to upper echelons theory, observable demographic characteristics of top executives can be used to infer psychological cognitive bases and values and as such may serve as potent predictors of strategies (Hambrick & Mason, 1984). Four main sets of executive background characteristics have been showed to impact strategic choice: executive tenure, functional experience, formal education, and international experience (Finkelstein, Hambrick, & Cannella, 2008). Several studies report systematic relationships between functional experience of the TMT (or CEO) and firm strategy, such as a firm's propensity to internationalize its operations or choice of entry mode (e.g., Herrmann & Datta, 2006; Roth, 1995). By the same token, international experience among top executives has been linked to a firm's effectiveness in operating in international markets (e.g., Carpenter, Sanders, & Gregersen, 2001; Daily, Certo, & Dalton, 2000; Tihanyi et al., 2000).

2.3. National culture and strategic decision-making

One important yet largely neglected determinant of executives' strategic orientation and preferences is nationality. Cross-cultural psychology literature suggests that national origin[2] influences underlying orientations and values as well as cognitions (Hofstede, 1980; Schwartz, 1992). These nationality-derived qualities, in turn, affect a person's behavior as well as how the person is perceived in a multinational team (Hambrick, Davison, Snell, & Snow, 1998). Much of the cultural patterns of thinking, feeling, and acting are acquired in early childhood because at that time a person is most susceptible to learning and assimilation. These patterns are deeply rooted and once they have established themselves within a person's mind, they are unlikely to change substantially through subsequent experiences (Hofstede & Hofstede, 2005).

A limited number of studies explore the relationship between national culture and executive strategic orientation (e.g., Hitt, Tyler, Dacin, & Park, 1997). Geletkanycz (1997) demonstrated that cultural values significantly affect executives' openness toward change in the organizational status quo, even after controlling for earlier observed determinants such as experiential background. Similarly, Hambrick et al. (1998) argue that while accumulated international experience and exposure can, to some degree, surmount nationality-based differences, nationality imprinting is not easily erased. By the same token, Laurent (1983) found that the nationality of seasoned executives accounted for far more variations in the data than any of the respondents other characteristics, such as age, education, job, professional experience, hierarchical level, and company type. Hence, values traceable in part to the executive nationalities may strongly affect executives' preferences for certain strategic actions. To this end, Gupta and Govindarajan (2002) argue that national culture affects strategic choices regarding how to enter and operate in international markets.

3. Hypotheses

3.1. International experience and foreign market entry

The outcome of foreign expansion decisions is highly uncertain and risky. In addition, the information necessary to be processed is difficult to access and interpret due to the "psychic distance" between the home and host country (Johanson & Vahlne, 1977). As a result, foreign expansion decisions are likely to be influenced by prior knowledge and experiences of decision-makers.

Prior research suggests that international assignment experience at the TMT level helps reduce the uncertainty associated with international expansion (Sambharya, 1996). For instance, international experience increases awareness of international opportunities (Tihanyi et al., 2000) and helps develop superior ability to manage operations in different countries. Specifically, the accumulated knowledge about foreign markets is important in overcoming the "psychic distance" of doing business abroad. In this way, international experience may serve as a surrogate for cultural knowledge which is necessary for successfully formulating and implementing an international strategy (Sambharya, 1996). In addition, international experience helps establish informal networks that support decision-making in international contexts (Athanassiou & Nigh, 2002). A number of studies have demonstrated the positive association between firm internationalization and international experience of the CEO (Daily et al., 2000; Roth, 1995) as well as the entire TMT (Carpenter et al., 2001; Sambharya, 1996; Tihanyi et al., 2000).

[2] We use nationality and culture interchangeably in this paper. Nevertheless, we acknowledge that different ethnic groups or subcultures may exist within a nation.

Executives who have accumulated knowledge of foreign cultures and business practices through international assignment experience are better able to cope with uncertainty associated with international operations and thus they typically perceive foreign direct investments as less risky than executives without such experience (Carpenter et al., 2001). Hennart (1991) found that Japanese investors were more likely to use JVs when they had little experience with the US market and wanted to tap partners for local knowledge. Similarly, Herrmann and Datta (2006: 765) argue that executives with little or no international experience are more likely to overstate risks and understate returns associated with greenfield investments and acquisitions, resulting in them preferring joint ventures.

Internationally experienced top managers are likely to be confident in their ability to accurately estimate risks and returns associated with foreign investments and, as a result, be more aggressive in committing resources and assuming control over foreign operations (Erramilli, 1991). As argued by Tung and Miller (1990), international assignment experience contributes to the development of a ‘‘global mindset’’ that leads to greater confidence in the ability to effectively handle foreign direct investments. This may result in executives with international assignment experience opting for the highest degree of ownership and control in foreign operations. Consistent, Herrmann and Datta (2002, 2006) found that CEOs with international experience are more likely to prefer full-control entry modes and will favor greenfield investments over joint ventures.

As upper echelons theory emphasizes the importance of team-level experiences, we argue that international experiences are most likely to affect international strategic decision-making when several executives have such experiences. If a large proportion of the executives have completed international assignments, they might share the same preferences for entry mode and be better able to communicate about, build consensus around, and implement full-control modes. Taken together, these arguments suggest that internationally experienced TMTs are more likely to prefer full-control over shared-control modes when expanding abroad:

H1. TMT international experience will be positively associated with a preference for full-control entry modes.

3.2. Nationality diversity and foreign market entry

In a team setting, strategists with different cultural values and cognitions are likely to attend to different features of new problems when attempting to define them. Therefore, it is likely they will focus on different cues when selecting a problem-relevant schema (Schwenk, 1988). Given that executives choose to apply different schemas, they may consider different strategic alternatives and expect different consequences of these alternatives. In addition, variation in cultural values among top manages will lead to preferences for different strategic actions (Hambrick & Brandon, 1988). This may lead to debate or advocacy of different approaches to strategic decision-making. Cognitive diversity among upper echelons is often associated with conflicts or disagreements. While affective conflict among upper echelons was found to negatively influence decision quality, cognitive conflict is considered beneficial for strategic decision-making (Amason, 1996). When disagreements surrounding a particular decision occur, TMTs are aware of more issues, more ways of viewing each issue, and more alternative courses of action. If there are few or no cognitive conflicts, executives are less likely to consider a wide range of issues and options because they simply would not think of many of them (Miller, Burke, & Glick, 1998). In addition, when TMT members disagree they are more likely to invest in additional analysis, more consultants, and more discussions, which result in high extensiveness and comprehensiveness in decision-making.

In the context of international decision-making, the varied perspectives and enriched debate that comes from TMT nationality diversity will be helpful in generating and refining alternatives (e.g. pertaining to different entry modes). For instance, Watson, Kumar, and Michaelsen (1993) found that culturally diverse groups over time outperformed homogenous groups in range of perspectives and alternatives generated. TMTs with diverse national backgrounds are more likely to engage in constructive debate and thus may consider strategic choices other than WOSs, such as joint ventures and collaborative agreements, despite the risk of opportunism associated with these entry modes.

International joint ventures are culturally complex international expansion decisions, characterized by high failure rates (e.g., Beamish & Delios, 1997) due, in part, to differences in objectives, management styles, operating methods, and strategy implementation as a result of cultural dissimilarities. Such differences are grounded in different assumptions about organizations, people, work, employment, performance, and reward systems in the societies involved (Von Glinow & Teagarden, 1988). Shared-control entry modes entail unique risks, owing to the potential problems of cooperating with a partner from a different national culture (Harrigan, 1988). The cultural difference may create ambiguities in the relationship, which may lead to conflict and even dissolution of the venture (Barkema, Bell, & Pennings, 1996).

IJVs are characterized by the presence of at least two cultures that interact and build interdependency. Success of an IJV relies on the creation of a coherent and unitary culture that combines elements of both. Top managers representing cultural partners in IJVs are instrumental in developing a shared culture as survival of IJVs is dependent on managing multiple meanings in the presence of national cultures (Li & Hambrick, 2005). Culturally diverse TMTs are more likely to prefer such collaborative entry modes because their cognitive decision-making style is more open to the potential advantages of IJVs as a result of their own experiences working in a multicultural team. Hence, nationally diverse TMTs are likely to perceive the risk and complexity of international collaboration to be lower compared to nationally homogenous TMTs.

In addition, the variety of cognitive schemas and values present in multicultural TMTs allow such teams to more accurately evaluate the institutional and cultural risks associated with doing business in foreign markets. Nationally diverse TMTs are better able to assess the environmental uncertainties because they attend to more environmental cues as a result of their enhanced ability to scan, interpret, and utilize relevant information. The greater appreciation for cultural and institutional uncertainties surrounding international business environments is likely to lead to preferences for shared-ownership modes of entry in order to limit the risk exposure and reduce/share costs of foreign direct investments. Hence, drawing on their diverse cognitions and values, nationally diverse TMTs are likely to emphasize the benefits of sharing control and cost of investments with a foreign partner in order to reduce uncertainty and gain access to local market knowledge, while at the same time feeling confident that cross-cultural dissimilarities and collaborative asymmetries can be overcome:

H2. TMT nationality diversity will be positively associated with a preference for shared-control entry modes.

4. Methods

4.1. Sample and variables

The initial sample consisted of all firms listed on the Swiss Stock Exchange in September 2004. Data was collected for 165 firms over a seven-year period (2001–2007). Information on the characteristics of the TMT was obtained from company annual reports and websites. Firm and industry information was collected from the *Worldscope* database. Joint venture and acquisitions data was obtained from the *Thomson SDC Platinum Database*. The *LexisNexis: Directory of Corporate Affiliations* was used for information on greenfield investments.

Consistent with prior research (e.g., Hill et al., 1990; Musteen, Datta, & Herrman, 2009), *foreign entry mode* was classified into two categories: shared-control (coded as 1) and full-control (coded as 0). International joint ventures are new entities created by the pooling of assets of two or more firms, where the investing firm obtains partial ownership of a host country entity (Herrmann & Datta, 2006; Kogut & Singh, 1988). Hence, international joint ventures were defined as shared-control modes. Greenfield investments and acquisitions were defined as full-control entry modes, where the investing firm owns 95 percent or more of the equity in the host country entity (Arregle et al., 2006; Brouthers, Brouthers, & Werner, 2008).

We controlled for *firm size*, measured as the logarithm of firm sales. Firm size has been previously shown to impact entry mode selection (Brouthers & Brouthers, 2003). The level of prior international involvement is likely to influence subsequent internationalization decisions (Erramilli, 1991). We therefore controlled for *international diversification* using the entropy measure of firm diversification (Palepu, 1985), calculated with the formula $\sum P_i \ln(1/P_i)$, where P is the percentage of geographic segment sales of the total firm sales.

As industry characteristics may influence the foreign entry mode choice (Luo, 2001), we controlled for *industry dynamism*, which reflects the industry instability or volatility of the environment. Consistent with Dess and Beard (1984), industry dynamism was measured as the standard error of the regression coefficient of time on the annual average sales for each industry divided by the mean value of sales for the period.

Consistent with prior literature we controlled for two aspects of host country environmental uncertainty, which may influence the entry mode choice (Globerman & Nielsen, 2007; Slangen & van Tulder, 2009). *Cultural distance* was measured following Kogut and Singh (1988). Based on Hofstede's (1980) cultural scores, a composite index was formed based on the deviation along each of the four cultural dimensions (i.e., power distance, uncertainty avoidance, masculinity/femininity, and individualism) for each country from the score of Switzerland. The deviations were corrected for differences in the variances of each dimension and then arithmetically averaged. The cultural distance was calculated using the following formula; $\mathrm{CD}_j = \sum[(I_{ij} - I_{iv})^2/V_i]/4$, where I_{ij} stands for the index for the ith cultural dimension and the jth country, v is Switzerland and V_i is the variance of the index of the ith dimension.

Host country governance quality was based on the indices develop by Kaufmann, Kraay, and Mastruzzi (2009). We averaged the six dimensions of host country governance quality (voice and accountability, political stability, government effectiveness, regulatory quality, rules of law, and control of corruption) into a single index measure for each of the years in the period 2001–2007.[3] The values range between −2.5 and +2.5 and higher values indicate higher governance quality levels. While local governments in some countries may directly intervene in the entry mode decision by imposing requirements on entering firms to form joint ventures (and thus restrict the use of full-control entry modes), the world has witnessed a major decline in such government regulations over the past decade. Given the limited number of countries (and FDIs) in our sample where this may be a concern, we opted not to control for this effect but acknowledge its potential influence.

Nationality was recorded as the country of origin of the top executives as stated in the annual report. The degree of *TMT nationality diversity* was measured by the Blau index, a measure of group heterogeneity, which is commonly used in TMT research. The Blau index captures the dispersion of team members across all possible categories of a certain dimension using the formula $B = \left[1 - \sum (p_i)^2\right]$, where p is the percentage of members in the ith group (i.e. nationality). The higher the value of B, the greater is the heterogeneity on a particular variable. Following Carpenter et al. (2001), *TMT international experience* was measured as the percentage of TMT members (excluding the CEO) with international work (assignment) experience. *CEO international experience* was measured as a dummy variable equal to one if the CEO had international work (assignment) experience from outside Switzerland and 0 otherwise. It was included as a control as previous research suggests that CEO international experience influences entry mode choice (Herrmann & Datta, 2002, 2006). We further included relevant TMT demographic diversity measures which have been shown to influence strategic decision-making in a number of studies (for a review, see Finkelstein et al., 2008). *TMT functional diversity* and *TMT educational diversity* were calculated as the Blau index of individual top executives' current functions and educational backgrounds. Drawing on Wiersema and Bantel (1992), function was measured as a categorical variable with ten possible values: (1) production, (2) marketing and sales, (3) engineering, (4) finance and accounting, (5) general management, (6) R&D, (7) legal, (8) human resources, (9) logistic, and (10) others. Educational background was coded in four main categories: (1) business, (2) law, (3) engineering, and (4) others. *TMT industry experience diversity* was measured as the proportion of TMT members with previous work experience in an industry different from the one in which the company operates. *TMT tenure diversity* was measured as the coefficient of variation of executive tenures. Finally, we controlled for *TMT size*, measured as the number of TMT members.

4.2. Analytical strategy

Decisions about the mode of foreign entry represent a multilevel phenomenon and require the application of multilevel empirical tests (Arregle et al., 2006). The literature suggests that entry mode decisions – particularly the choice between full-control and shared-control modes – depend on variables belonging to different levels. Entry mode is influenced by parent-firm level factors such as dominant logic or historical pattern of entry, whereas expansion decisions are determined by FDI-specific and host country conditions. Because a parent firm can have multiple foreign market entries, these decisions cannot be considered independent and the data structure is hierarchical. This non-independence of observations may lead to biased statistical results.

The research design for this study resulted in a nested hierarchical structure, where international expansion decisions are nested within firms. Due to administrative heritage, prior experience and management practices, foreign expansion decisions within a firm are more likely to be similar than foreign expansions across different firms. It is therefore necessary to control for the lack of independence between multiple international expansions within firms over the seven-year period. This created a hierarchical data structure with two levels of random variation: international expansion decisions within firms (level 1) and between firms (level 2). Datasets with a nested structure that include unexplained variability at each level of nesting are usually not adequately represented by the probability model of ordinary least squares (OLS) regression analysis. Instead, a hierarchical linear model (HLM), which is an extension of multiple regression to

[3] As no governance quality indicators are available for year 2001, we used the measures for 2000 instead.

Table 1
Means, standard deviations and means.

	Variable	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Firm size	8.99	1.90	1.20	11.73	1													
2	Firm internationalization	1.22	0.34	0.00	2.17	0.25	1												
3	Industry dynamism	0.03	0.03	0.00	0.27	0.23	0.01	1											
4	CEO international experience	0.41	0.49	0.00	1.00	0.24	0.15	−0.20	1										
5	TMT size	7.10	3.02	2.00	21.00	0.37	0.17	−0.04	−0.05	1									
6	TMT industry experience	0.41	0.32	0.00	1.00	−0.24	−0.12	0.09	0.06	−0.08	1								
7	TMT tenure diversity	0.47	0.24	0.00	1.29	0.16	−0.08	−0.13	0.10	0.00	−0.02	1							
8	TMT educational diversity	0.47	0.19	0.00	0.72	−0.29	−0.09	−0.07	−0.00	0.08	0.00	−0.10	1						
9	TMT functional diversity	0.57	0.20	0.00	0.88	−0.17	0.08	−0.26	0.12	0.16	0.03	−0.19	0.25	1					
10	TMT international experience	0.32	0.30	0.00	1.00	0.31	0.15	0.01	0.40	0.08	0.04	0.00	−0.24	0.04	1				
11	TMT nationality diversity	0.45	0.26	0.00	0.90	0.51	0.19	−0.12	0.18	0.38	−0.08	−0.05	−0.02	0.14	0.33	1			
12	Cultural distance	1.26	1.65	0.05	21.61	−0.01	−0.01	0.04	0.02	−0.15	−0.06	0.05	−0.03	−0.02	0.18	0.05	1		
13	Governance quality	1.13	0.66	−1.66	1.96	−0.10	−0.06	−0.06	−0.07	0.13	0.04	−0.03	0.06	0.03	−0.23	−0.16	−0.51	1	
14	Entry mode	0.18	0.38	0.00	1.00	0.06	−0.08	0.02	0.09	0.03	0.04	0.05	0.02	0.12	−0.06	0.06	−0.03	0.00	1

All correlations above .07 are significant.

Table 2
Results of Bernoulli HLM analysis: the effects of TMT characteristics on the likelihood of choosing shared-control vs. full-control entry mode.

Level of analysis	Variable	Model 1		Model 2	
		Coefficient	S.E.	Coefficient	S.E.
Level 2: firm level	Firm size	−0.05	0.13	−0.07	0.13
	Firm internationalization	−0.70	0.57	−0.47	0.60
	Industry dynamism	−2.02	7.09	−0.09	7.09
Level 1: decision level	CEO international experience	−0.07	0.38	0.37	0.42
	TMT size	−0.06	0.05	−0.08	0.05
	TMT industry experience	0.70	0.58	0.56	0.61
	TMT tenure diversity	1.54*	0.68	1.31	0.74
	TMT educational diversity	−0.56	0.96	−1.20	1.06
	TMT functional diversity	2.07*	1.00	1.96	1.05
	TMT international experience			−2.63***	0.78
	TMT nationality diversity			1.96*	0.86
	Cultural distance	−0.01	0.10	0.01	0.10
	Governance quality	−0.23	0.19	−0.21	0.20
	Intercept	−1.63***	0.27	−1.94***	0.33

* $p < .05$.
*** $p < .001$.

a model that includes nested random coefficients, is recommended (Raudenbush & Bryk, 2002; Snijders & Bosker, 1999).

We used multilevel Bernoulli analysis to model the probability that a firm expanding abroad will use shared-control vs. full-control mode. The model includes parent-firm level variables such as firm size and prior degree of internationalization as level two variables. TMT characteristics and host country conditions (cultural distance and governance quality) were included as decision variables at level 1 and measured at the time of the FDI. Industry dynamism was measured over the seven-year period.

5. Results

Table 1 provides means, standard deviations, and correlations for all variables. The companies in our sample engaged in 190 IJVs, 450 international acquisitions and 419 greenfield investments in 88 different countries over the seven-year period (2001–2007). The average number of foreigners per TMT is 1.99 and the average number of different nationalities per TMT is 2.41, ranging between 1 and 11 different nationalities per team.

Table 2 shows the results of hypotheses testing. In support of Hypothesis 1, we found that TMT international experience is negatively associated with the likelihood of choosing shared-control modes (IJVs) vs. full-control modes (greenfields and acquisitions) ($b = -2.63$, $p < .001$). The international experience of the CEO, however, was not significantly related to the choice of foreign entry mode. In a post hoc analysis, we included the international experience of the CEO as part of the TMT experience, and the results remained the same ($b = -2.76$, $p < .001$). Furthermore, in support of Hypothesis 2, we found that TMT nationality diversity was positively related to the likelihood of choosing collaborative (shared-control) vs. full-control modes ($b = 1.96$, $p < .05$). Together, these results lend support to the importance of distinguishing between international experience and nationality diversity in studies of executive effects on international strategic decision-making.

6. Discussion and conclusion

Foreign market entry mode is a critical decision with regards to international expansion. The choice between entering a foreign market via shared-control equity joint ventures versus full-control greenfield or acquisition investments has strong implications for risk of investment, organizational control, and commitment of resources. Ultimately, this decision is made by a team of executives at the apex of the organization. Surprisingly, no prior studies have attempted to understand the influence of TMT composition on such foreign market entry choice decisions. This study was motivated by the desire to address this gap by examining how the managerial characteristics of the TMT may influence the choice of entry mode.

We contribute to the entry mode literature by simultaneously investigating the role of rational factors and TMT characteristics in relation to international strategic decision-making. In particular, we focus on two dimensions of TMT background characteristics that are deemed important in the process of firm expansion abroad. Our results suggest that both international experience and nationality diversity at the top management team level are relevant predictors of the foreign market entry mode decision, even after controlling for other factors. While prior research has established that CEO international experience influences the choice of international market entry modes, we consider the composition of the entire TMT in this decision (Hambrick & Mason, 1984).

A main contribution of our study was to establish the validity of nationality diversity as an important yet understudied TMT diversity dimension. Despite the upward trend of hiring foreign nationals in the upper echelons of large corporations and the anticipated benefits in times of increasing globalization, the effects of TMT nationality diversity on strategic decision-making have remained largely unexplored. As evidenced by our theoretical model and empirical results, nationality diversity differs from other TMT diversity attributes, such as international experience, functional or educational diversity, lending support to the value-added of accounting for it in studies of TMT diversity. Specifically, our study confirms that TMT nationality diversity and international experience are two distinct characteristics influencing international strategic decision-making in disparate ways. We find that nationality diversity among TMT members leads to a preference for shared-control (IJV) entry modes over full-control (greenfield and acquisition) modes, whereas internationally experienced TMTs are more likely to choose full-control modes over shared-control modes. Together, these findings suggest that international experience and nationality diversity represent different managerial resources in the international strategic decision-making process, leading to different strategic choices.

International experience provides valuable international market knowledge and network contacts, which instills in the decision-maker a sense of confidence about his or her ability to accurately estimate the risk and uncertainty associated with foreign market entry. Such perception often translates into a preference for fully owned foreign operations as the risk and cost of such investments are deemed less than the potential high returns and benefits. Nationality diversity, on the other hand, brings different benefits which cannot be acquired through international assignments. Such benefits arise from the variety of values and cognitive schemas deeply rooted in individual's national culture that shape the strategic mindset of strategic decision-makers (Caligiuri & DeSanto, 2001). The diverse national backgrounds may lead to constructive debate and cognitive conflict, which is likely to affect scanning, selection, and interpretation of relevant information, in turn, influencing perceptions of uncertainty and costs associated with strategic choices. Attending to a wider range of environmental cues, TMTs composed of different nationalities are likely to perceive the risk and complexity of foreign expansion to be higher compared to purely domestic TMTs. As a result, they may choose collaborative shared-ownership entry modes in order to mitigate institutional and market-based risks. At the same time, such culturally diverse TMTs are skilled in multicultural teamwork and collaboration, which may lead them to look more favorably at collaborative entry mode choices, such as IJVs. Despite the seemingly higher barriers associated with "double layered acculturation" (Barkema et al., 1996) of international JVs, nationally diverse TMTs might feel confident in their ability to integrate and manage a foreign partner.

These results point to the value of studying various aspects of managerial backgrounds in international strategic decision-making. Consistent with Geletkanycz's (1997) work, we find that both prior experiences and cultural socialization contribute to the shaping of executives' strategic mindset. Top decision-makers remain deeply rooted in their own cultures and their strategic mindset is to a large degree shaped by their nationality. Executives' cultural identity is not lost over time, nor is it overshadowed by professional acculturation associated with firm or industry experience. Therefore, it is critical to examine the independent effects of both international experience and nationality diversity in studies of managerial decision-making in an international context.

This study relied on the nationality of top executives as a proxy for the degree of cultural diversity in the team. While prior research shows that nationality has profound influence on the values, cognitions and behavior of individuals (e.g., Hofstede & Hofstede, 2005), the use of demographic measures as proxies for managerial cognitions remains a source of criticism in upper echelons research. Previous research suggests that demographic diversity is not necessarily related to the degree of cognitive diversity in the TMT (Miller et al., 1998), and future research may benefit from directly measuring the cultural cognitive dimension of individual TMT members using primary survey data.

Our study also opens up some exiting new avenues for future research. While we focused on TMT nationality diversity, future studies may seek to explore the effects of TMT cultural composition. Researchers may investigate how Hofstede's national cultural dimensions influence international strategic decisions. For instance, the average uncertainty avoidance at the TMT level may impact the choice of entry mode. In the past TMTs were culturally homogenous and shared the same cultural attributes as the home country, however, the increasing diversity leads to intra-country variation of TMT cultural characteristics. While such cultural diversity brings benefits to TMT decision-making, it also creates certain challenges and future research may investigate how faultlines (Lau & Murnighan, 1998) emerge based on the individual level Hofstede national culture scores.

Furthermore, it would be interesting to study the effects of TMT nationality diversity and cultural composition on international strategic decision-making in different cultural settings. The extent to which our results for the Swiss sample are generalizable to firm populations from other countries may depend on a number of factors. For instance, as our sample is from one country, the generalizability of our findings may be higher to countries with similar cultural and institutional characteristics, such as Germany, Austria or Western Europe at large, than to other countries. Moreover, while Switzerland is a multicultural society, comprised of four areas, each with their own language and culture, other countries (e.g., China, India and the US) may represent a larger variety of cultures and ethnicities. Future studies may seek to modify the nationality diversity measure in order to account not only for the country of origin but also for intra-country cultural diversity (e.g., ethnical, racial, and cultural subgroups). In addition, in countries with high immigration, nationality or citizenship may not be a reliable indicator of cultural diversity. Place of birth could be a better measure in such contexts. A cross-country multilevel study may provide novel insights; however, such studies are made difficult by the different reporting practices and availability of relevant information.

6.1. Managerial relevance

Our study has important implications for practitioners. While nationality may not be among the primary selection criteria for TMT members, this study demonstrated its strong influence on international entry mode choice. For executive selection this means that it is important to pay attention not only to international assignment experience but also to the national composition of the TMT. Moreover, awareness of the potential strategic orientations resulting from the individual backgrounds and experiences can help explain the bounded rational elements of strategic choice in international business. Decisions regarding international expansion are not only based on rational consideration related to cost/benefit and risk but are also influenced by individual characteristics of the decision-makers. Understanding and attending to their own predispositions – as well as those of the other TMT members – top managers may be better able to balance rational motives with their own strategic orientation.

Finally, our study also provides evidence of the long-lasting effects of cultural identity among top executives. The fact that top managers' strategic mindset remain deeply embedded in the culture of the country of their origin has important implications for executive training and development. While international experience may be obtained via expatriation abroad, such experiences are, to some extent, conditioned by the nationality of the individual top manager. Hence, human resource management practices aimed at developing top managers with international mindsets via expatriation must recognize that such experiences cannot substitute for having foreigners on the top management team. While you can learn from experiences abroad, your cultural heritage may determine your strategic mindset.

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