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The CEO as a key microfoundation of global strategy: Task demands, CEO origin, and the CEO's international background

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Research Summary: We explore the selection of new CEOs with international backgrounds as a key microfoundation of global strategy. Building on executive succession, upper echelons, and international business research, we argue that firms choose CEOs with international backgrounds to match their task demands. We further argue that depending on the CEO's origin from inside or outside the firm, different task demands matter. Specifically, we propose that the relationship between internal (firm-level) task demands and the new CEO's international background is more pronounced for inside successions, whereas the relationship between external (industry-level) task demands and the new CEO's international background is more pronounced for outside successions. An analysis of a sample of 363 CEO successions in S&P 500 firms supports our reasoning.

Managerial Summary: Choosing a CEO with the "right" experience is a crucial concern for many large firms. While firms increasing seem to select new CEOs with international backgrounds, not all firms do so. In this article, we explore several factors that might influence this choice. Our results reveal that the predecessor's international background, the firm's level of internationalization, and the level of internationalization of the firm's industry influence whether a CEO with an international background is selected. Moreover, while for inside successions, the firm's level of internationalization is particularly important, for outside successions, the level of internationalization of the firm's industry is particularly important. Our findings inform those who search, select, and appoint new CEOs, including boards of directors and (executive search) consultants.

KEYWORDS
CEO succession, global strategy, international background, microfoundations, upper echelons

1 | INTRODUCTION

A crucial concern in global strategy research centers on CEO decisions and actions related to global operations and competitiveness. These decisions and actions may differ substantially based on the CEO's international experience (e.g., Felin, Foss, & Ployhart, 2015; Foss & Pedersen, 2014; Hambrick & Mason, 1984). Yet, while scholars have extensively studied a variety of CEO characteristics (for excellent reviews, see Berns & Klarner, 2017; Busenbark, Krause, Boivie, & Graffin, 2016; Finkelstein, Hambrick, & Cannella, 2009; Giambatista, Rowe, & Riaz, 2005; Kesner & Sebora, 1994), comparably little is known about the CEO's international background.

The relatively limited scholarly attention to the CEO's international background is in sharp contrast to the rising importance of this phenomenon (e.g., Favaro, Karlsson, & Neilson, 2013; Karlsson & Neilson, 2009; Unknown, 2014; Russell Reynolds Associates, 2010; Unruh & Cabrera, 2013). On the one hand, large firms often seem to select new CEOs with international backgrounds. While in 2002 only 21% of the CEOs of the S&P 500 had international experience (Warner, 2005), in 2008, 52% of CEOs had international experience, such as spending significant time abroad on an assignment with substantial responsibilities (Karlsson & Neilson, 2009). According to the leading executive search firm Spencer Stuart, U.S. firms regard international experience and global perspective as key requirements for newly appointed CEOs (cf. Unknown, 2004). On the other hand, not all firms choose new CEOs with international backgrounds. In fact, a recent global CEO succession study claims that the "newest CEOs have neither the diversity nor the global backgrounds that you might expect" (Favaro et al., 2013, p. 2). This suggests that either the firms do not find the appropriate candidates inside or outside the firm or they do not value the respective experiences because it is unclear what exactly the merits are.

Notwithstanding, a new CEO's international experience appears to be highly relevant as a microfoundation of global strategy. The few studies that have explored CEOs' international backgrounds have focused on the consequences (Carpenter, Sanders, & Gregersen, 2001; Daily, Certo, & Dalton, 2000; Herrmann, 2002; Herrmann & Datta, 2002, 2006; Roth, 1995). Although the knowledge is not conclusive, collectively these studies suggest that a new CEO's international experience can have important consequences. Yet, with the exception of one study by Daily et al. (2000), we lack studies that go beyond the performance consequences and that provide insights about when and why firms actually select CEOs with international backgrounds and whether they come from inside or outside the firm.

Our study is designed to advance knowledge about the role of CEO international background as a key microfoundation of global strategy. We examine when firms actually select CEOs with international backgrounds and whether the new CEO's origin as a key contextual factor impacts that choice. To proceed, we draw on research from the areas of executive succession, upper echelons, and international business. We argue that firms appoint CEOs with international experience because such experience is necessary to effectively handle the managerial task demands associated with the firm's internal and external contexts. Combining insights from research on the CEO's task demands and the new CEO's origin, we then propose that firm-related task demands (the firm's internal

context) explain the selection of new CEOs with international backgrounds from inside the firm, whereas industry-related task demands (the firm's external context) explain the selection of new CEOs with international backgrounds from outside the firm.

To test the study's hypotheses, we analyze a comprehensive sample of 363 CEO successions in S&P 500 firms over a 10-year period from 2003 to 2012. We find that the firm's internal and external task demands, represented by the predecessor's international background, the firm's degree of internationalization, and the degree of internationalization of the firm's industry, determine the need for a microfoundation of global strategy, namely for the new CEO's international background. Moreover, our analysis supports the view that firms go beyond the exclusive consideration of international task demands and incorporate the fit between different types of task demands *and* the successor's origin in their decisions. For inside successions, the firm's internationalization is positively associated with the decision to select a new CEO with an international background, whereas the internationalization of the firm's industry is not. For outside successions, however, the internationalization of the firm's industry is positively associated with the decision to select a new, internationally experienced CEO, whereas a firm's degree of internationalization is not.

Our study informs research about the microfoundations of global strategy (Felin et al., 2015; Foss & Pedersen, 2014), the upper echelons perspective (Hambrick, 2007; Hambrick & Mason, 1984), and the CEO position (Berns & Klarner, 2017; Busenbark et al., 2016; Finkelstein et al., 2009; Kesner & Sebora, 1994). While previous studies have focused on analyzing the performance consequences of the CEO's international background (Carpenter et al., 2001; Daily et al., 2000; Herrmann, 2002; Herrmann & Datta, 2002, 2006; Roth, 1995), we shift the focus to the determinants of this key microfoundation of global strategy. While task demands generally play an important role, our study also highlights subtle differences between different origins of microfoundations from inside and outside the firm.

2 | BACKGROUND

Over the past decades, many firms have expanded their international scope (e.g. Hitt, Tihanyi, Miller, & Connelly, 2006). For example, according to the World Trade Organization U.S. exports increased by 99% from 2004 to 2014.[1] However, despite this development, the role of senior executives in shaping and executing their firm's activities across geographic markets and, thus, the microfoundations of global strategy, are still not well understood (Foss & Pedersen, 2014). While the international experience of executives in general has been the subject of prior study, CEO-level study is not common. Much of the research has dealt with the influence of international work experience on the career paths of managers (Bolino, 2007; Georgakakis, Dauth, & Ruigrok, 2016), recognizing it as an important factor in career development (Stroh, Black, Mendenhall, & Gregersen, 2005) and as being beneficial for rising to top positions (Takeuchi, Tesluk, Yun, & Lepak, 2005). However, research in the tradition of Hambrick and Mason's (1984) upper echelons perspective finds that CEOs are important for organization-level outcomes (Mackey, 2008; Quigley & Hambrick, 2015).

The upper echelons perspective argues that firms' strategic choices and their ultimate consequences are reflections of the beliefs, values, and assumptions of their executives, which can be captured through observable background characteristics (Hambrick & Mason, 1984). Those characteristics are used as objective representations of psychological constructs that are otherwise

[1]http://stat.wto.org

difficult to assess and validate (Pfeffer, 1983). Scholars employing demographic measures in upper echelons research, such as in the context of CEO succession, have argued that demographically similar individuals develop comparable attitudes and cognitive orientations by sharing common experiences, and this leads to similar organizational choices (Datta & Rajagopalan, 1998; Hambrick & Mason, 1984; Karaevli, 2007). Based on these implications, researchers have stressed the importance of matching the executive's characteristics with the organizational context: "[…] the utility of executive leadership characteristics is contingent on organizational environments and organizational strategies" (Gupta, 1988, p. 165).

Among the CEO's various observable characteristics, such as age, education, and professional experience, his/her international background is a particularly crucial microfoundation associated with the firm's global strategy. First, CEOs who have international experience are more likely to have the skills necessary to manage operations in complex foreign environments with more confidence (Black, 1997). Specifically, CEOs with international experience may possess unique knowledge, worldviews, and professional networks that enable them to manage global operations more effectively (Daily et al., 2000). Second, the CEOs' international backgrounds can be considered a proxy for the executives' understanding of foreign markets and cultures, based on which they are better able to cope with the uncertainty associated with foreign operations and markets (Carpenter, Pollock, & Leary, 2003; Sambharya, 1996). Third, a CEO's firsthand exposure to foreign cultures and business practices is associated with increased awareness and exploitation of opportunities offered by the international marketplace (Herrmann & Datta, 2002). Taken together, CEOs with international backgrounds may, thus, possess skills and experiences that contribute to the development of a global mind-set, allowing them to put international developments into perspective. All of this helps their firms adopt a global perspective and simultaneously handle domestic and global market needs, operations, and competition (Gupta & Govindarajan, 2002; Unruh & Cabrera, 2013).

In light of the considerable importance of a CEO's international background for the firm's international success, we have fairly limited knowledge of this microfoundation facet. Indeed, a small literature stream provides initial insights into the role of the CEO's international background, as summarized in Table 1. Drawing on the upper echelons and the strategic contingency perspectives, scholars have examined the CEO's international background in the context of CEO succession events. In general, these studies suggest that the fit between the task demands at a particular firm and successor characteristics, such as international background, is an important determinant of managerial effectiveness and, ultimately, the firm's financial performance (Chen & Hambrick, 2012; Herrmann & Datta, 2002; Kesner & Sebora, 1994).

This has two normative implications: first, organizations are assumed to seek fit between the new CEO and their organizational context. In this regard, CEO succession research is frequently built on the assumption that demographic characteristics (e.g., organizational tenure, age, and educational level) are proxies for the knowledge bases and cognitive orientations of new CEOs which, in turn, influence their decision making (Finkelstein et al., 2009). Second, assuming that organizations are able to translate their contextual requirements into concrete task demands for new leaders, they seek and select executives possessing specific characteristics matching those task demands (Zhang & Rajagopalan, 2003).

The few studies that have explored CEOs' international background have focused on the consequences (Carpenter et al., 2001; Daily et al., 2000; Herrmann, 2002; Herrmann & Datta, 2002, 2006; Roth, 1995). For example, Daily et al. (2000) and Carpenter and Fredrickson (2001) found a direct positive relationship between CEOs with international assignment experience and firm performance, which was moderated by the firms' degree of internationalization. Further, Herrmann and Datta (2002, 2006) found that the new CEO's international experience, among other CEO

TABLE 1 Prior empirical studies on the CEO's international background

Study	Focus	Theory	Sample and data	Findings
Roth (1995)	Fit/outcomes (firm performance)	Contingency; strategic fit	74 CEO responses from 311 medium-sized firms with sales of $25-$500 million	The level of a firm's international interdependence influences the pattern of CEO characteristics ideal for enabling a CEO to contribute to firm performance.
Daily et al. (2000)	CEO tenure and outcomes (financial performance)	Resource-based view	367 firms of the Fortune 500 firms in 1997 (effective response rate of 76.62%)	CEO tenure and outside succession predict CEO international experience. In addition, (a) CEO international experience and the degree of firm internationalization, and (b) CEO international experience and CEO succession relate to financial performance.
Carpenter et al. (2001)	Outcomes (firm performance)	resource-based view/capabilities	245 firms with complete data from 256 U.S. MNCs (i.e., firms that report sales or production in at least three foreign countries) from the 1994 Standard & Poor's 500	Firms performed better with CEOs with international assignment experience, especially when such human capital was bundled with other organizational resources and capabilities. Moreover, in highly global firms, CEOs with international assignment experience appropriated a greater proportion of performance in their pay.
Herrmann (2002)	Outcomes (international diversification)	Upper echelons	173 U.S. manufacturing firms with international operations from large, public, and nondiversified firms with sales greater than $250 million in 1997 (371 firms)	Younger CEOs with higher levels of education and with international experience are likely to be associated with organizations with greater degrees of international diversification. Additionally, in firms with higher levels of performance, the education and international experience of the top managers appear to match more closely the extent of international diversification.
Herrmann and Datta (2002)	Outcomes (foreign market entry mode)	Upper echelons	126 CEO successions 1989–1997 and 271 foreign market entries in publicly traded manufacturing firms with sales over $250 million and international sales; at least 50% of sales from their main business segment	CEO position tenure, throughput functional background, and international experience are associated with full-control entry modes. Additionally, these relationships were observed in the subgroup of high-performing firms, but not in the low-performing subgroup.
Herrmann and Datta (2006)	Outcomes: FDI entry modes	Strategic management and international business literatures	380 foreign market entry events involving acquisitions, greenfield investments, and joint ventures	CEO international experience was associated with a greater propensity to choose greenfield investments and acquisitions over joint ventures and also greenfield investments over acquisitions.

characteristics, is associated with the choice of foreign market entry modes. While Roth (1995) found no evidence of a direct effect on performance, CEO international background contributed to performance if the firm had high international dependence.

While the findings from these studies are inconclusive, they do suggest that CEO-level international background matters. Yet, much less is known about whether and when firms actually select a new CEO with an international background. A notable exception is Daily et al.'s (2000) study of 367 Fortune 500 firms in 1997, which found that the interaction between CEO tenure and outside succession predicts CEO international experience. However, we still have no systematic understanding of how firms make choices regarding this key managerial microfoundation that is expected to contribute to the firm's international development.

In order to explore the role of CEO international background as a key microfoundation of global strategy, we focus on CEO successions. The selection of new CEOs is widely recognized as an important mechanism through which firms align their leadership with changing environments (Chen & Hambrick, 2012). Just as the firm's environments change over time, so do the task demands associated with the CEO position.[2] In particular, the board of directors assesses the current and foreseeable future organizational requirements and appoints a new leader whose competencies and characteristics fit the task demands (Finkelstein et al., 2009).

3 | HYPOTHESES

Combining the potential value of international experience with the idea of strategic fit outlined above, a firm can better reap the benefits of a CEO with an international background if his/her characteristics fit the organization's task demands. In this regard, certain firms might have organizational contexts that more strongly demand the knowledge, mind-set, and skills related to CEO international background. Therefore, those firms explicitly or implicitly demand international backgrounds when selecting their new leaders (Zhang & Rajagopalan, 2003). Ultimately, the fit between the task demands confronting a CEO post and the characteristics of the successor is then expected to lead to positive organizational outcomes.

3.1 | Task demands and the new CEO's international background

Based on the premise that a firm chooses a CEO whose characteristics match its internal and external context, depending on a firm's conditions, it may require the knowledge, mind-set, and skills of a new CEO with an international background. The specific context reflects a firm's task demands for the CEO position and, thus, helps explain when a new CEO with an international background is selected.

A comprehensive predictor of the new CEO's international background is the *predecessor's international background.* Succession studies indeed suggest that the predecessor's characteristics are good representations of the attributes required for the CEO position (Busenbark et al., 2016; Kesner & Sebora, 1994) and that successor characteristics often reflect those of the predecessor (Zajac & Westphal, 1996), which may particularly apply to the predecessor's international background. In fact, more than other attributes, international background might reflect a specific demographic characteristic that is an essential requirement for the CEO position, depending on actual

[2]For example, scholars have extensively explored the relationships between CEO successions and strategic change (for comprehensive reviews see Hutzschenreuter, Kleindienst, & Greger, 2012; Kunisch, Bartunek, Mueller, & Huy, 2017; Müller & Kunisch, forthcoming).

organizational needs. Other successor characteristics such as age and education have been found to depend on the personal preferences of the incumbent CEO or the board without being an objectively necessary attribute for the job (Ocasio, 1994; Zajac & Westphal, 1996).

In contrast, firms that have already chosen a leader (the predecessor) with an international background in the past may simply regard this characteristic as a prerequisite for new leaders. This general desire of appointing an international CEO may, thus, stem from specific task demands facing the company or the firm's implicit or explicit expectations and plans. For example, when Coca-Cola announced in December 2016 that James Quincey, an executive with extensive experience in managing the firm's operations in Europe and Latin America, would become the new CEO in 2017, his predecessor was Muhtar Kent, a Turkish-American with rich international experience, including positions as general manager of Coca-Cola Turkey and Central Asia (The Coca-Cola Company Press Release, 2016).

Thus, we expect that the predecessor's international background is likely to be associated with the international background of the new CEO.

> **Hypothesis 1 (H1)** *The predecessor's international background will be positively associated with the likelihood of selecting a new CEO with an international background.*

In addition to considering the predecessor's characteristics, the task demands facing the CEO can be understood by looking at the firm's internal and external environments (Zhang & Rajagopalan, 2003). We focus on the firm's degree of internationalization (DOI) and the industry's DOI as two factors reflecting the task demands arising from the internal and external environments, respectively.

First, with respect to the firm's internal environment, we argue that *firm-level DOI* reflects internal task demands and, thus, is likely to be related to the new CEO's international background. Prior research suggests that characteristics of the firm have a particularly significant influence on the selection of new CEOs when those characteristics reflect the strategic needs of the organization (Datta & Guthrie, 1994; Guthrie & Datta, 1997). Firm-level DOI has been described as "the degree to which a firm depends on foreign markets for customers and factors of production and the geographic dispersion of these markets and factors" (Carpenter et al., 2001, p. 534). Firm-level DOI, which is closely linked to the firm's international diversification strategy (Sambharya, 1996), poses specific job demands to the new CEO (Hambrick, Finkelstein, & Mooney, 2005), largely because it is positively associated with the firm's *internal* complexity (Hitt, Hoskisson, & Kim, 1997), for example, because it complicates the firm's internal communications and governance (Geringer, Tallman, & Olsen, 2000).

As firms internationalize, they create both dedicated market and operational/production units for their international activities. These increasingly dispersed units complicate concerted strategy development efforts aimed at creating a coherent international strategy, for example, because of different cultures, market needs, and regulatory frameworks that must be incorporated in an international firm (Ghoshal, 1987). In addition, effectively executing the firm's international strategy requires integrating these units through suitable organizational structures and control mechanisms, particularly as firms seek to create value by leveraging their international resources through the effective coordination of global subunits (Ghoshal & Bartlett, 1990). For example, highly internationalized firms like General Electric and Procter & Gamble strive to become transnational by implementing a global matrix structure (Bartlett & Ghoshal, 1989). While supporting the organization's "international

dimension," such a structure increases the task demands for the CEO, for example, because of the many different headquarters-international subsidiary relationships it involves.

Because of their internal complexity, international firms are likely to opt for CEO with international backgrounds. Indeed, executives with international experience are generally considered to have the skills to formulate and effectively execute international strategies, while reducing levels of complexity and uncertainty in international operations (Black, 1997; Daily et al., 2000; Herrmann & Datta, 2006). A new CEO's international background may help overcome the additional challenges of international strategizing by, among other things, including different local opinions in strategy discussions, communicating the strategy more carefully, and accounting for local specifics when governing the international relationships. For example, when 3M announced in February 2012 that Inge G. Thulin, a Swedish-American executive with "an excellent record of delivering both sales growth and operational efficiency in a wide range of global businesses" (3M Press Release, 2012), would become the new CEO, the firm had already been global for decades, with international sales representing about two thirds of 3M's total sales.

Hence, we expect that the more international a firm, the greater its demand for a new CEO with an international background.

Hypothesis 2 (H2) *Firm-level DOI will be positively associated with the likelihood of selecting a new CEO with an international background.*

Second, with respect to the firms' external environment, we argue that *industry-level DOI* is likely to be related to the new CEO's international background. Reflecting the environmental conditions facing the firm, industry-level DOI also affects decisions regarding the desired cognitive attributes of the new CEO. Industry-level DOI represents the global competition in a firm's industry, which constrains the firm's behavioral choices in addition to the firm's DOI. Firms in highly internationalized industries compete with each other for customers, resources, and business partners in diverse geographic regions, which increases *external* complexity confronting the firm.

Firms operating in highly internationalized industries are not independent in their strategic choices, but must constantly monitor the strategic actions and reactions of their competitors on a global level and respond accordingly. In such environments, effectively managing international operations and competition is critical to the firm's success (Daily et al., 2000; Yu & Cannella, 2007). In addition, executives of firms in highly internationalized industries (such as computers, financial services, and pharmaceuticals) must account for external developments, for example, regarding the changes in international and foreign regulations, as this may affect domestic business conditions and opportunities, even for a relatively less internationalized firm.

Because of their external complexity and uncertainty, firms in internationalized industries are likely to opt for a CEO with international experience. Executives' knowledge of foreign markets and business practices, awareness of global developments, and understanding of competitive dynamics in the global marketplace will help them deal with the complexity and uncertainty, which increase with an industry's internationalization (Carpenter et al., 2003; Hitt et al., 2006). Executives with international backgrounds can be expected to have a better understanding of the specific complexity of the international context and, thus, have superior abilities to manage international interdependence (Roth, 1995). For example, MasterCard justified the appointment of India-born Ajay Banga as president and CEO in 2010 with "his industry knowledge, as well as his deep background in financial services encompassing many geographies" and highlighted that "MasterCard and its customers will benefit from Ajay's unique global perspective" (MasterCard Press Release, 2010).

Therefore, we expect that the more internationalized a firm's industry, the greater its need for a new CEO with an international background.

> **Hypothesis 3 (H3)** *Industry-level DOI will be positively associated with the likelihood of selecting a new CEO with an international background.*

3.2 | The moderating role of the new CEO's origin

While the firm's complexity and uncertainty due to firm-level and industry-level DOI indicate the demand for a CEO with an international background, there needs to be a suitable candidate for the position or, put in economic terms, sufficient supply. Historically, the labor market inside the firm has dominated as a source of candidates for the CEO position, mainly to benefit from loyalty, existing knowledge and internal networks, greater candidate fit, and continuity (Vancil, 1987; Zhang & Rajagopalan, 2003). In recent years, however, an increasing number of CEOs has been appointed from outside of the firm—for example, according to a report by the strategy consultancy Strategy& must be one word some 24% of all new CEOs from 2012 to 2015.[3] In general, firms prefer an "outsider" CEO when they need a CEO with new perspectives, skills, or knowledge and when there is a lack of qualified internal candidates (Zhang & Rajagopalan, 2003).

Over the past decades, the new CEO's origin has become an important theme in CEO succession research (Finkelstein et al., 2009; Kesner & Sebora, 1994), and many studies have explored the differences between inside and outside CEO successions (Karaevli, 2007; Karaevli & Zajac, 2013; Zhang & Rajagopalan, 2003). Broadly, "inside and outside CEO successors often bring different kinds of solutions […] to a company" (Brady & Helmich, 1984, p. 27). Because of their differences, both types of successors are likely to have different effects on the relationship between firm-level DOI and the new CEO's international background, and industry-level DOI and the new CEO's international background, respectively.

For *inside* successions, the firm's internal context may have a greater influence on the CEO appointment decision than its external context. When a firm recruits a new CEO from inside, key interests are to ensure continuity (Ocasio & Kim, 1999) and to benefit from the executive's firm-specific knowledge (Guthrie & Datta, 1997), such as regarding the firm's strategy, organization design, operations, and culture. Firm-specific characteristics are, therefore, likely to dominate in decisions regarding the suitability of an insider candidate. For example, when Coca-Cola announced that James Quincey would become the new CEO in 2017, the firm emphasized that in his previous role as Coca-Cola's president and chief operating officer (COO), he "put in place a new international operating structure and leadership team to make the company more efficient and effective at the local levels, helping our operating units become faster and more agile" (The Coca-Cola Company Press Release, 2016).

For *outside* successions, the firm's external context may have more influence on the CEO appointment decision than the internal context. When a firm opts for an outside succession, it typically lacks internal candidates with the desired background and qualifications and often indicates that the firm needs at least some change (Ocasio & Kim, 1999; Zhang & Rajagopalan, 2003). In such an event, companies often respond to their external environments (Zhang & Rajagopalan, 2003), suggesting that the characteristics of the firm's industry, such as the international distribution of the industry's customers and suppliers, matters when assessing the suitability of a candidate. For example, when the health care firm Baxter International announced that José Almeida would join the company as the new chairman and CEO effective January 1, 2016, his predecessor Robert

[3]http://www.strategyand.pwc.com/ceosuccess2015

L. Parkinson, Jr. highlighted that "his deep understanding of the complex global supply chain will be a great strength for the company as he oversees a broad portfolio of medically necessary products across a geographically expansive marketplace" (Baxter International Press Release, 2015).

Hence, we expect that for inside successions, firms will weigh heavily the internal task demands when selecting a new CEO. In contrast, we expect that for outside successions, firms will especially consider the external task demands when selecting a new CEO.

> **Hypothesis 4 (H4)** *CEO origin will moderate the relationship between the firm's task demands and the likelihood of selecting a new CEO with an international background. Specifically: (a) for inside CEO successions, firm-level DOI will be positively associated with the likelihood of selecting a new CEO with an international background; and (b) for outside CEO successions, industry-level DOI will be positively associated with the likelihood of selecting a new CEO with an international background.*

4 | METHOD

4.1 | Sample and data

To test our hypotheses, we used a sample of S&P 500 firms over the 10-year period 2003–2012. First, we started with the 453 firms who were members of the S&P 500 between 2003 and 2012 and were continuously listed on COMPUSTAT for at least 5 years during that time window. Second, based on this initial set of firms, we identified 461 CEO succession events in 287 firms during the 10-year period of our study. Data on predecessor and successor CEO characteristics was retrieved from the BoardEx database, the online editions of Marquis' *Who's Who*, *Bloomberg BusinessWeek*, and NNDB (Notable Names Database). We found complete information on 363 CEO successions in 252 firms. When a firm had two CEO successions in 1 year (10 firms), we considered the latter case. Third, we obtained firm data from the Thomson One Worldscope database and industry concentration data from firms that were in the S&P 1500 and listed on Compustat. Complete firm and industry data was available for all 252 firms, leading to a final sample of 363 CEO successions (95 firms had two CEO successions, 29 had three, and 7 had four) from 2003 to 2012. T-tests revealed no differences in mean firm size (sales), international sales (foreign sales to total sales), and firm performance (return on assets, ROA) between the study's 252 firms and all S&P 500 firms.

4.2 | Measures

4.2.1 | Dependent variable

A new *CEO's international background* was measured based on the level of international experience at the time of the succession event. Specifically, a new CEO with at least 1 year of international experience from (a) being born and raised outside the U.S., (b) a degree in higher education from outside the U.S., (c) a work assignment outside the U.S., and/or (d) a management position in a firm's international division and located outside the U.S. was considered to have an international background (Herrmann & Datta, 2002, 2006; Sambharya, 1996). We coded CEOs with international backgrounds as 1 and other CEOs as 0.

4.2.2 | Independent variables

We calculated a composite measure of *firm-level DOI* consisting of three dimensions (Sullivan, 1994): (a) foreign market dependence, measured as foreign sales divided by total sales; (b) foreign production

dependence, captured by the ratio of foreign assets to total assets; and (c) international dispersion, an entropy measure of the geographic segments reported by the firm (Carpenter & Sanders, 2004). To form a firm's DOI composite measure, the pre-succession 3-year average for each of the three dimensions was summed (Herrmann & Datta, 2006; Nielsen & Nielsen, 2013). Likewise, we calculated *industry-level DOI*, using the average industry DOI at a firm's primary two-digit Standard Industrial Classification (SIC) level of the members of the S&P 1500 for the 3-year period prior to the succession.[4]

4.2.3 | Control variables

In line with the prior CEO succession studies, we accounted for several firm-, industry-, and event-specific controls. We included pre-succession *firm size*, measured as the natural logarithm of the firm's average total sales for the 3 years prior to the succession (Datta & Rajagopalan, 1998; Zhang & Rajagopalan, 2004). Further, we controlled for *firm age*, calculated as the number of years since incorporation, because it has been associated with CEO successions (Chung & Luo, 2013). *Pre-succession firm performance* was captured with two established measures. First, we used a firm's *return on assets (ROA)* as an accounting-based measure (Shen & Cannella, 2002; Zajac, 1990). Second, to measure a firm's market-based performance, we used *market-to-book ratio (MTB).* This ratio reflects the company's future performance potential, indicating its ability to exceed expected returns in the future (Daily et al., 2000). To reduce short-term variations, we used the firm's average ROA and MTB for the 3-year period prior to the succession. To control for industry conditions, we included *industry concentration*, measured as the four-firm concentration ratio with data captured annually from Compustat at the two-digit SIC level and using members of the S&P 1500 (Datta & Rajagopalan, 1998).

To control for characteristics of the succession event, we accounted for *new CEO outsider*—coded 1 if the new CEO was an outsider with a firm tenure of less than 2 years at the time of succession and 0 otherwise (Puffer & Weintrop, 1991; Zhang & Rajagopalan, 2010).[5] We also controlled for the *new CEO's education level* by using a seven-point scale capturing the new CEO's highest degree: 1 = high school, 2 = some college, 3 = undergraduate degree, 4 = some graduate school, 5 = master's degree, 6 = attended doctoral program, and 7 = doctorate degree (Datta & Rajagopalan, 1998; Zhang & Rajagopalan, 2010). Since the *predecessor's power* plays an important role in the succession process (Cannella & Shen, 2001; Zajac & Westphal, 1996), we followed Zhang and Rajagopalan (2003) and included a composite measure of predecessor power for the year prior to the succession consisting of: (a) predecessor shareholdings as a percentage of the firm's total outstanding shares, (b) position tenure as the CEO in years, and (c) CEO duality (coded as 1 if the departing CEOs also chaired their firm's board of directors and 0 otherwise). We also controlled for *predecessor dismissal*, coded as 1 if the departing CEO was dismissed and 0 otherwise, because the circumstances of a CEO's departure can influence the selection of the new CEO (Cannella & Lubatkin, 1993; Fredrickson, Hambrick, & Baumrin, 1988). Dismissal was assumed to have occurred when the predecessor left both the CEO post and the board of directors at the same time, before the age of 64, and for reasons other than death, health, M&A, or assuming a similar position at another firm (Shen & Cannella, 2002; Zhang & Rajagopalan, 2003).

Finally, to control for characteristics of the firm's board of directors and overall governance issues, we controlled for board size, the number of independent directors, and the number of

[4]In order to verify our results, we used individual components of the composite measures of firm-level DOI and industry-level DOI for robustness checks. While the results remained largely unchanged, the composite measures had the greatest explanatory power.

[5]In robustness checks, we also controlled for new CEO firm tenure, a continuous measure of how long an executive had been employed by the firm prior to being appointed as CEO (Herrmann & Datta, 2006). The results, however, did not change.

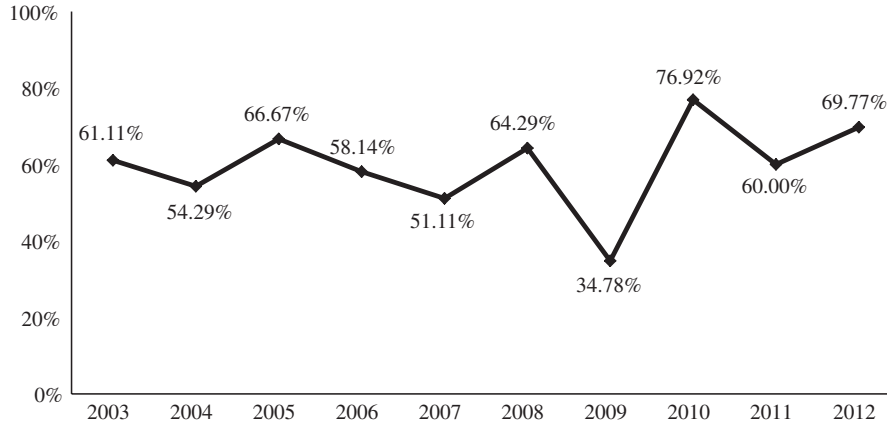

FIGURE 1 New CEOs with international backgrounds in S&P 500 firms (2003–2012)

foreign-born directors on the firm's board (Finkelstein et al., 2009; Sanders & Carpenter, 1998). To control for time-based heterogeneity, we used year fixed effects in all of our models.

5 | RESULTS

As displayed in Figure 1 and Table 2, in our sample, 220 (60.60%) of 363 new CEOs had international backgrounds, and the percentage of new CEOs with international backgrounds varies considerably over time. Interestingly, while approximately three-fourths of new CEOs who came from outside their firms had international backgrounds (76.42%), only about half of the inside successors had such backgrounds (52.50%). This data provides initial evidence for our hypothesized differences between new CEOs appointed from inside and outside the firm.

Table 3 presents the descriptive statistics for all variables used in the study. Most of the correlation coefficients are below 0.35 (exceptions are: (a) pre-succession firm ROA and MTB, (b) board of director size and the number of independent directors, and (c) firm-level DOI and industry-level DOI). While an analysis of the variance inflation factors (VIF) suggests minimal multicollinearity (the maximum VIF was 3), the not surprisingly high correlation between firm-level DOI and industry-level DOI was of modest concern in our analyses, as we will discuss later.

Given the binary nature of our dependent variable, we used logistic regression to test our hypotheses (Hosmer & Lemeshow, 2000). Since the coefficients cannot be directly interpreted, we report odds ratios, which are more straightforward to interpret (Petersen, 1985). An odds ratio of 1 means no effect, and an odds ratio greater (smaller) than 1 indicates a positive (negative) effect. The odds ratios also allow interpreting the effect sizes. For example, an odds ratio of 1.25 means

TABLE 2 The new CEO's international background and characteristics of the succession events in S&P 500 firms (2003–2012)

	International background	No international background	Sum
Inside successions	126 (52.50%)	114 (47.50%)	240 (67.10%)
Outside successions	94 (76.42%)	29 (23.58%)	123 (32.90%)
Sum	220 (60.60%)	143 (39.40%)	363 (100%)

TABLE 3 Descriptive statistics and correlations

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) New CEO int. background	0.61	0.49	0.00	1.00	1.00														
(2) Pre-succession firm ROA	4.85	6.59	−48.26	36.01	0.13*	1.00													
(3) Pre-succession firm MTB	1.81	0.92	0.80	5.00	0.16**	0.54***	1.00												
(4) Pre-succession firm size	9.03	1.26	5.07	12.64	−0.20***	0.01	−0.33***	1.00											
(5) Firm age	78.34	41.02	0.00	228.00	0.01	−0.02	−0.18***	0.24***	1.00										
(6) Industry concentration	0.37	0.18	0.15	0.96	0.14**	0.12*	0.10+	0.12*	−0.13*	1.00									
(7) Predecessor power	9.53	6.77	0.00	40.64	0.06	0.04	0.11*	−0.03	0.01	0.07	1.00								
(8) Predecessor dismissal	0.27	0.44	0.00	1.00	−0.19***	0.02	−0.02	0.10+	−0.03	−0.00	−0.24***	1.00							
(9) New CEO education	3.73	1.58	1.00	7.00	−0.32***	0.03	−0.11*	0.34***	0.08	−0.12*	−0.03	0.23***	1.00						
(10) New CEO's origin (outsider)	0.34	0.47	0.00	1.00	0.23***	−0.16**	−0.01	−0.10+	−0.11*	0.08	−0.05	0.09+	−0.03	1.00					
(11) Board of directors size	11.21	2.53	5.00	26.00	−0.06	−0.02	−0.07	0.14**	0.05	0.02	−0.02	0.06	0.02	0.05	1.00				
(12) # independent directors	9.04	2.36	3.00	21.00	−0.05	0.00	−0.08	0.16**	0.08	0.04	−0.04	0.05	0.07	0.00	0.86***	1.00			
(13) # foreign-born directors	0.63	0.96	0.00	5.00	0.04	−0.05	−0.02	0.02	−0.01	0.08	0.08	−0.00	0.02	0.06	0.29***	0.14**	1.00		
(14) Predecessor int. background	0.48	0.50	0.00	1.00	0.34***	0.05	0.09+	−0.01	−0.01	0.14**	−0.05	−0.05	−0.09+	0.09+	−0.07	−0.11*	0.05	1.00	
(15) Firm-level DOI	34.04	39.29	0.00	153.24	0.22***	0.20***	0.23***	0.12*	0.11*	−0.08	−0.06	0.03	0.08	−0.03	0.03	0.08	−0.04	0.20***	1.00
(16) Industry-level DOI	22.49	24.17	0.00	122.51	0.19***	0.14**	0.28***	−0.06	−0.02	−0.04	−0.01	−0.03	0.12*	0.07	−0.04	−0.00	−0.02	0.19***	0.46***

N = 363; + $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$.

that a 1-unit increase (decrease) in the independent variable leads to a 25% increased (decreased) likelihood of observing the outcome.

5.1 | Task demands and the new CEO's international background

Our first set of hypotheses relates to the task demands facing the CEO. Specifically, we argued that the international task demands reflected by the predecessor's background (H1), as well as the task demands of the firm's internal and external environments (H2 and H3), are associated with the likelihood that a firm chooses a CEO with an international background. Table 4 presents the results of this analysis. Notably, the new CEO's origin from outside the firm is positively related to the likelihood of the new

TABLE 4 Logistic regression: task demands and the new CEO's international background (all successions)

	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	54.938 (0.005)	54.750 (0.008)	105.251 (0.002)	48.490 (0.006)	69.048 (0.006)
Controls[a]					
Pre-succession firm ROA (t-3 to t-1)	1.064 (0.011)	1.068 (0.019)	1.059 (0.017)	1.065 (0.011)	1.065 (0.017)
Pre-succession firm MTB (t-3 to t-1)	1.085 (0.665)	0.926 (0.720)	0.836 (0.356)	0.901 (0.594)	0.751 (0.183)
Pre-succession firm size (t-3 to t-1)	0.750 (0.022)	0.675 (0.004)	0.668 (0.003)	0.750 (0.025)	0.633 (0.002)
Firm age (t)	1.007 (0.033)	1.006 (0.064)	1.006 (0.079)	1.007 (0.038)	1.006 (0.099)
Industry concentration	4.604 (0.066)	3.117 (0.189)	8.293 (0.016)	5.131 (0.055)	5.510 (0.060)
Predecessor power	1.010 (0.626)	1.022 (0.350)	1.020 (0.360)	1.013 (0.532)	1.031 (0.194)
Predecessor dismissal	0.383 (0.002)	0.363 (0.002)	0.370 (0.002)	0.419 (0.005)	0.371 (0.003)
New CEO education	0.623 (0.000)	0.611 (0.000)	0.615 (0.000)	0.594 (0.000)	0.607 (0.000)
New CEO origin (outsider)	5.115 (0.000)	5.306 (0.000)	5.466 (0.000)	4.728 (0.000)	5.365 (0.000)
Board of directors size	0.858 (0.159)	0.830 (0.108)	0.890 (0.304)	0.885 (0.264)	0.869 (0.235)
# independent directors	1.090 (0.450)	1.195 (0.153)	1.034 (0.780)	1.060 (0.616)	1.122 (0.371)
# foreign-born directors	1.184 (0.249)	1.099 (0.542)	1.184 (0.263)	1.164 (0.303)	1.117 (0.478)
Predictors					
Predecessor international background		5.686 (0.000)			4.586 (0.000)
Firm-level DOI (t-3 to t-1)			1.019 (0.000)		1.013 (0.005)
Industry-level DOI (t-3 to t-1)				1.019 (0.003)	1.006 (0.431)
Observations	363	363	363	363	363
Likelihood ratio chi square	121.20	157.01	143.56	131.04	170.09
p-Value	(.000)	(.000)	(.000)	(.000)	(.000)

[a] Coefficients represent odds ratios. Year fixed-effects included. Exact *p*-values in parentheses.

CEO having an international background (odds ratio = 5.115; $p = 0$), which is consistent with the results of the descriptive analysis. Specifically, new CEOs hired from outside are approximately 4.1 (5.115-1 = 4.115) times more likely to have international backgrounds than new CEOs from inside.

As shown in Models 2 through 4 of Table 4, we find empirical support for the first three hypotheses, which state that the new CEO's international background is positively related to the predecessor's international background, firm-level DOI, and industry-level DOI, respectively. As predicted in Hypothesis 1, Model 2 shows that predecessor international background is positively associated with the selection of a new CEO with an international background (odds ratio = 5.686; $p = 0$). The likelihood that a new CEO with an international background is appointed is approximately 4.7 times higher (5.686-1 = 4.686) if the predecessor had an international background, as compared to if the predecessor had no international background.

As predicted in Hypothesis 2, Model 3 indicates that the firm-level DOI is positively related to the likelihood of a new CEO with an international background (odds ratio = 1.019; $p = 0$). This means that a 1-unit increase in the firm-level DOI leads to roughly a 2% increase in the likelihood that a new CEO with an international background is appointed. For a 1-standard deviation increase in firm-level DOI, which would be a 39-unit increase (see Table 3), this would represent about a 75% increase (a standard deviation of 39.29 times the odds ratio of .019 equals .747) in the likelihood of selecting a new CEO with an international background.

Finally, Model 4 provides empirical support for Hypothesis 3, suggesting a positive relationship between industry-level DOI and the likelihood of selecting a new CEO with an international background (odds ratio = 1.019; $p = .003$). This means that a 1-unit increase in the industry-level DOI leads to a 2% increase in the likelihood that a new CEO with an international background is appointed. Using the standard deviation from Table 3, a 1-standard deviation increase in industry DOI would lead to a 46% increase (24.17*.019 = .459) in the likelihood that a new CEO with an international background is appointed.

We also estimated a model in which all three predictors were included (see Model 5 of Table 4). While the predecessor's international background (odds ratio = 4.586; $p = 0$) and firm-level DOI (odds ratio = 1.013; $p = .005$) are positively related to the new CEO's international background, the effect of industry-level DOI is not significant in this model (odds ratio = 1.006; $p = .431$). The neutralizing effects between firm- and industry-level DOI are probably a result of their high bivariate correlation ($\rho = 0.46$, $p = 0$). Given that international companies are more likely to operate in international industries than domestic firms, the high correlation between the two predictors is not surprising. Moreover, consistent with prior research arguing that characteristics of the firm have a more immediate influence on the selection of a new CEO (Kesner & Sebora, 1994), the effect of firm-level DOI on the probability of selecting a CEO with international background is stronger than the influence of industry-level DOI. Consequently, we observe two effects when adding both firm and industry effects to the same model: both variables lose predictive power, as they seem to cancel each other out, and only firm-level DOI remains as an important predictor of new CEO international background.

5.2 | The moderating role of the new CEO's origin

We now turn to the moderating role of the new CEO's origin, that is, the difference between new CEOs hired from inside versus outside the firm. In Hypothesis 4, we state that for CEOs hired from inside the firm, the firm-level DOI will be positively related to the likelihood of selecting a CEO with an international background (H4a), whereas for CEOs hired from outside the firm, the DOI of the firm's industry will be positively related to the likelihood of selecting a CEO with an international background (H4b). To test this hypothesis, we used subgroup analyses (Sharma, Durand, & Gur-Arie, 1981), similar to other recent studies (e.g. Klarner & Raisch, 2013).

TABLE 5 Logistic regression: task demands and the new CEO's international background (inside vs. outside successions)

	Inside successions Model 1a	Outside successions Model 1b
Constant	162.128 (0.012)	94.750 (0.229)
Controls[a]		
Pre-succession firm ROA (t-3 to t-1)	1.116 (0.023)	1.068 (0.321)
Pre-succession firm MTB (t-3 to t-1)	0.587 (0.103)	0.744 (0.627)
Pre-succession firm size (t-3 to t-1)	0.628 (0.008)	0.442 (0.072)
Firm age (t)	1.005 (0.266)	1.016 (0.101)
Industry concentration	4.289 (0.224)	6.299 (0.367)
Predecessor power	1.038 (0.215)	1.108 (0.059)
Predecessor dismissal	0.442 (0.054)	0.118 (0.023)
New CEO education	0.597 (0.000)	0.420 (0.007)
Board of directors size	0.824 (0.194)	1.221 (0.491)
# independent directors	1.216 (0.215)	0.877 (0.689)
# foreign-born directors	1.099 (0.620)	2.347 (0.097)
Predictors		
Predecessor international Background	5.672 (0.000)	5.297 (0.042)
Firm-level DOI (t-3 - t-1)	1.016 (0.002)	0.986 (0.337)
Industry-level DOI (t-3 - t-1)	1.001 (0.950)	1.068 (0.017)
Observations	240	123
Likelihood ratio chi square	112.18	61.43
p-Value	(.000)	(.000)

[a] Coefficients represent odds ratios. Year fixed-effects included. Exact *p*-values in parentheses.

Table 5 presents the results. Model 1a predicts the likelihood of selecting a CEO with an international background from inside the firm, whereas Model 1b predicts the likelihood of selecting a CEO with an international background from outside. While the predecessor's international background is important in both models (odds ratios = 5.672 and 5.297, respectively), we find notable differences between firm-level DOI and industry-level DOI. Firm-level DOI (but not industry-level DOI) predicts the likelihood of selecting a new CEO with an international background from inside the firm (odds ratio = 1.016; $p = .002$), whereas industry-level DOI (but not firm-level DOI) affects the likelihood of selecting a new CEO with an international background from outside (odds ratio = 1.068; $p = .017$). Based on the interpretative logic used above, this means that for inside successions, a 1-unit increase in firm-level DOI is associated with a 1.6% increase in the likelihood that a new CEO with an international background is appointed. For outside successions, a 1-unit increase

in industry-level DOI leads to a 6.8% increase in the likelihood that a new CEO with an international background is appointed. Overall, these results provide empirical support for the hypothesized moderation of the new CEO's origin.

6 | DISCUSSION

With this study, we set out to shed light on the antecedents of selecting a new CEO with international background, which is a contemporary, yet not well-understood, phenomenon in large corporations. The results support our arguments that the CEO's global strategy-related task demands in the internal and external context of the firm are positively related to the likelihood that, given that CEO succession occurs, a new CEO with an international background is selected. The results also support our arguments concerning the moderating role of the new CEO's origin: while internal context helps explain the selection of new CEOs with international backgrounds from inside the firm, external context helps explain the selection of new CEOs with international backgrounds from outside. Our study's insights make several contributions, open new questions for future research, and have implications for practitioners and consultants.

6.1 | Contributions

The study contributes to research on CEO selection and succession, specifically regarding the role of the CEO's international background in the firm's international development, as well as to the emerging literature on the microfoundations of global strategy. With respect to the former, our study helps bridge research from the fields of executive succession and international business. For example, while scholars in strategic management and international business have studied the international experience of executives, much of this research has dealt with the influence of international work experience on the career paths of managers (e.g., Bolino, 2007; Georgakakis et al., 2016; Stroh et al., 2005; Takeuchi et al., 2005). Many of these studies are focused on managers, expatriates, and individual-level outcomes. In contrast, our study contributes to the CEO selection literature, furthering understanding of the decision making that occurs when new CEOs are selected (Berns & Klarner, 2017; Busenbark et al., 2016; Kesner & Sebora, 1994).

Specifically, we complement prior research by shedding light on the role of the CEO's international background. Prior studies have explored various characteristics of new CEOs (Finkelstein et al., 2009; Kesner & Sebora, 1994). Yet, our knowledge about the new CEO's international background has remained limited. This seems particularly troublesome in a time in which accelerating globalization places increasing international task demands on organizational leaders in large corporations that are active in multiple geographic markets (Menz, Kunisch, & Collis, 2015; Nielsen & Nielsen, 2013; Unruh & Cabrera, 2013).

Our study also adds to research about CEO origin and labor markets (e.g., Zhang & Rajagopalan, 2003). We find that task demands arising from the firm's internal context, as well as those arising from its external context, are positively associated with selecting a new CEO with an international background. Moreover, while internal context helps explain the selection of new CEOs with an international background from inside the firm, external context especially helps explain the selection of new CEOs with international backgrounds from outside the firm. This finding complements previous studies' findings regarding internal and external executive labor markets. For example, studies of inside versus outside succession usually describe the "fit" between the firm's current resource profile and the demands of the environment, and they capture that fit with firm

performance (e.g., Finkelstein et al., 2009; Zhang & Rajagopalan, 2003). Our study is among the first to directly measure external task demands and link them to new CEO origin.

In addition to these contributions to research on CEO selection and succession, our study informs the literature on microfoundations of global strategy (Barney & Felin, 2013; Felin et al., 2015; Foss & Pedersen, 2014). A crucial concern in this area of research centers on the CEO's decisions and actions, such as those related to global operations and competitiveness. As fellow scholars have noted (Foss & Pedersen, 2014), there is little knowledge on the role of microfoundations in global strategy, and studies that examine the relationship between microfoundations and firm-level internationalization are rare. Our study of the selection of the most influential strategic leader, the CEO, with a focus on international background—perhaps the most obvious executive characteristic pertaining to a firm's global strategy—adds to understanding of the conditions under which firms opt for a CEO with an international background and, thus, for a key microfoundation of global strategy.

Our study further suggests that this specific microfoundation can have different origins. On the one hand, when a firm opts for an insider CEO, the extraordinary task demands arising from high firm-level internationalization are reflected in the choice of the CEO. On the other hand, when a firm opts for a CEO from outside the firm, the firm's industry internationalization plays a dominant role in selecting the new CEO.

In addition, our finding that the predecessor's international background is positively related to the new CEO's international background—both generally and for inside and outside successions—strongly supports the notion that there is some path-dependence in the development of the firm's microfoundations (Barney & Felin, 2013; Felin & Foss, 2005) and, specifically, that the microfoundations of a firm's global strategy are relatively stable over time. We find that the predecessor's international background plays a dominant role in determining whether the new CEO will have an international background or not. While this finding supports our argument that the predecessor's characteristics serve as proxies for the firm's task demands, it also points to other, more behavioral explanations for the development of microfoundation. First, the incumbent CEO, who may have influence on the views and decision processes of the directors (Cannella & Lubatkin, 1993), is usually interested in the continuation of the firm's (international) strategy and development path (Finkelstein et al., 2009). Second, following homophily theory, the incumbent CEO will be likely to favor an executive who has (demographic) characteristics similar to his/her own.

6.2 | Limitations and future research

This study has several limitations that, in turn, offer possibilities for future research. First, our sample is restricted to the U.S. context. By employing a sample with companies from various industries, we complied with the general request for using a more heterogeneous sample, as such findings might be more generalizable than studies on non-diversified U.S. manufacturing firms (Zhang & Rajagopalan, 2003). Nonetheless, it would be valuable to replicate and extend our research with studies in other contexts such as Europe and Asia.

Second, we used a demographic measure to capture the new CEO's international orientation and capabilities. Future studies may examine other dimensions, such as new CEO nationality as well as cognitive mind-sets (Nadkarni, Herrmann, & Perez, 2011). Some very large and quintessentially U.S. firms have recently appointed people who were born and (partly) raised outside the U.S. as their new CEOs. For example, in 2008, The Coca-Cola Company—for many *the* American company—appointed Turkish-American Muhtar Kent as the new CEO, while the India-born Indra Nooyi took the helm at PepsiCo in 2006. In contrast to acquiring diverse cultural experiences through international assignments, national culture may have a more deeply rooted impact on

executive mind-sets (Geletkanycz, 1997) and, together with the formal and informal institutions of the home country, on their interpretations and responses to strategic situations (Hambrick & Mason, 1984; Schneider & De Meyer, 1991). Thus, selecting a new CEO of a foreign nationality might imply a very strong signal. Thus, future research may focus on examining CEO nationality among U.S. corporations (in our sample some 11% of the new CEOs were born abroad).

Third, future research could benefit from also considering the role of the agents involved in the selection process. For example, power dynamics between the board, shareholders, and the incumbent CEO influence the choice of the successor (Berns & Klarner, 2017; Shen & Cannella, 2002; Vancil, 1987; Zajac & Westphal, 1996). For example, as noted earlier, people tend to prefer others who are similar to themselves and, thus, the characteristics of those responsible for the succession process (e.g., the international experience of board members) might play an important role when investigating the characteristics of the newly selected CEO (Zajac & Westphal, 1996). While the selection process was not the focus of this article, future research should assess the agents in charge of the succession process.

Related, the firms' governance structures may affect the choice of new CEOs. In particular, international shareholders that hold a significant "block" of a firm's outstanding shares (i.e., at least 5%) may be able to exert significant influence on the strategy and structure of a firm and, consequently, on the selection of new organizational leaders (Finkelstein et al., 2009; Sanders & Carpenter, 1998).

Finally, there is a great opportunity to extend the study of executives' international background to top managers other than the CEO, including functional and divisional managers (Menz, 2012). On the one hand, scholars should examine under which conditions a specific functional top executive's international background is beneficial, particularly given the increasing prevalence of some of the specialized functional executive roles in top management, such as chief strategy officers, chief digital officers, and chief information officers (e.g., Kunisch, Müller-Stewens, & Campbell, 2014; Menz & Scheef, 2014; Singh & Hess, 2017). On the other hand, future research in this vein should consider that over the past decades, the CEO role has become increasingly demanding and that the CEOs in contemporary corporations often receive support from the COO (Hambrick & Cannella, 2004) or even have a co-CEO (Krause, Priem, & Love, 2015) for various strategic leadership tasks. These structures give rise to questions of how the international background should be distributed between the different executives and whether a lack of international experience of one top manager can be compensated by the experience of another.

6.3 | Practical implications

Although more research lies ahead, we believe that the findings of our study hold a couple of important considerations for those who are in the position to search for, select, and appoint new CEOs in large firms, such as members of the board of directors and (executive search) consultants. First, if a company seeks to expand globally, selecting an international CEO appears to be a promising option for that endeavor. In contrast, if international expansion is not part of the company's strategy, the firm needs to assess whether a CEO with an extensive international résumé is the best candidate.

Second, the number of international CEOs that come from outside the firm further suggests that multinational companies lack adequate internal candidates. Consequently, as firms acknowledge the importance of having executives who align with their international task demands, they may elect to hire from outside the firm than appoint an inside candidate without adequate international experience. This also implies that internationally oriented companies, in particular, should improve their executive development programs to increase their internal pools of suitable candidates. Given the amount of outside successors with international experience, the results of this study also suggest that

it may enhance employees' likelihood of being selected to the top position at another international firm.

In addition, there are implications for future executives seeking promotion to their companies' top position. As globalization advances, many firms appear to have an increasing demand for executives with explicit global awareness and international management skills and, in turn, these managers are more likely to be promoted (Bolino, 2007). Depending on the firm and industry characteristics, executives' chances of being considered for and eventually appointed to CEO positions may increase with their international experience. Indeed, while a multi-year assignment at one of the firm's foreign operations or sales subsidiaries is considered a requirement to qualify for a senior executive position in many firms, international experience may in fact soon become the standard for becoming the CEO of a contemporary firm.

7 | CONCLUSION

Given the globalization of business activities and global competition facing many large firms, we need to learn more about the role of international experience in the CEO office. This study attempted to shed new light on this topic. Specifically, our study was designed to contribute to understanding about the role of CEO international background as one of the key microfoundations of global strategy. Our analysis of a sample of 363 CEO successions in S&P 500 firms over a 10-year time frame revealed that although the international task demands facing new CEOs are generally important when making choices of the new CEO's international background, the specific circumstances of the succession event, namely the CEO's origin, also have an influence. We hope this study will spur additional research to advance our understanding of the phenomenon of the new CEO's international background.

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