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CEO Overseas Experience and Firm Internationalization: Before and After the Global Financial Crisis

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Abstract

Purpose – This study explores the contextual factors that affect the relationship between CEO overseas experience and firm internationalization. This study incorporates a wide range of contextual factors, including mega, macro, and micro variables. In particular, this study goes a step further from prior studies by incorporating a higher-order variable i.e., the global financial crisis that can constrain the managerial discretion of a CEO.

Design/methodology – To structure the balanced data set before and after the 2008 global financial crisis, we used the data for the years from 2002 to 2014 from a sample of Korean manufacturing firms. Ultimately, 1101 firm-year unbalanced panel observations from 101 firms were used for the analysis.

Findings – Our main findings can be summarized as follows. CEO overseas experience is positively related to firm internationalization. However, this relationship varies depending on the CEOs level of managerial discretion. As for the constraining moderation, the global financial crisis weakened the positive relationship between CEO overseas experience and firm internationalization. As for the enabling moderation, the CEOs tenure strengthened the relationship.

Originality/value – This study adopted the knowledge, skills, and abilities (KSA) framework to explain the relationship between CEO overseas experience and firm internationalization. Moreover, we argue that the CEO-internationalization relationship depends on the specific context of the managerial discretion, focusing on the 2008 global financial crisis. Empirically, this study adopted the 2SLS procedure to correct endogeneity. Instead of taking the actual value of prior internationalization as a control, we estimated prior internationalization using the instrument variables at an industry level. This procedure made our estimation more robust.

Keywords: CEO Overseas Experience, Firm Internationalization, Global Financial Crisis, Managerial Discretion
JEL Classifications: G01, L10, M12, M16

1. Introduction

Internationalization is important for firms competing in todays global competition environment. Many firms have already been accelerating their entry into overseas markets in order to secure an engine for growth (Marano et al., 2016) Among various determinants of firm internationalization, scholars taking the view of the upper echelon theory have emphasized the international background of the CEO. For instance, Athanassiou and Nigh

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(2002) found positive impacts of the upper echelons foreign business experience on firm internationalization. Herrmann and Datta (2005) showed that a positive relationship exists between the foreign experience of the top management team, including the CEO, and firm internationalization. Park Jong-Hun, Sung Yun-Dal and Lee Dong-Hyun (2014) also obtained the similar results using Korean manufacturing firm samples. Yet other scholars have argued that a CEOs effect on firm internationalization is marginal. Barroso, Villegas, and Pérez-Calero (2011) found that the international background of the top management of a firm is not significantly related to the firms degree of internationalization. Similarly, Zhu and Yoo (2014) found that a CEOs international education background does not significantly influence firm internationalization.

Such opposing views regarding the relationship between CEO background and firm internationalization can be reconciled by the interactionist view that emphasizes the role of contingency factors to explain the relationship between the two variables. Adopting the interactionist view, Hambrick and Finkelstein (1987) introduced the concept of managerial discretion, which refers to the latitude of actions that a top manager can actually take and can be related to the array of strategic choices made by the CEO. In our study, we adopt this perspective to explain the incongruous findings of prior studies in the literature.

Our study explores the contextual factors that affect the relationship between CEO foreign experience and firm internationalization. Due to the bounded rationality, people tend to selectively accept and interpret information based on their own experiences. Likewise, the experience of a CEO heavily affects how the CEO perceives the environmental stimuli surrounding the firm. Prior studies have argued that a CEOs foreign experience decreases the perceived risk of entering a new foreign market, thereby suggesting a positive relationship between CEO overseas experience and firm internationalization (Nielsen and Nielsen, 2011). In this study, we also predict a positive relationship between the two variables, in that the international experience of a CEO strengthens the knowledge, skills, and abilities (KSA) needed for firm internationalization.

In reality, however, each CEO is endowed with a different level of managerial discretion. Firm internationalization is a major decision for a firm and entails substantial resources and risks (Chen and Hsu, 2010). Accordingly, many stakeholders including board members and investors, are involved in the decision. When a CEO lacks the latitude of actions, he or she may have hard time persuading the firms stakeholders, especially if they have negative opinions about firm internationalization. In other word, a CEO cannot fully utilize his or her international experiences to pursue firm internationalization without sufficient discretion.

Our study selected four contextual factors that can affect the level of managerial discretion. In particular, we intend to incorporate a wide range of dimensions, including mega, macro, and micro variables. These variables are the global financial crisis, industry type, an organizations financial slack, and CEO tenure. Prior scholars have already used industry type, financial slack or CEO tenure in the study of managerial discretion (Herrmann and Datta, 2005). Our study goes a step further by incorporating a higher-order variable (i.e., the global financial crisis) that can shape the scope of strategic choices that a CEO can make. The 2008 global financial crisis was catastrophic, affecting various industries as well as all the countries around the world in some way to a different extent. It produced extremely unstable business environments and increased environmental uncertainties as well as constraints for many firms globally (Paunov, 2012). Previous studies found that firms tend to be less aggressive in their overseas investments under the global financial crisis (Williams and Martinez, 2012). Rhee Jay-Hyuk and Cheng (2002) also pointed out that the foreign market uncertainty positively affects the incremental international expansion of the firm rather than radical expansion. While acknowledging these direct effects of global financial crisis on firm strategy, we further examined the indirect effect of global financial crisis as a moderator. To be specific, under uncertainty, the managerial discretion of a CEO would be greatly dampened, where his or her knowledge and experience become incomplete. It is, therefore, particularly relevant to compare the period before and after the global financial crisis in order to understand how the relationship between CEO foreign experience and firm internationalization changes as a result of the crisis.

We argue that the four variables – global financial crisis, industry type, financial slack, and CEO tenure – are associated with the level of managerial discretion and, consequently, will moderate the relationship between CEO overseas experience and firm internationalization. As internationalization is one of the major strategic choices made by a CEO, the relationship between the two variables is likely to vary depending on the managerial discretion of the CEO. To examine our predictions, we collected data from 2002 to 2014 from a sample of Korean manufacturing firms. Considering the intensive internationalization stemming from the limited domestic market and harsh competition in Korea, the Korean context is worth examining in this study.

2. Theory and Hypotheses

2.1. Theoretical Background

It has long been debated whether or not CEOs are really important in terms of firm strategy and performance. Many scholars emphasized the human factor affecting the organization, arguing that executives make strategic choices in the dynamic organizational process and consequently affect the organization (Finkelstein, Hambrick and Cannella, 2009). For example, Georgakakis, Dauth and Ruigrok (2016) found the U-shaped relationship between CEO overseas experience and executives time to the top within the organization. Yoo Sung-Joon, Kim Hag-Min and Lee Yea-Rim (2019) also argued that the international entrepreneurial orientation affects on the exploration the new business opportunities. On the other side, however, are institutional theorists, who have argued that the executives are largely constrained by environmental and organizational forces. For example, Bertrand and Schoar (2003) pointed out that less than 5 percent of the variance in corporate strategy and performance can be attributable to the CEO and other top management teams, concluding that CEO effect is at most marginal.

One compromise of this debate is managerial discretion, a feasible resolution to better understand to what extent CEOs matter. Managerial discretion (i.e., latitude of actions) is influenced by environmental, organizational, and personal factors. In other words, certain contexts afford top managers more discretion than others. In the high-discretion context, CEOs tend to have a higher degree of control over the actions and outcomes of the firm whereas the low-discretion context permits CEOs a marginal impact over the firm. Thus, firm strategy and performance may fall totally outside or within the control of its top executives or somewhere in between.

Related to the environmental factor, we focus on industry type, which is the most widely used attribute in traditional managerial discretion studies (Hambrick and Abrahamson, 1995). Related to the organizational factor, financial slack is considered as it affects resource availability, which is an important factor on managerial discretion. Related to the personal factor, we focus on CEO tenure because prior research has revealed that longer tenure is associated with higher managerial discretion (Finkelstein and Hambrick, 1990). Finally, our study considers the global financial crisis variable in addition to these three factors. The global financial crisis is differentiated from typical environmental factors, such as industry or national level factors, in its overarching influential power. The 2008 financial crisis not only threatened specific industries and countries, but also posed a danger to almost all industries and countries around the world. During and after the crisis, firm performance became highly volatile, so the top management of firms tended to perceive the environmental jolt (Wan and Yiu, 2009). This concern of top management is likely to lead to the firms risk-aversion and cost-conscious behavior (Kunc and Bhandari, 2011). In this context, the CEOs strategic choice that entails significant resource commitments will be restricted.

2.2. Hypotheses Development

2.2.1. CEO Overseas Experience and Firm Internationalization

Firm internationalization is an important means to achieve economies of scale beyond the limited domestic market. It also helps firms gain flexibility as well as bargaining power based on the global network. When a firm enters multiple countries, it benefits from risk diversification as different countries may experience different economic development stages (Kwok and Reeb, 2000). Yet the result of internationalization is not always rosy. Foreign firms often experience hard times when collecting market information, managing local human resources, or building up foreign government relations (Buckley and Casson, 2016). Consequently, firms determine the degree of internationalization by closely analyzing the benefits and costs of internationalization.

The perception of the CEO regarding the benefits and costs of internationalization is a critical factor in determining the degree of firm internationalization. Overseas experience helps a CEO appreciate the potential benefits while depreciating the costs of firm internationalization. More importantly, it strengthens the CEOs competency required for firm internationalization. Competency consists of KSA, which affects the performance of both individuals and the organization (Heneman, Judge and Kammeyer-Mueller, 2003). The organization must have the right individuals who possess the right KSA to perform their jobs effectively. A CEO is one individual who takes on the leadership role in the firm. Thus, the KSA of a CEO affects the conduct and performance of the firm.

In terms of knowledge, foreign experiences help a CEO gain foreign market knowledge, which is well known to be a key success factor for foreign entry and expansion. Such market knowledge includes knowledge about demand and supply, competition, distribution, and payment conditions of the foreign market. For foreign firms entering a new market, market knowledge is crucial for overcoming the liability of foreignness, which refers to the additional costs that a foreign firm incurs compared to local firms. One of the important sources of foreignness costs is a firms unfamiliarity with the local market environment. A CEO who has richer overseas experiences is more likely to have knowledge about foreign markets and, thus, will find it easier to overcome the internationalization challenges.

In terms of skill, overseas experience helps the CEO learn both managing skills and communication skills. Compared to domestic business, doing international business entails a broader array of challenges and a greater variety of competitors. A CEO with rich overseas experiences tends to possess managing skills for diverse and complex settings (Herrmann and Datta, 2002). Moreover, when doing business in a foreign market with a different culture, intercultural communication skills are critical. The CEO delivers key messages on behalf of the firm to foreign stakeholders; therefore, the way the CEO communicates in a global context matters. Intercultural communication skills can be improved through cross-cultural working experiences.

In terms of ability, a CEOs networking ability (i.e., social capital) affects firm internationalization. Social capital refers to the ability to gain resources from the business network (Chetty and Agndal, 2007). In order to do international business, relationships with foreign customers, suppliers, competitors, and government agencies are important. However, building those relationships takes time and great effort. When enough social capital is well equipped, a firm can focus on forming new relationships, leading to new business opportunities. A CEOs international background helps establish a foreign network, thereby leading to the rapid internationalization of the firm (Chetty and Campbell-Hunt, 2004). In sum, our baseline hypothesis suggests that the more overseas experiences a CEO has, the higher the level of the firms internationalization will be.

H1: CEO overseas experience is positively related to firm internationalization.

2.2.2. Constraining Effect of the Global Financial Crisis

The 2008 global financial crisis put the whole world economy at critical risk. According to Stiglitz (2009), the crisis resulted in the reduction of available credit and consumer spending as well as the increase in firm behavior focused more on cost-efficiencies than ever before. The constraining effect of the global financial crisis on the relationship between CEO overseas experience and internationalization can be explained in two ways.

First, the global financial crisis brought an unfavorable business environment to firms. In general, the sudden shock of the financial crisis made organizations change their strategies for survival, as there were fewer growth opportunities (Pollard and Hotho, 2006). According to the World Bank database, the world annual GDP increased by 12.2% in 2003, but fell by 5.2% in 2009; from 2010 to 2017, the world annual GDP growth rate recorded only 3.9% on average. Economic Statistics System, Bank of Korea also reported that Koreas annual GDP growth rate, which was 7.7% in 2002, was only 0.8% in 2009 and 2.7% in 2018. Many changes have also taken place in terms of regulatory measures. Although most regulations are related to financial industries, there are also significant regulations that control enterprise loans, affecting firms daily operations. According to prior studies, managerial discretion is strengthened when there is high market growth and low quasi-legal constraints. Therefore, the low market growth and tightened regulations caused by the global financial crisis weakened managerial discretion overall, which consequently dampened the CEO experience effect on firm internationalization.

Second, the crisis imposed the pressure on CEOs to have humbled confidence and avoid bold decisions. Apparently, the crisis greatly increased environmental instability and uncertainty, causing many firms to modify their strategies in order to cope with such an unexpected, once-in-a-lifetime crisis (Witcher and Chau, 2012). However, during turbulence or crisis, there are no clear rules for judging what good responses are (Gunby, 2009), and the accuracy of market information significantly decreases (Lee Dong-Hyun and Park Jong-Hun, 2017). Consequently, CEOs become less likely to have confidence in their decisions. When a CEO perceives the environment as threatening or has little confidence, the entire decision process can be affected, leading to defensive or protective decisions (Sayegh, Anthony and and Perrewé, 2004). Kunc and Bhandari (2011) also pointed out that most firms tend to adopt a defensive stance during and after a crisis. No matter how much overseas experience CEOs have, there should be a clear limit to actively responding under such turbulence. Firm internationalization especially requires sufficient time and commitments before gaining substantial outcomes. In particular, early stages of internationalization involve significant investments in overseas asset acquisition, information collecting, and new learning (Chen and Hsu, 2010).

In sum, after a global financial crisis, the managerial discretion of a CEO decreases and therefore, the positive relationship of a CEOs overseas experience and firm internationalization is weakened.

H2: The relationship between CEO overseas experience and firm internationalization will be weaker after a global financial crisis.

2.2.3. Enabling Effects of High-Discretion Industry, Financial Slack, and CEO Tenure

Three enabling moderators are proposed in this study. The first enabling factor is high-discretion industry. Each industry has its own characteristics that affect the level of managerial discretion. Hambrick and Abrahamson (1995) pioneered the industry-level measure of managerial discretion across 70 industries based on the differences in product differentiability, demand instability, capital intensity, and competitive landscape. Later, Liang and Barker (2015) suggested an alternative measure of industry-level discretion based on the degree of CEO influence on firm performance. According to their work, high discretion industry commonly has high concentration ratio and dynamism, high market growth, and low capital intensity. Each CEO is different in terms of discretion provided by the industry attributes. For example, industries with high product differentiability (e.g., apparel) provide a CEO with discretionary domains not allowed in commodity goods or public services. These discretionary domains include adjustments in price, product, packaging, distribution, or promotion. Moreover, each industry experiences its own technological changes; thus, managers in different industries face different levels of pressures and opportunities for strategic renewal. In high-discretion industries, CEOs are more empowered to use their own experience and judgment in the strategic decisions. On the other hand, in low-discretion industry, CEOs have limited discretion over the strategic decisions of the firm (Oh Won-Yong, Chang Young-Kyun and Zheng Cheng, 2016).

Given this description, we hypothesize that the relationship between CEO overseas experience and firm internationalization will be more pronounced when the level of industry level discretion is high.

H3: The relationship between CEO overseas experience and firm internationalization is stronger in high-discretion than in low-discretion industries.

Another enabling factor is the financial slack within the organization. “Slack” refers to a resource cushion a firm can use in a discretionary way in order to counter a competitors move or exploit opportunities. Prior studies have argued the impact of slack within the organization in two ways. The first view defines slack as a resource that facilitates firm growth, innovation, and managers risk-taking behaviors as it buffers the downside risk of an action (Dutta, Malhotra and Zhu, 2015). Meanwhile, the second view regards slack as an inefficiency, or “idle hands,” that causes managers to stick with the status quo (Daniel et al., 2004). One way to reconcile these mixed connotations is to focus on the CEO characteristics. Tabesh et al. (2016) argued that CEOs with a broad background and education are more likely to use slack as a facilitator rather than an inefficiency. Likewise, we predict a net positive relationship between slack and managerial discretion. CEOs use slack in order to exercise their power, thereby allowing firms to pursue a strategic change or take a riskier investment (Lin, 2014). When there is enough slack, CEOs can leverage their international experiences in order to adopt bold decisions, such as internationalization.

H4: The relationship between CEO overseas experience and firm internationalization is stronger in organizations with more financial slack.

The last enabling factor is CEO tenure. According to the study of a CEOs tenure (Carpenter, Geletkanycz and Sanders, 2004), motivation for changes and CEO influence vary as the CEOs tenure increases. In terms of motivation, the tendency to pursue changes is strong when the CEOs tenure is relatively short (Miller and Shamsie, 2001) because it is important for the CEO to learn about new markets and products while strengthening his or her influence, proving his or her ability as a CEO in the early stages of the tenure (Wu, Levitas and Priem, 2005). In terms of influence, however, the power to implement a change is reinforced along with the length of the tenure. As a CEOs tenure increases, his or her influence is strengthened through involvement in the election of the board of directors or the accumulation of shareholdings over time. Altogether, as CEO tenure increases, the level of motivation for change decreases while CEO influence increases. In this regard, an increase in CEO tenure does not necessarily increase the level of firm internationalization directly. However, we predict that an increase in CEO tenure is likely to strengthen the level of managerial discretion, which by definition is closely associated with CEO influence. Therefore, for CEOs with extensive overseas experience, the possibility of increasing the level of firm internationalization increases as CEO tenure gets longer.

H5: The relationship between CEO overseas experience and firm internationalization is stronger when the CEO has a longer tenure.

3. Methodology

3.1. Sample and Data Collection

To structure the balanced data set before and after the 2008 global financial crisis, we used the data for the years from 2002 to 2014. In order to secure the homogeneity of our sample and control the exogenous factors, we carefully selected our sample using the following procedure. First, the initial sample included large manufacturing corporations listed on the Korean Stock Exchange such as KOSPI 200 companies for the years from 2002 to 2012. The KOSPI 200 index consists of 200 large companies listed on the Korea Composite Stock Price Index (KOSPI). We selected large firms based on the premise that they would have the resources needed for internationalization. After excluding service firms to ensure homogeneity of our sample, 134 firms remained. We then excluded 8 purely domestic firms with no overseas sales. Second, we excluded 6 firms that experienced delisting or mergers and acquisitions (M&As) between 2002 and 2014. We further excluded 19 firms due to the missing values in the independent and dependent variables. In total, 101 firms were included in our dataset. After excluding 10 observations of the firms that do not provide annual reports in specific years (e.g. Saeron Automotive in 2002~2004, Huvis in 2002 and 2003), we gained 1101 firm-year unbalanced panel observations, ultimately.

In this study, a one-year time difference was placed between independent/control variables and dependent variables in order to ensure the causal relationship. The data were collected from annual reports registered in the electronic disclosure system of the Financial Supervisory Service of Korea. The CEO was defined as the person who officially signed the annual report, and the information related to the CEO was collected from the Korea JoongAng Daily. In addition, firm-level variables were collected from both the KIS database of the Korea Investors Service company and the FnGuide database provided by FnGuide Inc. of Korea. The website of each company and CEO information provided by the Korea Investors Services database were cross-checked.

3.2. Measurement

3.2.1. Dependent Variables: Degree of Internationalization

In many prior studies, the degree of firm internationalization was measured by the ratio of foreign sales over total sales of the firm (Capar and Kotabe, 2003). However, other researchers have argued that the composite indicator is more appropriate. For example, Lu and Beamish (2004) suggested that the composite indicator should reflect firm performance, structure, and attitude whereas Sullivan (1994) presented a measure that reflects operational performance, asset structure, and activities occurring in foreign countries. In our study, we followed Sullivans measurement combining the three ratios. Specifically, we averaged the ratio of foreign sales over total assets, the ratio of foreign assets over total assets, and the ratio of foreign production over total production (Tihany et al., 2003). As the independent variable was measured at year t, we measured the degree of internationalization at year (t+1) and year (t+2), then averaged. This process not only assures the causal relationship between independent and dependent variables, but also reduces the bias when using single-year observation. Prior research suggests that averaging over two years reduces bias caused by single-year outliers (Agle, Mitchell and Sonnenfeld, 1999; Johnson and Greening, 1999).

3.2.2. Independent Variable: CEO Overseas Experience

CEO overseas experience refers to the extent to which a CEO has received training or work experience abroad. This variable was measured by adding up the period during which the CEO worked abroad and received training or education before being appointed as CEO (Herrmann and Datta, 2005). If the CEO conducted studies while working abroad at the same period of time, it was only considered as work experience. The overseas experience in early in childhood is excluded due to the data unavailability, and the nationality is also excluded since there is only one case the CEO has other than Korean nationality in our sample.

3.2.3. Moderating Variables: Global Financial Crisis, High-Discretion Industry, Financial Slack, CEO Tenure

Our study included four moderating variables. First, we coded the global financial crisis using a dummy variable: 0 before the crisis (from 2002 to 2007), 1 after the crisis (from 2008 to 2014). Since the year 2008 is on the borderline of the 2008 crisis, we checked the robustness of our findings by also coding the year 2008 as before crisis, obtaining similar results. Second, we measured managerial discretion by industry using the list from Hambrick and Abrahamson (1995), which is the most well-known and reliable source of this measurement. In fact, their list is still quoted in various studies based on the concept of industry managerial discretion (Cordeiro and Rajagopalan, 2003; Datta, Guthrie and Wright, 2005; Oh Won-Yong, Chang Young-Kyun and Zheng Cheng, 2016). Their list ranked 70 industries based on the level of managerial discretion using data from an expert survey and industry characteristics such as market growth. We matched the Korea Standard of Industry Classification (KSIC) with the US Standard Industrial Code (SIC). Our sample fell in 11 industries, and each observation had its own discretion score based on Hambrick and Abrahamsons (1995) list. Third, financial slack was measured using free cash flow divided by total sales, which is one of the most traditional methods for measuring unabsorbed financial slack. Finally, CEO tenure was measured as the number of years the CEO had held the CEO position at the time of measurement (Herrmann and Datta, 2002).

3.2.4. Control Variables

The control variables include exchange rate, firm age, firm size, debt ratio, capital intensity, product diversity, prior internationalization, and prior performance. We also controlled for industry and year effects. The exchange rate was measured using the Korean won/US dollar ratio provided by the IMF international financial statistics. Firm age was measured using the natural logarithm values for the number of years from the establishment to the time of observation (Lu and Beamish, 2004). Firm size was measured using the natural logarithm values for the number of full-time employees. We used financial data in order to control the firm-level exogenous variables. Debt ratio refers to the total amount of the liabilities divided by the equity, and capital intensity refers to the fixed assets divided by the total assets. In addition, product diversity was included as firms with higher product diversity are more likely to enter new markets in order to achieve the economies of scale and scope (Lu and Beamish, 2004). Product diversity was measured using the entropy measure of diversification (Marano el al., 2016). Prior performance was controlled as well; it was measured by the industry-adjusted return on asset at year t. Finally, we controlled prior internationalization in order to correct the endogeneity problem. Prior internationalization was controlled by the two-stage least squares (2SLS) procedure that will be explained in detail below.

3.3. Analysis

We used the generalized least squared (GLS) procedures, which are appropriate for panel data, in order to correct for heteroscedasticity and auto-correlated error terms (Lu and Beamish, 2004). Moreover, the prior internationalization variable, one of the control variables in our study, is affected by the other industry-level variables. In order to correct this endogeneity, we used the 2SLS procedure to create a new estimated prior internationalization variable instead of using the prior internationalization variable directly. Specifically, we used three instrument variables – the domestic industry growth rate, the degree of domestic competition, and the degree of industry globalization – in order to derive the estimated value of prior internationalization. The domestic industry growth rate was measured by the average of the change in industry sales over three years. Domestic competition is the natural logarithm value of the number of companies in each industry. Finally, industry globalization was measured using the global dispersion of value-added activities in each industry (Wiersema and Bowen, 2008).

4. Result

Table I represents the descriptive statistics of the variables. The average of firm internationalization is 32.6%, meaning that on average 32.6% is explained by foreign sales, assets, and production facilities in our sample. In addition, the CEOs in our sample had 2.6 years of overseas experience on average. There is a positive correlation between firm internationalization and CEO overseas experience (r=.501).

Table II reports the results of the regression analyses for testing our hypotheses. Model 1 estimates the effect of instrument variables on prior internationalization in order to correct the endogeneity. Through this process, we obtained the value for the estimated prior internationalization, which was included as a control variable in Model 2 through Model 8.

Model 2 estimates the effect of control variables only. According to Model 2, firm age, firm size, debt ratio, capital intensity, product diversification, and prior performance have significant impacts on the degree of firm internationalization.

We used Models 3 and 8 to test Hypothesis 1. According to Model 3, CEO international experience has a significant and positive effect on the degree of firm internationalization (b=.011, p<.001). Model 8 (full model) also suggests support for Hypothesis 1 (b=.010, p<.05). Hypothesis 2 was tested using Models 4 and 8. According to Model 4, the interaction between CEO overseas experience and global financial crisis has a significant and negative effect on firm internationalization (b= -.004, p<.01). Model 8 shows stronger results (b= -.006, p<.001), supporting Hypothesis 2. Hypothesis 3 was tested using Models 5 and 8. Neither model shows any significant interaction effect between CEO overseas experience and high-discretion industry on firm internationalization. Hypothesis 4 was tested using Models 6 and 8. The interaction effect between CEO overseas experience and financial slack on firm internationalization is not significant in either model, failing to support Hypothesis 4. Finally, Hypothesis 5 was tested in Models 7 and 8. The interaction between CEO overseas experience and CEO tenure has a significant and positive effect on firm internationalization (b= .001, p<.001 in Model 7 and b= .002, p<.001 in Model 8). Therefore, Hypothesis 5 was supported.

Table 1. Descriptive Statistics and Correlation Matrix

No.	Variables	Mean	S.D.	1	2	3	4
1	Internationalization	.326	.173				
2	Exchange ratio	1095.914	103.921	.004			
3	Firm age (log)	3.479	.637	-.064 *	.025		
4	Firm size (log)	7.459	1.289	.244 ***	.011	.126 ***	
5	Debt ratio	1.687	3.203	.062 *	.052	.016	.085 **
6	Capital intensity	.561	.149	-.186 ***	.036	.242 ***	.289 ***
7	Product diversity	.964	.454	-.216 ***	-.026	.041	.016
8	Prior internationalization	.316	.170	.974 ***	.011	-.052	.246 ***
9	Prior performance	-.011	.061	-.032	.007	-.019	-.004
10	Financial crisis	.463	.499	.145 ***	.540 ***	.149 ***	.034
11	Managerial discretion by industry	4.626	1.220	.219 ***	.003	-.175 ***	.066 *
12	Financial slack	.664	.646	-.075 *	-.046	.106 ***	-.200 ***
13	CEO tenure	3.255	4.314	-.128 ***	-.008	.061 *	-.192 ***
14	CEO international experience	2.646	2.754	.501 ***	-.017	-.016	.254 ***

No.	Variables	5	6	7	8	9
1	Internationalization					
2	Exchange ratio					
3	Firm age (log)					
4	Firm size (log)					
5	Debt ratio					
6	Capital intensity	.103 ***				
7	Product diversity	-.022	.084 **			
8	Prior internationalization	.064 *	-.168 ***	-.223 ***		
9	Prior performance	-.200 ***	-.186 ***	-.073 *	-.036	
10	Financial crisis	-.001	.011	-.075 *	.163 ***	.032
11	Managerial discretion by industry	-.037	-.174 ***	.018	.222 ***	.037
12	Financial slack	-.303 ***	-.204 ***	-.004	-.081 **	.279 ***
13	CEO tenure	-.085 **	-.070 *	-.007	-.126 ***	.122 ***
14	CEO international experience	.021	-.081 **	-.147 ***	.500 ***	-.035

Table 1. (Continued)

No.	Variables	10	11	12	13
1	Internationalization				
2	Exchange ratio				
3	Firm age (log)				
4	Firm size (log)				
5	Debt ratio				
6	Capital intensity				
7	Product diversity				
8	Prior internationalization				
9	Prior performance				
10	Financial crisis	.032			
11	Managerial discretion by industry	.037	-.002		
12	Financial slack	.279 ***	-.001	-.014	
13	CEO tenure	.122 ***	.169 ***	.128 ***	.083 **
14	CEO international experience	-.035	.057	.114 ***	.038

Notes: 1. N=1101.
2. *$p< 0.05$, **$p< 0.01$, ***$p< 0.001$.

Table 2. Regression Analysis

	Model 1	Model 2	Model 3	Model 4
	DV: Prior Internationalization	DV: Internationalization		
Intercept	.052 (.032)	3.113 (6.456)	2.404 (6.403)	3.008 (6.202)
Exchange ratio		-.003 (.005)	-.002 (.005)	-.003 (.005)
Firm age		-.009* (.004)	-.006 (.004)	-.005 (.004)
Firm size		.038*** (.002)	.035*** (.002)	.035*** (.002)
Debt ratio		.002* (.001)	.002* (.001)	.002* (.001)
Capital intensity		-.109*** (.018)	-.123*** (.017)	-.134*** (.018)
Product diversity		-.036*** (.005)	-.028*** (.005)	-.029*** (.005)
Estimated prior internationalization		.088 (.122)	.028 (.109)	.035 (.108)
Prior performance		-.106 ** (.040)	-.111 ** (.040)	-.094 * (.043)
CEO international experience (A)			.011 *** (.001)	.012 *** (.001)
Financial crisis (B)				-.207 (.604)
Managerial discretion by industry (C)				

Table 2. (Continued)

	Model 1 DV: Prior Internationalization	Model 2	Model 3 DV: Internationalization	Model 4
Financial slack (D)				
CEO tenure (E)				
A x B				-.004 ** (.001)
A x C				
A x D				
A x E				
Instrumental variables				
Industry growth	-.045 (.030)			
Competition	.053 *** (.008)			
Industry globalization	.357 *** (.029)			
Wald chi square		8161.25 ***	9409.42 ***	7696.11 ***

	Model 5	Model 6	Model 7	Model 8
	DV: Internationalization			
Intercept	-2.122 (6.444)	3.788 (6.884)	.947 (6.779)	-1.078 (7.108)
Exchange ratio	-.002 (.005)	-.003 (.006)	-.001 (.006)	-.002 (.006)
Firm age	-.005 (.004)	.000 (.005)	-.002 (.004)	.005 (.004)
Firm size	.034*** (.002)	.034*** (.002)	.033*** (.002)	.032*** (.002)
Debt ratio	.002* (.001)	.001 (.001)	.002** (.001)	.001 (.001)
Capital intensity	-.123*** (.017)	-.139*** (.017)	-.126*** (.017)	-.156*** (.019)
Product diversity	-.028*** (.005)	-.023*** (.005)	-.032*** (.005)	-.027*** (.005)
Estimated prior internationalization	.024 (.108)	.013 (.110)	-.013 (.106)	-.043 (.107)
Prior performance	-.109** (.040)	-.062 (.042)	-.109** (.040)	-.025 (.042)
CEO international experience (A)	.005 (.004)	.010*** (.001)	.008*** (.001)	.010* (.005)
Financial crisis (B)				-.178 (.692)

Table 2. (Continued)

	Model 5	Model 6	Model 7	Model 8
		DV: Internationalization		
Managerial discretion by industry (C)	.973*** (.067)			.835*** (.063)
Financial slack (D)		-.015*** (.004)		-.022*** (.004)
CEO tenure (E)			-.004*** (.001)	-.006*** (.001)
A x B				-.006*** (.002)
A x C	.001 (.001)			-.000 (.001)
A x D		-.001 (.001)		-.000 (.001)
A x E			.001*** (.000)	.002*** (.000)
Instrumental variables				
Industry growth				
Competition				
Industry globalization				
Wald chi square	9402.22***	9178.93***	9210.55***	7298.27***

Notes: 1. N=1101, *$p< 0.05$, **$p< 0.01$, ***$p< 0.001$, Standard errors in parentheses.
2. Dummy variables for industry and year are included in the models, but not shown in the table.

The interaction effect between CEO overseas experience and the global financial crisis is presented in Fig. 1. The x-axis in the graphs indicates CEO overseas experience from (Mean value of CEO overseas experience -3 Standard deviation) to (Mean value of CEO overseas experience +3 Standard deviation), following the methodology of Wu and Priem (2005). According to Fig.1, the gap in the degree of internationalization between CEOs with the longest and shortest experiences is 0.198 (3.301-3.103). After the crisis, however, this gap decreased to 0.132 (3.051-2.918). Thus, the crisis weakened the positive relationship between CEO overseas experience and firm internationalization, confirming Hypothesis 2.

The interaction effect between CEO overseas experience and CEO tenure is presented in Fig. 2. We divided CEO tenure into 7 levels from (Mean value of CEO tenure -3 Standard deviation) to (Mean value of CEO tenure +3 Standard deviation) of our sample. Comparing the cases when CEO tenure is shortest versus longest, we can clearly see that, the longer the tenure, the steeper the line of the graph. The highest level of firm internationalization is achieved when the CEO has the longest overseas experience and tenure at the same time.

Fig. 1. The Moderating Effect of Global Financial Crisis

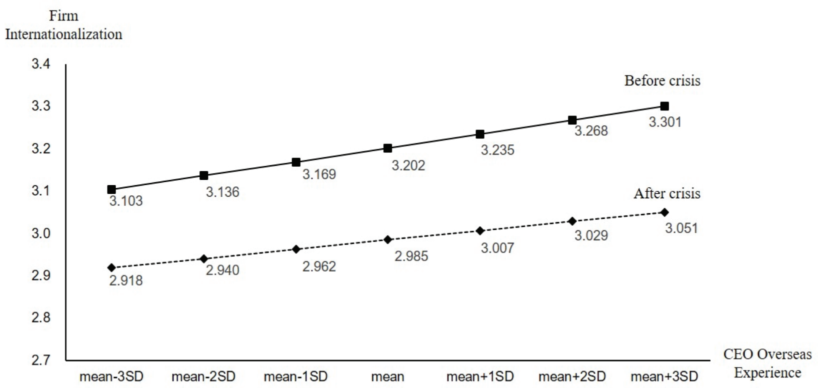
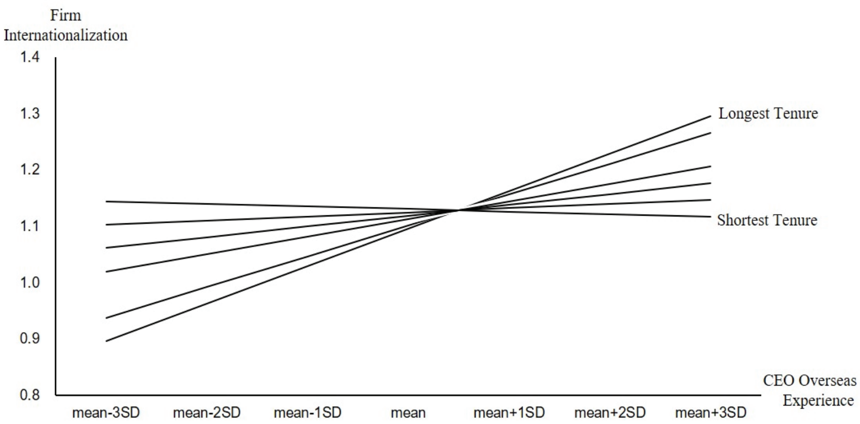


Fig. 2. The Moderating Effect of CEO Tenure



5. Discussion and Conclusion

Firms strive to internationalize themselves in order to find new growth opportunities. Several scholars have argued that CEOs overseas experience is helpful for firm internationalization (Herrmann and Datta, 2005). However, opposite findings claim no significant relationship between the two variables (Barroso, Villegas and Pérez-Calero, 2011). Our study sought to address this contradiction by drawing on a perspective of managerial discretion.

Several findings from this study are noteworthy. First, CEO overseas experience was confirmed to have a positive effect on firm internationalization. We argue that this result stems from the fact that such experiences strengthen the international KSA of a CEO. Specifically, CEOs gain market knowledge, managerial/communication skills, and networking ability through their overseas experiences, which will help them make firm internationalization decisions. Second, we found that the 2008 global financial crisis worked as a constraining moderator in the relationship between CEO overseas experience and firm internationalization. Physical constraints such as low market growth and tightened regulations, and the psychological constraints such as the decreased confidence of the CEO both tend to dampen the discretion of a CEO, thereby weakening the positive relationship between CEO overseas experience and firm internationalization. Third, the longer the CEOs tenure is, the stronger the relationship. As the CEOs tenure increases, he or she tends to gain a higher level of managerial discretion, which in turn helps the CEO with overseas experience to have greater discretion with respect to firm internationalization.

Interestingly, neither industry type nor financial slack had a significant moderating effect. Regarding the moderation by industry type, two explanations are possible for the insignificant result. The first reason may have to do with our sample and measurement. We categorized high- versus low-discretion industries based on the industry list of Hambrick and Abrahamson (1995). Although their list is the most well-known and reliable one measuring the industry-level discretion, we have to acknowledge that industries change over time. Second, it can be inferred that our industry sample consisted of manufacturing firms only, making the discretion variance in industry less salient. Contrary to our expectation, financial slack was also insignificant. In fact, slack is considered a double-sided coin. On the one hand, slack provides a firm with more resources, allowing for a wider range of strategic choices. On the other hand, slack makes it easier for CEOs to pursue opportunistic, self-serving behaviors (Daniel et al., 2004). Perhaps slack worked as both a facilitator and an inhibitor, offsetting each other.

Based on these findings, this study provides important theoretical and practical contributions. This study adopted the KSA framework to explain the relationship between CEO overseas experience and firm internationalization, which has not been previously attempted. Moreover, our findings suggest that the CEO experience–internationalization relationship depends on the specific context of the managerial discretion, reconciling the mixed findings in the extant literature. Indeed, much has been written about the concept of managerial discretion, yet little research has employed the environmental, organizational, and personal factors simultaneously. This study not only used all three dimensional factors, but also incorporated a mega variable (i.e., 2008 global financial crisis) into the context of managerial discretion.

Empirically, this study adopted the 2SLS procedure to correct endogeneity. The degree of internationalization at time (t-1) obviously had a strong correlation with the degree of internationalization at time t. This is why prior studies controlled prior internationalization in their analyses (Nielsen and Nielsen, 2011). However, the variable, prior internationalization itself is also an outcome variable affected by other factors. Hence, instead of taking the actual value of prior internationalization as a control variable, we estimated prior internationalization using the instrument variables at an industry level – namely, the domestic industry growth rate, the degree of domestic competition, and the degree of industry globalization. This procedure made our estimation more accurate and robust.

This study also offers practical insights into how to leverage CEO overseas experience when pursuing firm internationalization. The findings indicate that CEO tenure has an enabling effect on the CEO experience–internationalization relationship. However, in reality, in many cases CEO tenure is interrupted due to involuntary turnover. In our sample, the average CEO tenure was only 3.3 years, which is far shorter than the 6 to 8 years of S&P 500 companies. It is recommended that firms guarantee a certain extent of CEO tenure if they want to utilize

CEO experience for firm performance.

Despite its contributions, this study has several limitations that can serve as directions for future studies. First, by inferring the level of managerial discretion with the proxy variables, the managerial discretion itself remains unobserved. Besides, we measured managerial discretion by industry based on the list from Hambrick and Abrahamson (1995), because their study offers the only holistic measurement across various industries up to date. Opportunities for future research include exploring alternative methods to measure the managerial discretion directly, such as through survey data. Second, although we measured the degree of firm internationalization using composite measures, the qualitative aspect of internationalization was not considered. After the quantitative level of internationalization reaches a certain extent, however, qualitative factors such as mode of entry or degree of geographical diversification become increasingly important (Song Jae-Yong et al., 2017). Third, although there is one-year time lag between the independent and dependent variables, there may be a two-way relationship between the two sets of variables. In this study, we found that the CEO overseas experience affects the degree of firm internationalization. On contrary, a firm with a higher level of internationalization may have a stronger need for hiring CEOs with more overseas experience. Kunisch, Menz and Cannella (2019) argued that the degree of internationalization of the firm is positively associated with the likelihood of selecting a new CEO with an international background to meet the global task demands. Therefore, a more fine-grained model considering a two-way relationship between CEO experience and firm internationalization is suggested for future research. Fourth, although we investigated the antecedents of firm internationalization, whether internationalization is good or bad in performance is not examined in this study. Some scholars have even argued a negative relationship between firm internationalization and performance, as the cost incurred in the process of internationalization is greater than its benefits in many contingencies (Gaur and Delios, 2015). During the 2008 financial crisis, the cost of firm internationalization tended to be greater (Chang Sea-Jin and Rhee Jay-Hyuk, 2011) making it a less attractive option. Thus, future research should uncover the performance implications of CEO overseas experience as well as firm internationalization. Lastly, the sample of this study only includes manufacturing corporations listed on the Korean Stock Exchange. The managerial discretion, however, heavily depends on the national system (Crossland and Hambrick, 2007) which varies across the countries. Therefore, future studies should also examine the generalizability of our study including other industries and countries.

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