SCISPACE
formerly Typeset

Open access • Journal Article • DOI:10.1111/J.1467-8683.2011.00859.X

Board Influence on a Firm's Internationalization — Source link

Carmen Barroso, Ma del Mar Villegas, Leticia Pérez-Calero

Institutions: University of Seville

Published on: 01 Jul 2011 - Corporate Governance: An International Review (Blackwell Publishing Ltd)

Topics: Corporate governance, Competitive advantage, Internationalization and Empirical research

Related papers:

- Boards of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives
- Theory of the firm: Managerial behavior, agency costs and ownership structure
- The External Control of Organizations: A Resource Dependence Perspective
- Internationalization and Firm Governance: The Roles of CEO Compensation, Top Team Composition, and Board Structure
- Experience-Based Human Capital and Social Capital of Outside Directors

Share this paper:

View more about this paper here: https://typeset.io/papers/board-influence-on-a-firm-s-internationalization-4lr16718fn

BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION
Carmen Barroso, Mª Mar Villegas, Leticia Pérez-Calero

► To cite this version:

Carmen Barroso, Mª Mar Villegas, Leticia Pérez-Calero. BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION. Corporate Governance: An International Review, Wiley, 2011, 19 (4), pp.351. 10.1111/j.1467-8683.2011.00859.x . hal-00649894

HAL Id: hal-00649894
https://hal.archives-ouvertes.fr/hal-00649894

Submitted on 9 Dec 2011

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Corporate Governance
An International Review

BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION

Journal:	*Corporate Governance: An International Review*
Manuscript ID:	CGIR-2010-0168.R7
Manuscript Type:	Original Manuscript
Keywords:	Board Composition < Board of Director Mechanisms, Board Processes < Board of Director Mechanisms, Resource-Based Theory < Corporate Governance Theories

SCHOLARONE™
Manuscripts

BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION

Manuscript Type: Empirical

Research Question/Issues: The resource-based view of the firm may provide the theoretical explanation as to how boards can be a source of firm competitive advantage. Directors' experience, knowledge, expertise are valuable, rare, inimitable and non-substitutable resources that making up the board potential. These resources must be integrated with others firm resources in strategic processes through dynamics of relations.

Research Findings/Insights: Given the preliminary nature of this work, the empirical section is an exclusive analysis of the board's potential. Our specific aim is to establish whether resources that directors bring to board are sources of board competence and ability with consequences for international strategic decisions. To do this, we use a sample of 562 board members of 45 listed Spanish companies. Our results show that the average board tenure is negatively related to the firm's degree of international diversification. Directors with long tenures may operate from the basis of routines that are built up over time and their knowledge of the firm could eventually become a less valuable resource. The empirical findings also indicate that the directors' managerial experience within the specific industry to which the firm belongs and a high level of academic achievement, affects the firm's degree of international diversification.

Theoretical/Academic Implications: The contribution of this article is three-fold; it emphasizes the role of directors in the board effectiveness, investigating why and how relevant elements of directors' human capital can enhance board ability to perform their roles making up the board potential. Secondly, it refines and extends the concept of "board capability" as an adequate configuration of potential and relationship dynamics that allow board to undertake their task competently over the time. Third, this article stresses the active participation of board in firm internationalization.

Practitioner/Policy Implications: One of the important practical implications of these results refers to the selection of board members. In order to increase board effectiveness, in the context of firm internationalization, the selection process must be guided by the search of intangibles, inimitable and unique resources, which the board can capitalize on in order to differentiate its potential over competitors.

Keywords: Corporate Governance, Directors' Resources, Board Capability, Board Potential, Internationalization.

Review Copy

BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION

INTRODUCTION

The influence of the board on a firm's behavior constitutes an extremely fruitful line of investigation (Deutsch, 2005). The literature in the field of company management describes the importance of the link between the board of directors and results (Demb & Neubauer, 1992; Kiel & Nicholson, 2005; Sonnenfeld, 2002; Westphal & Bednar, 2005), leading to the suggestion that "the character of companies in the coming years will be decided, in large measure, on how well boards can improve their own effectiveness" (Bird, Buchanan & Rogers, 2004:132). On the other hand, the ongoing globalization process has dramatically changed the business landscape. Internationalization strategies have never been more important; today's business world boundaries are increasingly global, encouraging firms to develop a commanding international presence. Under the circumstances, firms need effective boards for an appropriate decision making on internationalization.

Review Copy

What is meant by an effective board and what behaviors make a board effective as a governance mechanism are some of the most fundamental questions concerning today's corporate governance (Conger, Lawler & Finegold, 2001; De la Rosa, 2006; Nicholson & Kiel, 2004a; Schmidt & Brauer, 2006). Much of the corporate governance literature refers to the board's effectiveness in ensuring the company's prosperity, enabling the company to move closer to its goals (Aguilera, 2005; Nicholson & Kiel, 2004a; Pye & Pettigrew, 2005), while it emphasizes the important role of the board in the firm's corporate strategic orientation (Hendry & Kiel, 2004; Pugliese, Bezemer, Zattoni, Huse, Van den Bosch & Volberda, 2009). However, despite the importance of board on key organizational outcomes and the high degree of international expansion that many firms have experienced in recent years, there are few studies that link board to an organizational outcome such as a firm's internationalization (Rivas, Hamori & Mayo, 2009).

Sanders and Carpenter (1998) argue that firms respond to international complexity through their governing bodies. The importance of having top managers who know about and understand the logic and dynamics of the firm's foreign markets and global business environment has been discussed for decades by practitioners and researchers alike (Herrmann & Datta, 2005; Luo, 2005; Nielsen, 2010; Nielsen & Nielsen, 2009). Apart from this aspect, however, board influence on the firms' degree of international diversification has been overlooked. Thus, whether and how board and the directors' characteristics affect the degree of a firm's internationalization remains an open question that deserves further exploration. In this study we attempt to bridge this empirical gap by examining how the board of directors influences the extent of international expansion.

The Uppsala internationalization process model (Johanson & Vahlne, 1977) emphasizes the use of experimental knowledge in expanding and managing firms' international operations. The role learning from experience can play in the process of gradually increasing the level of international involvement has been studied in the internationalization literature. However, the impact of directors' level of knowledge and expertise remains largely unexplored (Nielsen, 2010). In other words, the board members characteristics those shape their ability to advise managers effectively on international strategic decisions remains pretty much unexplored.

From our point of view, the effectiveness of the board depends as much on the knowledge, experience, education, and expertise of their directors as on the relationship dynamics that are generated on the board. This prompts us to refine and extend, from the resource-based view (RBV), the concept of "board capability" (Macus, 2008) as an adequate configuration of potential (measured by the resources that directors bring to board) and the relationship dynamics/interactions that allow boards to undertake their tasks competently over time. This article suggests that the knowledge, experience, education and expertise of

Review Copy

their directors are important sources of competence and ability to deal with the complexity of globalization. Based on these arguments, this work focuses on the study of boards' effectiveness in driving forward the firms's degree of international diversification.

The contribution of this article is three-fold; it emphasizes the role of directors in the board effectiveness, investigating why and how relevant elements of directors' human capital can enhance board ability to perform their roles making up the board potential. Secondly, it refines and extends the concept of "board capability" as an adequate configuration of potential and relations dynamics that allow board to undertake their task competently over the time. Third, this article stresses the active participation of board in firm internationalization. Therefore implications of this piece of research are important for executives and scholars alike seeking an understanding of how resources that directors bring to board can influence on the firms' degree of international diversification.

This paper is structured as follows. The first section explains why we have chosen this theme, and sets out our aims. In subsequent sections we carry out a literature review that enables us to propose a set of hypotheses. The final section sets out the empirical evidence, as well as our analysis and interpretation of the data obtained.

Review Copy

LITERATURE REVIEW

The effectiveness of the board is a key variable in the current study of corporate governance, as a recent review showed (Petrovic, 2008). The most of the literature agrees on the definition of effectiveness as the board's ability to perform its service and control roles effectively, adding value to the company (Aguilera, 2005; Murphy & McIntyre, 2007).

The literature has traditionally assigned three roles to the board of directors: control; service/collaboration; and the provision of resources (Johnson, Ellstrand & Daily, 1996). Each of these roles has been independently analyzed and justified from different theoretical perspectives (Bennett & Robson, 2004). Thus, agency theory has emphasized the role of control (Langevoort, 2001; Sundaramurthy & Lewis, 2003); the stewardship perspective has stressed service role (Donaldson, 1990; Donaldson & Davis, 1991, 1994) and the resource dependency perspective takes a view on the board as a means for providing resources and protection (Goodstein, Gautam & Boeker, 1994; Hillman, Cannella & Paetzold, 2000; Kakabadse, Kakabadse & Kouszmin, 2001; Pearce & Zahra, 1991; Pfeffer & Salancik, 1978). The resource dependency theory has recently been further enhanced by contributions from the social network perspective (Carpenter & Westphal, 2001; Westphal, 1999). Despite these studies, a significant number of authors believe that the distinction between the roles of the board is unclear and that there is no real difference between them (Hendry & Kiel, 2004; Hillman & Dalziel, 2003; Stiles & Taylor, 2001). Moreover, they point out that boards carry out several roles at once (Hillman & Dalziel, 2003; Lynall, Golden & Hillman, 2003; Macus, 2008; Roberts, McNulty & Stiles, 2005).

To summarize, agency theory, while providing a sound theoretical mechanism for the external monitoring of a firm's management by its directors, does not account for the wide range of other attributes that directors bring to the boardroom besides their non-employment relationship with the firm. The resource dependency theory provides a mechanism whereby firms have links to critical resources from the environment through the affiliations of its directors and tends to emphasize the economic nature of these resources. Furthermore, these are often regarded as tangible resources. The board's role in the provision of resources includes providing legitimacy, administering advice and counselling, acting as a link to important stakeholders or other significant bodies, facilitating access to resources such as capital, building external relations, and so forth. Hillman and Dalziel (2003) have proposed a theoretical model, which combines both of these perspectives. They argue that board capital (human and relational capital) positively influences all functions of the board: service, monitoring and the provision of resources. Moreover, they argue that in order to make the

Review Copy

best decisions; directors need motivation and ability in the form of relevant experience, knowledge and skills (Tian, Haleblian & Rajagopalan, 2010).

Kor and Sundaramurthy (2009) contributed to this line of research by developing a theory on how particular elements of directors' human and social capital can enhance their ability to perform their advisory and governance duties. They focus on directors' collective human and social capital, which is affected not only by individuals' skills, knowledge, and connections, but also by the bundle or combination of skills. However, they do not specify the integration of resources with the firm's internal processes. The resource-based view may offer such a theoretical perspective by looking at how the attributes that directors bring to the firm are used and by providing an explanation of how the board's resources are integrated with the firm's internal processes, to produce outcomes that are unique to the firm. Therefore, in this study we propose the resource-based view of the firm (RBV) may provide the theoretical explanation as to how boards perform their different roles.

Some studies start with the premise that boards' behavior can be inferred from their composition and structure (Finkelstein & Hambrick, 1990; Hambrick & Mason, 1984; Pfeffer, 1983), and study boards as black boxes, relating board demography directly to company performance. These works focus on the "usual suspects": insider/outsider ratios, board size, directors' shareholding and CEO-Chairperson duality, all of them easily accessible to researchers. The inconclusive empirical results of such studies (Daily, Dalton & Cannella, 2003; Dalton, Daily, Ellstrand & Johnson, 1998; Johnson et al., 1996) have emphasised the need to examine in greater depth the psychosocial processes and the relationship dynamics within boards of directors (Finkelstein & Mooney, 2003; Gabrielsson & Huse, 2004; Pye & Pettigrew, 2005), together with the social and human capital inherent to them (Carpenter, Sanders & Gregersen, 2001, Kim & Cannella, 2008; Nicholson & Kiel, 2004b).

Review Copy

Thus, Forbes and Milliken (1999) view the board as a social system with unique characteristics and point out that its effectiveness depends, to a large extent, on the psychosocial processes at work in every decision-making group. Subsequent works have confirmed the importance of these variables (Van Ees, Van der Laan & Postma, 2008; Wan & Ong, 2005; Zona & Zattoni, 2007) and have highlighted the importance of relationships within the board when it comes to explaining its performance (Mcdonagh, 2006; Nadler, 2004; Sonnenfeld, 2002; Van den Berghe & Baelden, 2005). Relationship dynamics on boards need to be understood in a broad sense, including dynamics among directors, between directors and the firm's management and between directors and external constituencies (Huse, 2005; Macus, 2008). On the other hand, Nicholson and Kiel (2004b) said that boards carry out their roles when individuals apply their knowledge, skills and abilities (human capital) to the task at hand. This makes the board's human capital the starting point in understanding the transformation process of the board.

We consider that the knowledge, experience and expertise accumulated by directors may be a resource that is integrated with firm strategies in ways that produce positive performance results. The RBV (Barney, 1991; Eisenhardt & Martin, 2000; Grant, 1991) suggests that sustained competitive advantage stems from the integration of resources in unique ways that competitors find difficult to replicate. The resources that directors bring along may be considered part of the intangible resource base of the firm and may integrate themselves to provide firms with the capabilities that are the root of sustainable competitive advantage.

The RBV has established that a firm's various tangible and intangible resources need to be dynamically reconfigured for a firm to be able to enjoy the performance benefits inherent in its resources. The idea that board interactions determine the extent to which the board's problem-solving potential can be realized is closely related to the concept of

Review Copy

capability in the RBV. Capabilities allow the firm to address and resolve a particular issue or problem and to do so better than its competitors (Eisenhardt & Martin, 2000; Grant, 1991). A firm's resources and the internal processes coordinating them are the basic building blocks of capabilities because they interact in complex patterns, which allow the firm's problems to be resolved. Thus in the context of this paper, board capability can be understood as the combination of a board's potential and interactions, which allow a variety of tasks to be completed competently over time. Board capabilities consist of two interdependent elements: its potential and the interactions of the board. Board potential incorporates the individual directors' potential to carry out the board's various tasks and board interactions are those relationship dinamics that bring the individual directors' problem-solving potential to bear on a particular task. In view of the arguments set out, we refine and extend, from the resource-based view, that the concept of "board capability" (Macus, 2008) is an appropriate configuration of potential and the relationship dynamics that allow boards to undertake their tasks competently over time.

In this way, we consider that the resources that directors bring to board determine its potential, and they must be considered as necessary resources to achieve an effective board. Relationship dynamics are currently viewed as an enabling factor to allow the board's potential to be put to use (Macus, 2008; Nicholson & Kiel, 2004a, 2004b). Reciprocally, relationship dynamics will empower the effectiveness of these resources. In this study, we begin this line of research by focusing exclusively on the board's potential. In summary, the RBV may offer such a theoretical perspective by addressing the utilization of resources that directors bring to the firm and by providing an explanation as to how board resources are integrated with a firm internal processes to produce outcomes that are unique to the firm.

On the other hand, the debate on board's strategic contributions dates as far back as the 1970s. Some scholars have viewed the contribution of board to strategy as fairly limited

Review Copy

while others have argued that the board is legally responsible (Yawson, 2006) and must contribute to strategy (Carpenter & Westphal, 2001). Today strategic involvement is widely recognised as one of the major roles of a board (Hendry & Kiel, 2004; McNulty & Pettigrew, 1999; Pugliese et al., 2009; Zahra & Pearce, 1990). In spite of these findings, relatively little is known about the relationship between corporate governance and internationalization. As we have stated before, previous studies have analyzed the influence of the TMT in the firm's international behavior (Athanassiou & Nigh, 2002; Reuber & Fischer, 1997) and the link between the demographic characteristics of the board (overall percentage of outside/inside directors or board size) and variables of firm internationalization (Burgess & Tharenou, 2002; Sanders & Carpenter, 1998; Tihanyi, Johnson, Hoskisson & Hitt, 2003; Zahra, Neubaum & Naldi, 2007). Others have analyzed the board's relationships within international context (Gabrielsson, 2007; Ward & Feldman, 2008), underlining the importance of the board's effectiveness in this context. Sanders and Carpenter (1998) state that firms respond to international complexity through their bodies of governance. These studies do not specify the concept of board potential, and this leaves therefore ample room for a more detailed investigation into the role of this governing body in a firm and how it adapts to the international environment.

THEORETICAL DEVELOPMENT

The behavioral theory of the firm (BTOF) (Cyert & March, 1963) stresses the limitations of human cognition and emphasizes how such limitations affect firm decision-making and behavior. Based on these arguments, the upper echelon perspective postulates that the strategic choice is made on the basis of managers' perception of a situation, which is determined by their background characteristics. On the other hand, the internationalization process model emphasizes the role of human limitations in making strategic choices and places experience of the firm at the focus of the theory (Melin, 1992). This perspective

Review Copy

largely ignores the role of knowledge and experiences in the process of firm internationalization (Nielsen & Nielsen, 2009; Nielsen, 2010).

In this work we propose that the intangible resources directors bring along such as experience and expertise (board potential) are very valuable for board effectiveness. The RBV suggests that resources which are valuable, rare, inimitable and non-substitutable provide the basis for developing capabilities that distinguish firms from one another. The intangible resources that directors bring to the firm may be integrated in unique ways that result in superior firm performance. Directors bring to the firm a variety of resources that may make boards different across firms. Furthermore, this distribution of directors' background, skills and expertise suggests that board capabilities are heterogeneously distributed across firms. This heterogeneity implies that 1) boards may vary significantly on the level of critical governance resources they bring to the firm; 2) some resources may be more critical to one specific firm than others. The conditions of value, rarity, inimitability and non-substitutability may apply to the unique combination that exists on a firm's board. In other words, resources directors bring to the board may be a source of "board capability".

Figure 1 shows the model proposed for our research. In line with earlier works (Hillman & Dalziel, 2003; Kor & Sundaramurthy, 2009; Minichilli & Hansen, 2007; Petrovic, 2008; Pugliese & Wenstøp, 2007), we show directors' contribution to board potential, driving its effectiveness towards internationalization.

Insert Figure 1 about here

Board Potential

Our model proposes that a board's potential comprises the set of resources necessary to develop board effectiveness. The resource-based view (Barney 1991; Grant, 1991; Hillman et al., 2000) suggests that not only do board members contribute resources through their

Review Copy

interactions, but that they themselves are resources for the firm, and will be regarded as being of greater or lesser value in view of their own competence, knowledge or experience (Barney, 1991). Thus board members could be evaluated based on their contribution to the creation of a sustainable competitive advantage through their personal and professional qualities (Huse, 2005; Pugliese & Wenstøp, 2007). Moreover, it is very difficult for competitors to imitate characteristics such as board members' knowledge and experience etc., compared to other attributes of the board's composition, such as board size or insider/outsider ratios, which are more easily imitable and therefore less powerful when creating a sustainable competitive advantage (Ortíz, Aragón & Gomez, 2009). In a very similar argument, from the knowledge management perspective (Pugliese & Wenstøp, 2007), members of the board could be regarded as experts who use the experience they have gained in previous posts to resolve strategic problems (Rindova, 1999; Zahra & Filatotchev, 2004). Furthermore, in complex environments, it is even more important to make use of expert knowledge, experience and information (Rindova, 1999). Finally, boards of directors play an important part in the management of the firm, as they take an active role in the choice and implementation of strategic decisions, advising management and observing the consequences of those decisions (Haunschild, 1993).

Because firms differ on resources and capabilities they possess and how they manage these resources, experimental board members' knowledge of the firm can be critical for enhancing directors' ability to perform their monitoring and advising roles (Kor & Sundaramurthy, 2009). Fama and Jensen (1983) and Gabrielsson and Winlund (2000) demonstrate that the extent of the board members' knowledge of the firm determines how it fulfils its function of control. Likewise, in-depth knowledge of the firm has been recognised as an important resource regarding the extent of board strategic involvement (Kor &

Review Copy

Sundaramurthy, 2009; Minichilli & Hansen, 2007; Pugliese & Wenstøp, 2007; Zahra & Pearce, 1990).

On the other hand, directors' industry-specific experience shape directors' thinking, frame of reference and perceptions and allow them to develop specific skills and knowledge about how an industry operates. Having an understanding of the industry in which the firm competes is essential to directors' involvement in strategic decision making (Kroll, Walters & Wright, 2008; Pugliese & Wenstøp, 2007; Westphal & Fredrickson, 2001).

We therefore consider that *the board members' knowledge of the firm; their skills and experience* are the essential attributes of the board's potential. Based on these arguments, we propose the following overarching proposition as the starting point for our investigation.

Overarching proposition. The board members' level of knowledge, their experience and developed skills, help to define board's potential and is positively related to the firm's degree of international diversification.

This proposition will be explored by five subsequent hypotheses.

In general terms, it could be assumed that a board member's level of knowledge about the firm would increase with tenure. The RBV (Barney 1991; Grant, 1991; Hillman, Cannella & Paetzold, 2000) suggests board members are resources for the firm, and will be regarded as being of greater or lesser value in view of their own competence, knowledge or experience (Barney, 1991). Certainly a long tenure on a board brings with it positive aspects, such as those mentioned above.

However, along with these positive connotations, more significantly, negative aspects can appear. In this respect, the RBV assume the well-known key concepts of bounded rationality and routine on decision making (Amit & Schoemaker, 1993; Argote & Greve, 2007; Barney, 1991; Nelson & Winter, 1982).

Review Copy

In this context, Barney (1991) refers to bounded rationality. If managers completely understood their resources and those of others, then we would expect almost all advantage to be competed away –the 'no rules for riches' problem. In order to resolve this problem, Barney assumes that managers do not understand their resources, which is a form of bounded rationality (Bromiley & Papenhausen, 2003).

The firm's management acquires a critical role for the RBV (Madhok, 1997), as it takes charge not only of the use of existing resources, but also responsibility for the development of new ones (Spender, 1996). In this way the view of firm management is similar to that defended by proponents of BTOF, for whom management is the decision-maker –with bounded rationality– whose behavior is conditioned by the firm's circumstances and its environment and which is driven by a set of rules or norms of action concretized in organizational routines (Simon, 1955). Amit and Schoemaker (1993) not only take up Simon's concept, but, furthermore, they indicate the existence of a complementarity between RBV and BTOF, so that business decisions relating to resources and capabilities develop within a framework characterized by 1) environmental uncertainty; 2) complexity; and 3) the conflict of interest between members of the organization (Amit & Schoemaker, 1993).

A second key concept that recent research has brought to the fore is that boards of directors operate from the basis of "routines" that are built up over time (Nelson & Winter, 1982; Ocasio, 1999; Zahra & Filatotchev, 2004). The implication is that routine of decision making is an important source of stability, which both enables and constrains organizational action. Nelson and Winter (1982) also adhere to the idea of bounded rationality when they consider that the set of routines available to the firms limits its possible actions. For these authors, routines form a previously learned menu of patterns of action and the decision consists of choosing one option from the routine menu (Winter, 1995); in other words, the firm will only be able to take those actions allowed by their organizational routines. These

Review Copy

routines have been formed slowly over time, since they depend on past actions, just as future decisions depend on current ones, thus the trajectory of the firm becomes another element which confirms the existence of bounded rationality. This development of routines based on organizational learning can lead to problems of myopia, since determined learning processes tend to reinforce past behaviors (Levinthal, 1995; Levinthal & March, 1993), which presents clear proof of the existence of the decision-maker's limited rationality.

Under these arguments directors with exceptionally long tenures are influenced by their own beliefs and schemes when it comes to facing key decisions such as an internationalization strategy and their knowledge of the firm could eventually become a less valuable resource.

In this respect some studies suggest that long tenures are associated with a higher resistance to change (Musteen, Barker & Baeten, 2006; Wiersema & Bantel, 1992). Moreover, acording to Vafeas (2003), board members who serve longer on the board and who therefore have greater experience are more likely to form friendships and less likely to supervise the management. Additionally, Katz (1982) considers that when board members are in their post for a long time, communication within the group is reduced and, as a result, isolated groups form, which hold key information. At the international level, Golden and Zajac (2001) show that boards with long-serving members are not keen on strategic change; therefore they will be reluctant to introduce innovative strategies, which include internationalization. These authors suggest that extended tenure of board members is associated with a greater rigidity, and can result in trenching behind existing practices and procedures, with directors distancing themselves from new ideas. In this sense Katz (1982) states that boards with long tenure are likely to be rigidly committed to the current strategy. We therefore consider that they will be reluctant to embrace new internationalization strategies.

Review Copy

Likewise, the National Association of Corporate Directors (NACD, 1996) indicates that the replacement of board members is an important challenge and argues that the changing commercial conditions that may be faced when it comes to internationalization may require changes in the board. It demonstrates that long tenure reduces communication within the board and creates isolated groups with key sources of information that will not be shared. The mentioned association proposes a maximum of 10 to 15 years' service on the board in order to gain new, fresh ideas that, in our view, would favour internationalization. On the basis of these arguments, we propose the following hypothesis:

Hypothesis 1. Board members' firm tenure is negatively related to the firm's degree of international diversification.

The experience of board members as CEOs or general managers of other companies becomes too an important resource that allows them to develop their strategic role on the board. Rindova (1999) points out that thanks to their previous professional experiences as CEOs, most directors have developed strategic problem-solving skills, which enable them to carry out their strategic work on the board of another firm.

According to the RBV (Barney, 1991), directors with experience as CEOs of other companies have developed a tacit knowledge, which is not readily available from secondary sources and is difficult to imitate. Intangible resources brought to the board by its directors, in the form of knowledge, experience and expertise, may be uniquely integrated with resources at the firm level to create core competencies. The causal ambiguity and social complexity associated with CEOs' experience may make it even more difficult for other companies to imitate this unique resource.

We contend that board members' experience as chief executives has to be considered as a valuable and inimitable resource; part of a board's human capital. This resource is even more valuable when bundled with others in a complementary fashion. The results

Review Copy

demonstrate that board members act as the medium for improving access to information that is vital for identifying the opportunities and threats affecting the firm, thanks to their broad experience as chief executives of other companies. These experienced board members can assist management in the formulation and revision of their strategic actions (Harrison, 1987), including their internationalization strategies.

Likewise, directors that are or have been CEOs of other firms can be a source of external variety on the board (Rindova, 1999). Overall, the appointment of CEOs from other firms to the board increases the range of perspectives and interpretations and reduces internal biases in the board's strategic decision-making process. Directors' experience in another firm may eliminate competitive "blind spots" (Zajac & Bazerman, 1991) and may be crucial for ensuring the firm's competitiveness, which benefits from the discussion of entrepreneurial issues on the board. CEOs of other companies might also belong to elite, which in turn provides access to other resources (Jaw & Lin, 2009; Useem, 1982). Company CEOs are the most powerful and influential individuals within the business environment; this powerful and unified group of executives are able to develop relationships with other members of the corporate elite, giving them access to a wide range of powerful individuals and organizations. In summary, experience as a CEO captures a broad range of the skill sets and network resources available to boards (Carpenter et al., 2001). The performance of global firms depends on their ability to cope with heterogeneous cultural, institutional, and competitive environments (Ricks, Toyne & Martínez, 1990). This complexity is likely to make CEOs of other firms an invaluable resource. Their range of experience in other firms enables them to bring inimitable knowledge, worldviews, and professional ties that give them a greater ability to manage the complex operations of a multinational company. Individuals adhere to the code of thinking typical of their professional area (Blau & McKinley, 1979), and CEOs with a broad background (not drawn to any particular functional area) and stronger networks will be

Review Copy

better able to deal with the environmental complexities that accompany internationalization (Sanders & Carpenter, 1998). For these reasons, we propose the following working hypothesis:

Hypothesis 2. Board members' experience in chief executive positions is positively related to the firm's degree of international diversification.

With regard to directors' industry-specific experience, we start from the premise that the environment for international firms is often more difficult and complex for decision-making (Prahalad, 1990). We can therefore be confident that the evaluation of the strategic decisions is largely made on the basis of the implicit theories that have been developed with regards to firm's current environment (Carpenter & Westphal, 2001). Kroll, Walters and Le (2007) suggest that the members of the board with experience in the industry to which the firm belongs, rather than across different industries, have developed robust knowledge structures of the firm's environment (Day & Lord, 1992) and consequently should be in a superior position to advice the management about international strategic decisions. This industry-specific knowledge of the directors can help them detect emerging opportunities in the industry and evaluate managers' proposals for growth (Castanias & Helfat, 2001). Equally important, through positions in an industry, directors have developed goodwill and connections with industry players (supplers, distributors, major customer), through which directors can help the firm acquire critical resources for international growth strategies (Kor & Sundaramurthy, 2009). We therefore propose that the previous experience of directors in the same industry is likely to bring along specific knowledge and skills, as well as network relations, which may help board strategic decision-making in the future.

Hypothesis 3. Board members' specific experience in the industry to which the firm's belongs is positively related to the firm's degree of international diversification.

Review Copy

Directors' international background represents specific tacit knowledge, which constitutes some of the most difficult to imitate resources (Barney, 1991). Companies may enhance their ability to deal with challenges in the international environment by appointing members of the board with particular characteristics, skills, or experiences that are sought after in the internationalization process. Board members' international experience could be an attractive feature to other firms that are interested in acquiring such tacit knowledge.

It is important to point out that many works have covered the role of top management teams in the firm's international behavior (Athanassiou & Nigh, 2002; Peyrefitte, Fadil & Thomas, 2002; Reuber & Fischer, 1997; Sambharya, 1996), establishing links between TMT international experience and firm internationalization, but few works have considered the influence of the board on the firm's internationalization. Board members with experience in international markets provide useful connections to existing institutions, companies and networks in foreign markets. They also facilitate the gathering, analysis and interpretation of information about opportunities around the globe. Therefore, they can play a critical supporting role in decision-making processes about international business opportunities (Zahra et al., 2007).

Review Copy

Human capital, defined as resources that are embedded within people, also refers to the investment undertaken by individuals in the form of education and training. Directors with an international educational background will have a more open-minded attitude towards other cultures. Thus, directors with foreign education may be more aware of international issues and may be more inclined to look at international opportunities in a favourable way. Consequently, we consider board members' international experience and international educational background is positively related to the level of international development achieved by the firms that they govern.

Therefore,

Hypothesis 4. Board members' international background is positively related to the firm's degree of international diversification.

Finally, board members' academic achievements determine their skills and knowledge level. Specific human capital refers to the accumulation of skills and knowledge necessary to perform a specific task. Having a high educational level is likely to provide additional human capital and be regarded as an asset by business firms. Many authors (Bennett & Robson, 2004; Handy, 1987; Hendry, Jones, Arthur & Pettigrew, 1991; Kirby, 1991) have identified relatively low levels of education as a general shortcoming in the proper functioning of the firm. However, if the board members are highly educated, they are more likely to participate in the firm's international strategies since there is a positive relationship between higher levels of education among directors and their readiness to use external information, the creation of networks, the use of external consultants, or a closer monitoring of the firm's accounting systems (Crabtree & Gomolka, 1991). Individuals with high education are better able to contribute to finding creative solutions to the organization that they represent (Wincent, Sergey & Håkan, 2009). Such investments are instrumental in acquiring, using and mastering knowledge and developing insights in methods that support thought-full decision (Gradstein & Justman, 2000). Greater educational level is also associated with receptivity to innovation and tolerance for ambiguity (Goll, Brown, Johnson & Rasheed, 2007), both fundamental aspects when board members deal with the strategic change that involves the firm internationalization.

Our working hypothesis therefore will be:

Hypothesis 5. The board members' level of academic achievement is positively related to the firm's degree of international diversification.

METHODOLOGY

Review Copy

Sample and Data Collection

The sample used for our study consists of 562 board members of 45 firms. These firms were taken from the ranking of companies listed on The Madrid Stock Exchange elaborated by the Corporate Governance and Transparency of Information Agency in 2008 (Crespí, 2008), with the exception of those classified as financial services (114 firms). Theses firms were chosen because of the requirements of these companies to publish data regarding their corporate governance and their performance.

Spain is an interesting setting for our study for several reasons. Spain is a typical civil law country, with an average GNP within the western economies. There are a considerable number of medium-sized companies quoted on the Stock Exchange (Miguel, Pindado & Torre, 2004; Tribó et al., 2007). At the same time, one of the most outstanding features of recent times has been the globalization of the economy. Undoubtedly, globalization has many positive aspects, but it also brings about socioeconomic problems that should not be ignored. While globalization opens up new economic opportunities, there also arise new threats connected with the weaknesses inherent to organizational conduct. To compete successfully in these new circumstances almost requires a new management and organizational framework. It comes as no surprise that the problem of corporate governance has been one of the major issues in the nineties. Moreover, the design and implementation of corporate governance models will progressively influence the feasibility and internal dynamism of the company. Spain could not remain aloof from the general concern regarding corporate governance and the role and functions of the board of directors since our companies compete in an interlinked, modern, global, economic framework. Recently, the Spanish National Stock Exchange Commission (CNMV) has introduced significant changes with the aim of promoting the transparency of quoted firms (CNMV, 1998, 2003, 2006). These advances have increased the amount of information that quoted firms provide about their governance.

Review Copy

The unified good governance code (CNMV, 2006), not only provides guidance on the structure, composition and correct functioning of boards, but it also recommends taking into account demographics and professional profiles when it comes to selecting their members, information which should be publicized. Generally speaking boards of Spain's quoted companies focus their energy and attention on establishing the right business models and setting out the best internationalization plans. To this purpose they are aware selecting the right board members is a crucial stepping stone (PWC, 2010). Finally, Spain has a corporate reputation index comparable to other measures analyzed in previous research (Delgado-García, Quevedo-Puente & De la Fuente-Sabate, 2010).

The Corporate Governance and Transparency of Information Agency (Crespí, 2008) analyzes the level of observance of the Unified Good Governance Code (CNMV, 2006) recommendations by listed Spanish companies and develop an indicator about quality on corporate governance practices. With reference to this indicator, it creates a ranking of firms classified in four levels (A, B, C and D) according to obtained score. Because of the requirement of transparency of information in order to get the faced objectives in our research, we chose the first two levels of the ranking that include firms more inclined to offer information about their board composition and structure and others parameters referring to their functioning.

With regards to the sample, we would also draw attention to the idiosyncrasies of Spanish boards of directors, both in their composition and their behavior, relative to other European countries (Heidrick & Struggles, 2009). We would highlight the following aspects: (1) they follow a unitary system of corporate governance, like UK, Italian and Portuguese companies, where there is a single board, consisting of executive management and non-executive directors; (2) with only 30% of independent non-executives, there is a low level of independence within Spanish boards; (3) the high proportion of reference shareholders (non

Review Copy

executives directors representing large shareholders) on boards, the highest in Europe, is a remarkable difference us from other European countries; and (4) the absence of non-national directors remains a challenge for many companies. This is not unique to Spain: one out of four European boards has no foreign directors, despite the most of these companies having significant non-national revenues and operating locations. The average number of Spanish board meetings has increased in the last years, reflecting the growing involvement of boards and Spain now ranks above the European average (11.4 full board meetings per year in Spain compared to 9.6 in Europe). Spanish boards are mostly formed by long-serving directors. Board directors' long terms of tenure might contribute to board ineffectiveness, allowing for fewer opportunities to adjust board composition in order to reflect changing priorities, particularly in theses turbulent times.

Dependent Variable

International diversification is a strategy through which a firm expands the sale of its goods or services across regional and national borders into different geographic locations or markets (Hitt, Tihanyi, Miller & Connelly, 2006). Internationalization has been measured in a number of ways and remains the subject of debate in the literature (Elango & Sethi, 2007; Reuber & Fischer, 1997). Sullivan (1994) argues that multiple-item measures should be used, rather than, for example, foreign sales as a percentage of total sales (FSTS), and he was among the first to identify the term 'a firm's degree of internationalization' by three dimensions: performance (foreign sales), structure (foreign assets) and attitudinal aspects of internationalization (top managers' international experience). Ramaswamy, Kroeck & Renforth (1996) recognize that multiple-item measures are more reliable than single-item measures and furthermore, they identify several limitations relating to the individual items used, as well the process used to combine them into a single measure.

Review Copy

In this study, following Sullivan (1994) and other studies (Carpenter & Sanders, 2004; Daily, Certo & Dalton, 2000; Lee & Park, 2006; Rivas, Hamori & Mayo, 2009; Sanders & Carpenter, 1998) we measured the firm's internationalization using more than one dimension; specifically, performance and structure. Both dimensions represent the 'depth' of a firm's involvement abroad (Thomas & Eden, 2004). Following Reuber and Fischer (1997) we could not employ a measure of experience as a component of internalization, because experience already plays a conceptual role in our hypotheses.

The performance dimension is most commonly calculated by the ratio of foreign subsidiary sales to total sales (FSTS) (Geringer, Beamish & da Costa, 1989). It captures the extent of the importance of international operations relative to total operations and thus the extent of the firm's dependence on foreign markets (Thomas & Eden, 2004). The structural dimension is a most commonly calculated using foreign asset as a percentage of total assets (FATA) (Daniels & Bracker 1989). FATA reflects a firm's reliance on the foreign stocks it owns. In the international business literature, the dimensions of sales and assets relate to a firm's dependence on foreign consumer markets and foreign resources, respectively (Sanders & Carpenter, 1998).

The theoretical range for each dimension is 0 to 1. The two variables (foreign sales and foreign assets) were added to form our composite measure of the degree of internationalization, which therefore has a theoretical range of 0 to 2. Validity assessments were consistent with Sullivan (1994); we found that these variables demonstrated a high inter-item reliability (an alpha of .76) and loaded on one factor with a high eigenvalue (1.65) and high-explained variance (82.85). To summarize, this composite measurement was chosen because of its ability to reflect the extent of a firm's internationalization better than uni-dimensional variables (Lu & Beamish, 2004).

Review Copy

For information on the firm's level of internationalization we have used the Lexis-Nexis Academy database (year 2009), which provides company-specific and macroeconomic data, together with aspects of the legal framework or press cuttings from the main national and international newspapers. This database has been used in numerous previous studies (Braun & Latham, 2009; Carter, D'Souza, Simkins & Simpson, 2010; Chahine & Tohmé, 2009; Ning, Davidson & Wang, 2010; Webb, 2008).

Independent Variables

Apart from obtaining information from the Corporate Governance and Transparency of Information Agency and the National Stock Market Commission (CNMV), once we had identified the board members for each firm, we needed precise information about the professional background and personal data of each director.

Information on board members was obtained from their companies' annual reports and websites. In some cases, it was necessary to supplement that data with information obtained from files held on the SABI and e-Informa databases (Mateos, Gimeno & Escot, 2011).

After rejecting some companies because it was not possible to collect this information the number of analyzed board members came up to 562 directors. We must point out that the most relevant companies are those classified in level "A" by the mentioned ranking. These firms provide more information not only to the CNMV, but also through their websites and secondary databases (Dicodi 50,000, Duns 50,000 and Sabi databases).

Board tenure is calculated as the average number of years that directors have spent on a particular board. We have used the number of years that each director has served on the board from his/her initial appointment until the focal year (2008). In our study 2008 corresponds to the date of the corporate governance reports for the firms analyzed. This measure has commonly been used in the top management team literature (Daellenbach,

Review Copy

McCarthy & Schoenecker, 1999; Hambrick, Cho & Chen, 1996; Kor, 2006; Michel & Hambrick, 1992; Peyrefitte, Fandil & Thomas, 2002) and also in board literature (Anderson & Reeb, 2004; Golden & Zajac, 2001; Johnson, Hoskinsson & Hitt 1993; Kaymak & Bektas, 2008; Mclntyre, Muphy & Mitchel, 2007).

With regards to the experience in chief executive or general management positions of each board member, we have taken into account whether they have occupied a post as CEO or general manager not only in their current or last position, but also in the past. In order to do this, and using the classification set out by Michel and Hambrick (1992), we identified the main functional area for each member of the board - both in their current and former posts - as follows: production/engineering (1); finance (2); commercial/marketing (3); law (4); executive or general management (5); personnel and labour relations (6); politics (7). Next, we used a dichotomous variable, allocating the value 1 to those members of the board whose current and past profile is 5 (executive or general management), and the value 0 to all other cases. Experience in CEO positions is applied to board members with accredited experience as a CEO of other firms both in their current profile and in previous posts. Board experience in CEO positions was measured as the number of board members with this experience, divided by the size of the board (Fich, 2005; Mclntyre et al., 2007; Tian et al., 2010). The board could only be viewed as having this type of resource when 40% or more of the board members were CEOs.

In order to calculate directors' industry-specific experience we have collected the CNAE (National Classification of Business Activities) of the firms each director has worked and currently works for (current post and a minimum of three previous posts). By analyzing this information on a joint basis, we have codified the extent of the director's experience in the industry in which the firm is placed. We consider an executive who has occupied two or more posts in the target industry to be highly experienced and one who has held one or no

Review Copy

such posts as being poorly experienced or inexperienced. In line with previous studies (Kroll et al., 2008; Tian et al., 2010) board industry-specific experience was measured as the percentage of board members who are highly experienced in the same industry as the focal firm. The board could only be said to have this type of resource when 40% or more of the directors had industry-specific experience.

In order to measure board members' international background (experience and/or foreign education) we have used a dichotomous variable coded 1 if a director spends or previously spent time abroad on a given assignment and/or in higher education or in an international division. We code this variable 0 if none of this occurs (Rindova et al., 2009). Finally, in order to calculate the board members' level of academic achievement we have used the following scale: 1 if the board member has an additional Master's degree and 0 if not (Ruigrok, Peck & Tacheva, 2007; Sambharya, 1996; Westphal & Zajac, 1995; Wiersema & Bantel, 1992). Almost all board members included in the sample hold a bachelor degree (Law, Business, Engineering…) and 43% of them have also obtained an additional Masters degree. In Spain up until the new regulation on European Credit Transfer System, holding a bachelor degree was a prerequisite to accessing a Masters or specialization degree. Board international background and educational level was operationalized as the percentage of members of the board with these resources (Wincent et al., 2009). Only when the proportion of directors on the board with an international background or with a Master's degree was 40% or more could it be considered to have either of these resources.

Control Variables

In line with previous studies on the governance of firms, we have included three variables to monitor the extent to which they might affect the proposed relationships. These variables are firm size, industry and company age.

Review Copy

Firm size is a common control variable, due to its reported relationship to firm performance. Larger companies are more active in exporting and other international operations (Calof, 1993; Zahra et al, 2007), probably because they have more resources. Larger companies may also have specialized staff are able to explore foreign markets and oversee international expansion. Several earlier studies have demonstrated the positive relationship between firm size and board size, looking at US markets (Boone, Casares, Karpoff & Raheja, 2007; Denis & Sarin, 1999; Lehn, Patro & Zhao, 2008; Linck, Netter & Yang, 2008; Yermack, 1996), European markets (Andrés, Azofra & López, 2005; Coles, Naveen & Naveen, 2008; Frick & Bermig, 2009) and, in particular, at Spanish firms listed on the stock exchange (Acero & Alcalde, 2010). Firm size was measured, as in prior investigations, by the logarithm of sales achieved by each firm in the study's reference year. We used the Lexis-Nexis Academy database as source of data.

Our sample includes firms from a variety of industries since membership of a particular industry may affect internationalization (Rivas et al., 2009) and we have therefore included this control variable in our study. To achieve this, we used the unified industry stock exchange classification proposed by CNMV (2006), which includes the following categories: (1) Petroleum and Energy, (2) Basic materials, Industry and Construction, (3) Consumer goods, (4) Consumer services, (5) Financial and Real estate services and (6) Technology and Telecommunications. Given the high frequency of observations within category 2 in our sample, we have assigned "1" to this category and "0" to the rest.

Finally, the third variable we have used is firm age. This variable was measured as the number of years a firm has been in existence. We included this variable since older companies are more likely to internationalize their operations (Calof, 1993; Zahra et al., 1997) and to develop the expertise required to harvest these operations and increase their revenues. The data were published on the company websites.

Review Copy

RESULTS OBTAINED

Table 1 shows the descriptive statistics of the variables used, taking into account that some of them are dichotomous or categorical. The descriptive statistics for our sample show that the average tenure of board members is 6.5 years, and the degree of internationalization of the firms in the sample is moderate. With regard to board members, 56% have no previous experience as CEO; 58% have considerable experience in the industry; 35% have international background; and 43% are educated to Masters level. We found no outliers in our data that should be removed. Table 2 shows the bivariate correlations and VIF statistics. All VIFs are strictly less than 2. As a consequence, the regression models are relatively free from potential multicollinearity problems.

The results of our investigation are shown in Table 3. Following a regression analysis, the main effects can be seen according to the different proposed models. Each model includes the different proposed hypotheses. Hypothesis 1 suggests that average board members' firm tenure is negatively related to the firm's degree of international diversification. The analysis confirms these suggestions ($t= -2.21$, $p<0.05$). Hypothesis 2 states that board experience in chief executive or general management positions is positively related to the firm's degree of international diversification. In this case the analysis does not support this relationship.

Hypothesis 3 is confirmed by the analysis ($t=2.28$, $p<0.05$) and therefore board experience in the firm's industry is positively related to the firm's degree of international diversification. Finally, hypotheses 4 and 5 refer to the influence of the board international background and level of academic achievement on decisions related to the firm's degree of international diversification, respectively. In this case, the results only confirm the latter hypothesis ($t=2.62$, $p<0.05$), therefore holding an additional Master's degree will be positively related to the firm's degree of international diversification.

Review Copy

Insert Table 1, Table 2 and Table 3 about here

DEBATE AND CONCLUSIONS

The link between top management team (TMT) international experience and firm internationalization has been investigated by extending the upper echelon perspective to the domain of international business (Burgess & Tharenou, 2002; Sanders & Carpenter, 1998; Tihanyi et al., 2003; Zahra, et al., 2007). Nevertheless, the economic recession illustrates need for all governance's bodies and not only the TMT to be sufficiently qualified to adopt efficient decisions relating to the internationalization process. Most of the works study the role of the TMT but those which extend on the relevance of boards as agents influencing on managerial choices (through advisory functions) are quite scarce.

This paper makes a contribution to the international business literature by emphasizing the impact of board's potential on the process of firm's internationalization and their subsequent effects on corporate performance. As noted by Herrmann and Datta (2005, 2006) and Nielsen (2010), top management is one of the major sources of superior profits; yet, the internationalization-performance literature has largely downplayed the role of management. In the case of boards, and in spite of their relevant role on the corporate governance the progress of literature is also very scarce.

Throughout this research we have stressed the active participation of board members in their firms' key decisions (Barroso, Domínguez, Vecino & Villegas, 2009), more specifically in strategic decisions in the international environment. We have taken the view that the board is an active participant in the firm's management, and we have therefore set out and tested a number of arguments related to the board's role in the adoption of international decisions. We will attempt to draw a series of conclusions regarding this matter, following an

Review Copy

analysis of the ways in which the different variables that make up the board's potential exert a significant influence on the firm's degree of international diversification.

From our perspective, and in line with the most recent proposals (Kor & Sundaramurthy, 2009; Macus, 2008), we consider that the resource-based view may offer a theoretical explanation as to how boards perform their different roles, by addressing the utilization of the attributes that directors bring to the firm and by providing an explanation of how the board's resources are integrated with the firm's internal processes to produce outcomes that are unique to the firm.

We suggest that board potential, as measured by using attributes of directors' human capital (knowledge, experience, skill, expertise) is an essential element of board effectiveness. Our results show the importance of these variables, in consistency with our arguments.

Golden and Zajac (2001) show that boards with long-serving members are not keen on strategic change; therefore they will be reluctant to introduce innovative strategies, which include internationalization. The empirical results of this study show that the tendency for board members to remain longer on the board of directors has a negative influence on the firm's degree of international diversification. This result is consistent with the argument that those board members who serve for many years will be more rigidly engaged with the current strategy, developing pre-set practices and procedures and distancing themselves from new ideas. As a consequence, they will look less favourably on strategic change and the introduction of innovative strategies, including internationalization, preventing their deep knowledge of the firm, after many years on their boards, from deploying its full strength as a resource.

In contrast, results demonstrate that it is not possible to establish a relationship between board experience in CEO position and the firm's degree of international

Review Copy

diversification. This conclusion contradicts our argument that the board members' experience as CEOs of other firms (Harrison, 1987) enables them to carry out their strategic role on the board, bringing their experience to the target firm. Instead, these results are consistent with the supposition that directors are particularly influenced by the risks implicit in the international context (a rather difficult and complex environment for decision-making), and they can be fearful when faced with a strategy that might adversely affect their professional reputation (Zhou, 2006). Nevertheless, the peculiarities of the composition of Spanish boards might help explain the unexpected results. Therefore, separating the role of the CEO and the chairman is one of the major issues facing Spanish boards. 60% of Spanish companies combine both positions (compared to the European average of 16%) and nearly one out of four non-executive chairmen are the former CEO.

Kroll et al., (2007) suggest that the members of the board with experience in the industry to which the firm belongs have developed robust knowledge structures on the firm's environment (Day & Lord, 1992) and consequently should be in a superior position to advice the management about international strategic decisions. The empirical results of this study have established that board industry-specific experience is positively related to the firm's degree of international diversification. This measure captures the directors' managerial knowledge of opportunities, threats, competition and technologies specific to the firm's industry. Industry-specific experience rather than cross-industries provide directors with robust knowledge structures about how their industry operates as well as connections with industry players. These resources enhance the directors' ability to advise managers on strategic decisions. That is to say that the members of the board with a greater knowledge of the firm's industry are an important resource for international-level decisions.

To the contrary, the hypothesis related to the influence of board international background on the firm's degree of international diversification has not been confirmed.

Review Copy

Previous studies have investigated the role of top management team's international background (Athanassiou & Nigh, 2002; Peyrefitte et al., 2002; Reuber & Fischer, 1997; Sambharya, 1996), but no studies have considered this variable applied to board. In spite of considering feasible that board members' experience in international markets provide them with useful connections to existing institutions, companies and networks in foreign markets our result show that this attribute of human capital of board members does not help increase the firm's degree of internationalization. The correlation between both variables is low and not significant (Table 2). The measure applied to calculate the firm's degree of internationalization might explain the obtained results. To measure the degree of internationalization we have used two of the three dimensions proposed by Sullivan (1994), performance and structure. We thought that incorporating their third dimension, attitude, could affect the results. We will reconsider this point in future research.

Finally, our results confirm the hypothesis related to the level of academic achievement of the board members. Specifically, it is possible to state that holding an additional Master's degree can influence a director's ability to be involved in the firm's degree of international diversification. In other words, our results support the idea first forwarded by Sanders and Carpenter (1998) that a firm's internationalization requires a higher level of information from the board of directors. Therefore, given that the capability of a group to process information depends among other things on its competences and abilities (Carpenter & Fredrickson, 2001), the most internationalized firms require a higher level of education for its members, with additional Masters degrees or other specialist qualifications at the forefront.

In conclusion, we propose the resources brought along by board members (board potential) act as a good predictor the firm's degree of international diversification. Certainly this statement has been proved for some attributes of directors' human capital, but not in

Review Copy

relationship with their international background or previous CEO experience. The theoretical implications of these results enable us to state that directors' resources are valuable so long as they are uncommon and bundled with complementary resources. Indeed, if directors possess only generic, undifferentiated skill portfolios, there is little reason to expect director-based differences.

We recognize certain limitations of this work. Firstly, the sample has been selected from the companies ranked as being more inclined to offer information about their board. Such a choice, although driven by the need to analyze transparent companies, can provoke a "sample selection bias" limiting the inference process.

Secondly, the firms used in the sample are exclusively Spanish firms, so extrapolating results to other countries could be questionable. However, we believe that the results obtained can be applied to other countries, insofar as the codes of good corporate governance tend to concentrate on the essential aspects of the composition and structure of large firms. Certainly the principal differences between Spanish and other European boards lie in the proportion of reference shareholders (non executives directors representing large shareholders), the proportion of other non-independent directors and duality (see Table 4).

One of the important practical implications of these results refers to the selection of board members. In order to increase its effectiveness, the selection process must be guided by the search of intangible, inimitable and unique resources, which the board can capitalize on in order to differentiate its potential over competitors. Board potential derives from its members' individual resources, thus combined to positively influence firm management. In this respect it is true resources can be transferred from one board to another (member's mobility or interlocks), but emphasis should be placed on board potential itself (group of board resources).

Review Copy

Conversely, our study focuses on the human capital variables. Therefore, bearing in mind (1) the ongoing globalization process in which large firms operate and (2) the increasing level of requirements regarding the composition of the governing bodies in the wake of the economic recession, we believe that similarities in the variables analyzed as precursors to the effectiveness of the board should be very high, regardless of the country in which the investigation is carried out. At any rate, we believe it is necessary and it would be very interesting to continue investigations in this field incorporating information on firms from other countries.

Insert Table 4 about here

In summary, our preliminary investigation contributes to further develop the theory on the effectiveness of the board of directors. The board's potential is made up of the characteristics of directors and as such a powerful board can demonstrate sufficient capability to efficiently fulfil the roles assigned to it.

ACKNOWLEDGEMENTS

We thank two anonymous reviewers and particularly the editor, William Judge, for their valuable and timely comments and suggestions.

This research was supported by the Ministerio de Ciencia e Innovación, Spain (ECO2009-12742).

REFERENCES

Acero, I. & Alcalde, N. 2010. Heterogeneidad de los Consejos de Administración en España. ***Tribuna de Economía,*** Mayo-Junio (854): 85-103.

Aguilera, R.V. 2005. Corporate governance and director accountability: An institutional comparative perspectiva**.** ***British Journal of Management,*** 16 (1): 39-53.

Amit, R. & Shoemaker, P. 1993. Strategic assets and organizational rent. ***Strategic Management Journal***, 14: 33-46.

Anderson, R. & Reeb, D.2004. Board Composition: Balancing Family Influence in S&P 500 Firms. ***Administrative Science Quarterly***, 49: 209-237.

Andrés, P.; Azofra, V. & López, F. 2005. Corporate Boards in OECD Countries: size, composition, functioning and effectiveness. ***Corporate Governance: An international Review***, 13: 197-210.

Review Copy

Argote, L. & Greve, H. R. 2007. A behavioural Theory of the firm-40 years and counting: Introduction and Impact. ***Organization Science***, 18: 337-349.

Athanassiou, N. & Nigh, D. 2002. The impact of the top management team's international business experience on the firm's internationalization: social networks at work. ***Management International Review,*** 42: 157-181.

Barney, J. 1991. Firm resources and sustained competitive advantage. ***Journal of Management***, 17: 99-120.

Barroso, C., Domínguez, M., Vecino J. & Villegas, M. 2009. Does the team leverage the board's decisions? ***Corporate Governance: An International Review***, 17: 744-761.

Bennett R.J. & Robson, P.J.A. 2004. The role of boards of directors in small and medium-sized firms. ***Journal of Small Business and Enterprise Development,*** 11: 95-113.

Bird, A., Buchanan, R. & Rogers, P. 2004. The seven habits of an effective board. ***European Business Journal,*** 16: 128-135.

Blau J. & McKinley, W. 1979. Ideas, complexity, and innovation. ***Administrative Science Quarterly*** , 4: 200-219.

Boone, A.L., Casares Field, L., Karpoff, J.M., Raheja, C.G. 2007. The determinants of board size and compositions: An empirical analysis. ***Journal of Financial Economics***, 85: 66-101.

Braun, M. R. & Latham, S. 2009. Rethinking value creation in leveraged buyouts, ***Management Decision***, 47: 2-2.

Bromiley, P. & Papenhausen 2003. Assumption of rationality and equilibrium in strategy research: the limits of traditional economics analysis. ***Strategic Organization***, 1: 413-437.

Burgess, Z. & Tharenou, P. 2002. Women board directors: characteristics of the few. ***Journal of Business Ethics***, 37: 39-49.

Calof, J. L. 1993. The mode choice and change decision process and its impact on international performance. ***International Business Review***, 2: 97-120.

Carlsson J. Nordegren, A. & Sjöholm, F. 2005. International experience and the performance of Scandinavian firms in China. ***International Business Review***, 14: 21-40.

Carpenter, M.; Sanders, W. & Gregersen, G. 2001. Bundling human capital with organizational context: the impact of international assignment experience on multinational firm performance and CEO pay. ***Academy of Management Journal***, 44: 493-511.

Carpenter, M.A. & Fredrickson, J.W. 2001. Top management teams, global strategic posture, and the moderating role of uncertainty. ***Academy of Management Journal***, 44: 533–545.

Carpenter, M.A. & Sanders, W.G. 2004. The effects of top management team pay and firm internationalization on MNC performance. ***Journal of Management***, 30: 509-528.

Carpenter, M.A. & Westphal, J.D. 2001. The strategic context of external network ties: examining the impact of director appointments on board involvement in strategic decision making. ***Academy of Management Journal***, 44: 639-660.

Carter, D., D'Souza, F., Simkins, B. J.& Simpson, W. 2010. The gender and ethnic diversity of US boards and board committees and firm financial performance. ***Corporate Governance: An International Review,*** 18: 396-414.

Castanias, R.P. & Helfat, C.E. 2001. The managerial rents model: theory and empirical analysis. ***Journal of Management***, 27: 661-678.

Chahine, S., Tohmé, N. 2009. Is CEO duality always negative? An exploration of CEO duality and ownership structure in the Arab IPO context. ***Corporate Governance: An International Review,*** 17: 123-141.

CNMV. 2006. ***Código unificado de buen gobierno de las sociedades cotizadas***. Comisión Nacional del Mercado de Valores (Spanish Nacional Stock Exchange Comission). Online, http://www.cnmv.es/index.htm (retrieved March, 2011).

CNMV. 2003. ***Informe de la comisión especial para el fomento de la transparencia y seguridad en los mercados y las sociedades cotizadas (Comisión Aldama)***. Comisión Nacional del Mercado de Valores (Spanish Nacional Stock Exchange Comission). Online, http://www.cnmv.es/index.htm (retrieved March, 2011).

CNMV. 1998. ***Informe de la comisión especial para el estudio de un código ético de los consejos de administración de las sociedades (Comisión Olivencia). Comisión Nacional del Mercado de Valores***

Review Copy

(Spanish Nacional Stock Exchange Comission). Online, http://www.cnmv.es/index.htm (retrieved March, 2011).

Coles, J.L.; Naveen, D.D.; Naveen, L. 2008. Boards: Does size fit all? ***Journal of financial Economics*****,** 87: 329-356.

Conger, J. A, Lawler, E. E. & Finegold, D. L. 2001. ***Corporate boards: new strategies for adding value at the top.*** San Francisco: Jossey-Bass Inc.

Crabtree, R.G. & Gomolka, E.G. 1991. Perceptual barriers to consultant utilization: an examination of why manufactures don´t use consultants and what can do about it, in: Bensch, D. Mugler, J. (Eds), ***Proceedings of the International Council for Small Business***: 76-84, Vienna.

Crespí, R. 2008. Observatorio de gobierno corporativo y transparencia informativa de las sociedades cotizadas en el mercado continuo español. ***Papeles de la Fundación***, 29. Fundación de Estudios financieros.

Cyert, R. M. & March, J. A. 1963. ***A behavioural theory of the firm:*** Prentince- Hall, Englewood Cliffs.

Daellenbach, U., McCarthy, A. & Schoenecker, S. 1999. Commitment to innovation: the impact of top management team characteristics. ***R&D Management***, 29: 199-208.

Daily, C, Certo, S. & Dalton, D. 2000. International experience in the executive suite: the path to prosperity? ***Strategic Management Journal***, 21: 515-523.

Daily, C.M., Dalton, D.R. & Cannella Jr., A.A. 2003. Corporate governance: decades of dialogue and data. ***Academy of Management Review***, 28: 371-382.

Dalton, D.R., Daily, C.M., Ellstrand, A.E. & Johnson, J.L. 1998. Meta-analytic reviews of board composition, leadership structure, and financial performance. ***Strategic Management Journal*****,** 19: 269-290.

Daniels, J.D. & Bracker, J. 1989. Profit performance: do foreign operations make a difference? ***Management International Review***, 29: 46-56.

Day, D.V. & Lord, R.G. 1992. Expertise and problem categorization: the role of expert processing in organizational sense-making. ***Journal of Management Studies***, 29: 35-47.

De la Rosa, S. 2006. Cultivating the best board. ***Internal Auditor***, 63 (4): 69-75.

Delgado-García, J.B.; Quevedo-Puente, E. and De la Fuente-Sabaté, M. 2010. The impact of ownership structure on corporate reputation: evidence from Spain. ***Corporate Governance: An International Review,*** 18: 540-556.

Demb, A. & Neubauer, F.-F. 1992. The corporate board: confronting the paradoxes. ***Long Range Planning*****,** 25 (3): 9-20.

Denis, D. & Sarin, A. 1999. Ownership and board structure in publicly traded corporations. ***Journal of Financial Economics***, 52: 187–223.

Deutsch, Y. 2005. The impact of board composition on firms' critical decisions: a meta-analytic review. ***Journal of Management,*** 31: 424-444.

Donaldson, L. 1990. The ethereal hand: organizational management theory. ***Academy of Management Review*****,** 15: 369-381.

Donaldson, L. & Davis, J.H. 1991. Stewardship theory or agency theory: CEO governance and shareholder returns. ***Australian Journal of Management***, 16: 49-64.

Donaldson, L. & Davis, J.H. 1994. Boards and company performance-research challenges the conventional wisdom. ***Corporate Governance: An International Review***, 2: 151-160.

Eisenhardt, K.M. & Martin, J.A. 2000. Dynamic Capabilities: What are they? ***Strategic Management Journal*****,** 21: 1105-1121.

Elango B. & Sethi, S. 2007. An exploration of the relationship between country of origin COE and the internationalization-performance paradigm management. ***International Review***, 47: 369-392.

Fama, E.F. & Jensen, M.C. 1983. Separation of ownership and control. ***Journal of Law &*** Economics**,** 26: 301-326.

Fich, E.M. 2005. Are some outside directors better than others? Evidence from director appointments by Fortune 1000 firms. ***Journal of Business***, 78: 1943-1971.

Finkelstein, S. & Hambrick D.C. 1990. Top management team tenure and organizational outcomes: the moderating role of managerial discretion. ***Administrative Science Quarterly***, 35: 484-503.

Finkelstein, S. & Mooney, A.C. 2003. Not the usual suspects: how to use board process to make boards better. ***Academy of Management Executive***, 17: 101-113.

Forbes, D.P. & Milliken, F.J. 1999. Cognition and corporate governance: understanding boards of directors as strategic decision-making groups. ***Academy of Management Review***, 24: 489-505.

Frick, B. & Bermig, A. 2009. ***Board size, board composition and firm performance: empirical evidence from Germany***. Working paper, University of Paderborn.

Gabrielsson, J. 2007. Boards of directors and entrepreneurial posture in medium-size companies: putting the board demography approach to a test. ***International Small Business Journal,*** 25: 511-537.

Gabrielsson, J. & Huse, M. 2004. Context, behavior, and evolution: challenges in research on boards and governance**.** ***International Studies of Management & Organization***, 34 (2): 11-36.

Gabrielsson, J. & Winlund, H. 2000. Boards of directors in small and medium-sized industrial firms: examining the effects of the board's working style on board task performance. ***Entrepreneurship & Regional Development***, 12: 311-330.

Geringer, J.M., Beamish, P.W. & da Costa, R.C. 1989. Diversification strategy and internationalization: implications for MNE performance**.** ***Strategic Management Journal***, 10:109-119.

Golden, B. R. & Zajac, E.J 2001. When will boards influence strategy? Inclination x Power = Strategic change. ***Strategic Management Journal,*** 22: 1087-1111.

Goll, I., Brown Johnson, N.B. & Rasheed, A.A. 2007. Knowledge capability, strategic change, and firm performance; the moderating role of the environment. ***Management Decision***, 45: 161-179.

Goodstein, J., Gautam, K. & Boeker, W. 1994. The effects of board size and diversity on strategic change. ***Strategic Management Journal***, 15: 241-250.

Gradstein, M. & Justman, M. 2000. Human capital, social capital, and public schooling. ***European Economic Review***, 44: 879-890.

Grant, R. M. 1991. The resource-based theory of competitive advantage: Implications for strategy formulation. ***California Management Review***, 33: 114-135.

Hambrick, D. C., Cho, T. & Chen M. 1996. The influence of top management team heterogeneity on firms' competitive moves. ***Administrative Science Quarterly***, 41: 659-684.

Hambrick, D.C. & Mason, P.A. 1984. Upper echelons: the organization as a reflection of its top managers. ***Academy of Management Review***, 9: 193-206.

Handy, C. 1987. ***The Making of Managers: A Report on Management Education, Training and Development in the USA, West Germany, France, Japan and the UK.*** London: Manpower Services Commission, National Economic Development Council, British Institute of Management.

Harrison, J.R. 1987. The strategic use of corporate board committees**.** ***California Management Review*****,** 30: 109-125.

Haunschild, P. 1993. Interorganizational imitation: the Impact of interlocks on corporate acquisition activity. ***Administrative Science Quarterly***, 38: 564-592.

Heidrick & Struggles 2009. ***Board in turbulent times: Corporate Governance Report 2009***. Europe: Heidrick & Struggles International, Inc.

Hendry, C., Jones, A., Arthur, M. & Pettigrew, A. 1991. ***Human resource development in small to medium sized enterprises.*** Research paper nº 88, Centre for Corporate Strategy and Change, Warwick Business School, University of Warwick, Coventry.

Hendry, K. & Kiel, G.C. 2004. The role of the board in firm strategy: integrating agency and organizational control perspectives. ***Corporate Governance: An International Review***, 12: 500-520.

Herrmann, P. & Datta, D. K. 2005. Relationships between top management team characteristics and international diversification: an empirical investigation. ***British Journal of Management*****,** 16: 69-78.

Herrmann, P. & Datta, D. K. 2006. CEO experiences: effects on the choice of FDI entry mode. ***Journal of Management Studies***, 43: 755-778.

Hillman, A.J. & Dalziel, T. 2003. Boards of directors and firm performance: integrating agency and resource dependence perspectives. ***Academy of Management Review***, 28: 383-396.

Hillman, A.J., Cannella Jr., A.A. & Paetzold, R.L. 2000. The resource dependence role of corporate directors: strategic adaptation of board composition in response to environmental change. ***Journal of Management Studies***, 37: 235-255.

Hitt, M.A., Tihanyi, L., Miller, T. & Connelly, B. 2006. International diversification: antecedents, outcomes, and moderators. ***Journal of Management***, 32: 831-867.

Review Copy

Huse, M. 2005. Accountability & creating accountability: a framework for exploring behavioral perspectives of corporate governance. ***British Journal of Management***, 16: 65-79.

Jaw, Y. L. & Lin, W.T. 2009. Corporate elite characteristics and firm's internationalization: CEO-level and TMT- level roles. ***The International Journal of Human Resource Management***, 20: 220-233.

Johanson, J. & Vahlne 1977. The internationalization process of the firm: a model of knowledge development and increasing foreign market commitments. ***Journal of International Business Studies***, 8: 23-32.

Johnson, J.L., Ellstrand, A.E. & Daily, C.M. 1996. Board of directors: a review and research agenda. ***Journal of Management***, 22: 409-438.

Johnson, R.A., Hoskinsson, R.E. & Hitt, M. A. 1993. Board of director involvement in restructuring: the effects of board versus managerial controls and characteristics. ***Strategic Management Journal,*** 14: 33–41.

Kakabadse, N., Kakabadse, A. & Kouzmin, A. 2001. Board governance and company performance: any correlations? ***Corporate Governance***, 1: 24-30.

Katz, R. 1982. The effects of group longevity on project communication and performance. ***Administrative Science Quarterly***, 27: 81-104.

Kaymak, T. & Bektas, E. 2008. East meets west? Board characteristics in an emerging market: evidence from Turkish banks. ***Corporate Governance: An International Review***, 16: 550-561.

Kiel, G.C. & Nicholson, G.J. 2005. Evaluating boards and directors. ***Corporate Governance: An International Review***, 13: 613-631.

Kim, Y. 2005. Board network characteristics and firm performance in Korea. ***Corporate Governance: An International Review***, 13: 800-808.

Kim, Y. & Cannella, A.A. 2008. Toward a social capital theory of director selection. ***Corporate Governance: An International Review***, 16: 282-293.

Kirby, D. 1991, Management training and support, in: Stanworth, J. & Gray, C. (Eds.), ***Bolton 20 years on: The Small Firm in the 1990s***, Paul Chapman, London.

Kor, Y. 2006. Direct and interaction effects of top management team and board compositions on R&D investment strategy. ***Strategic Management Journal***, 27: 1081-1099.

Kor, Y.Y. & Sundaramurthy, C. 2009. Experience-based human capital and social capital of outside directors. ***Journal of Management***, 35: 981-1006.

Kroll, M., Walters, B.A. & Le, S.A. 2007. The impact of board composition and top management team ownership structure on post-ipo performance in young entrepreneurial firms. ***Academy of Management Journal,*** 50: 1198-1216.

Kroll, M., Walters, B.A. & Wright, P. 2008. Board vigilance, director experience and corporate outcomes. ***Strategic Management Journal***, 29: 363-382.

Langevoort, D.C. 2001. The human nature of corporate boards: law, norms and the unintended consequences of independence and accountability. ***Georgetown Law Journal***, 89: 797-832.

Lee, H. & Park, J. 2006., Top team diversity, internationalization and the mediating effect of international alliances. ***British Journal of Management***, 17: 195-203.

Lehn, K., Patro, S., & Zhao, M. 2008. ***Determinants of the size and structure of corporate boards: 1935-2000***. Working paper no. 13, Center for Economic Institutions.

Levinthal, D. 1995. Strategic management and the exploration of Diversity, in: Montgomery C. (Ed.), ***Evolutionary and Resource-Based Approaches to Strategy***. Kluwer Academic Press, Boston, MA.

Levinthal, D. A. & March, J. 1993. The myopia of learning. ***Strategic Management Journal***, 14: 95-112.

Linck, J. S.; Netter, J. M. & Yang, T. 2008. The Determinants of Board Structure. ***Journal of Financial Economics***, 87: 308-328.

Lu, J.W. & Beamish, P.W. 2004. International diversification and firm performance: the s-curve hypothesis. ***Academy of Management Journal***, 47: 598-609.

Luo, Y. 2005. How does globalization affect corporate governance and accountability? A perspective from MNEs. ***Journal of International Management***, 11: 19-41.

Lynall, M.D., Golden, B.R. & Hillman, A.J. 2003. Board composition from adolescence to maturity: a multitheoretic view. ***Academy of Management Review***, 28: 416-431.

For Review Only

Macus, M. 2008. Board Capability: An interactions perspectives on boards of directors and firm performance. ***International Studies of Management and Organization***, 38: 98-116.

Madhok, A. 1997. Cost value and foreign market entry mode: the transaction and the firm. ***Strategic Management Journal*** 18: 39-61.

Mateos R., Gimeno, R. y Escot, L. 2011. Disentangling discrimination on Spanish boards of directors. ***Corporate Governance: An International Review***, 19: 77-95.

McDonagh, K.J. 2006. Hospital governing boards: a study of their effectiveness in relation to organizational performance. ***Journal of Healthcare Management***, 51: 377-392.

Mclntyre M. L., Muphy, S. A. & Mitchel, P.2007. The top team: examining board composition and firm performance. ***Corporate Governance***, 7: 547–561.

McNulty, T. & Pettigrew, A. 1999. Strategists on the board. ***Organization Studies***, 20: 47-74.

Melin, L. 1992. Internationalization as a strategy process. ***Strategic Management Journal***, 13: 99-118.

Michel, J.G. & Hambrick, D.C. 1992. Diversification posture and top management team characteristics. ***Academy of Management Journal***, 35: 9-37.

Miguel, A.; Pindado, J. & Torre, C. 2004. Ownership structure and firm value: New evidence from Spain. ***Strategic Management Journal***, 25: 1199–1207.

Minichilli, A. & Hansen, C. 2007. The board advisory tasks in small firms and the event of crises. ***Journal of Management Governance***, 11: 5-22.

Murphy, S.A. & McIntyre, M.L. 2007. Board of director performance: a group dynamics perspectives. ***Corporate Governance: The International Journal of Effective Board Performance***, 7: 209-224.

Musteen, M., Barker, V. & Baeten, V. 2006. CEO attributes associated with attitude toward change: the direct and moderating effects of CEO tenure. ***Journal of Business Research***, 59: 613-621

Nadler, D.A. 2004. Building better boards. ***Harvard Business Review***, 82: 102-111.

NACD (National Association of Corporate Directors). 1996. ***Report of the NACD Blue Ribbon Commission on Director Professionalism***. Washington, Dc.

Nelson, R. & Winter, S. 1982. ***An Evolutionary Theory of Economic Change***. Cambridge, MA: Belknap Press of Harvard University Press.

Nicholson, G. J & Kiel, G.C. 2004a. Breakthrough board performance: how to harness your board´s intellectual capital. ***Corporate Governance: The International Journal of Effective Board Performance***, 4: 5-23.

Nicholson, G.J & Kiel, G.C. 2004b. A Framework for diagnosing board effectiveness. ***Corporate Governance: An International Review***, 12: 442-460.

Nielsen, B. & Nielsen, S. 2009. ***The impact of top management team nationality diversity and international experience on foreign entry mode***. Working paper no. 8, Center for Strategic Management and Globalization, Copenhagen Business School, Denmark, 4 November.

Nielsen, S. 2010. Top management team internationalization and firm performance. The mediating role of foreign market entry. ***Management International Review***, 50: 185-206.

Ning, Y., Davidson, W. & Wang, J. 2010. Does optimal corporate board size exist? An empirical analysis. ***Journal of Applied Finance***, 20: 57-69.

Ocasio, W. 1999. Institutionalized Action and Corporate Governance: the reliance on rules of CEO succession. ***Administrative Science Quarterly***, 44: 384-416.

Ortiz, N; Aragón, J.A. & Gomez, S. 2009. ***La relación entre la rentabilidad y la presencia de consejeros compartidos. Un análisis desde la teoría de recursos y capacidades***. Paper presented at the annual meeting of AEDEM, Spain.

Pearce, J.A., II & Zahra, S.A. 1991. The relative power of CEOs and boards of directors: associations with corporate performance. ***Strategic of Management Journal***, 2: 135-153.

Petrovic, J. 2008. Unlocking the role of a board director: a review of the literature. ***Management Decision***, 46: 1373-1392.

Peyrefitte, J., Fadil. P.A. & Thomas, A.S. 2002. The influence of managerial experiences on large firm internationalization. ***International Journal of Management***, 19: 495-502.

Pfeffer, J. 1983. Organizational demography, in: Cummings LL, Staw BM (Eds.), ***Research in Organizational Behavior***: 299-357. Greenwich, CT: JAI Press.

Pfeffer, J. & Salancik, G. 1978. ***The External Control of Organizations: a Resource Dependence Perspective.*** New York: Harper & Row.

Review Copy

Prahalad, C.K. 1990. Globalization: the intellectual and managerial challenges. ***Human Resource Management***, 29: 27-37.
Pugliese, A. & Wenstøp, P.Z. 2007. Board members' contribution to strategic decision-making in small firms. ***Journal of Management Governance***, 11: 383-404.
Pugliese, A., Bezemer, P-J., Zattoni, A., Huse, M., Van den Bosch, F.A.J. & Volberda, H.W 2009. Boards of directors' contribution to strategy: a literature review and research agenda. ***Corporate Governance: An International Review***, 17: 292-306.
PWC. 2010. ***Informe sobre consejos de administración de empresas cotizadas***. Spain: Price Waterhouse Coopers.
Pye, A. & Pettigrew, A. 2005. Studying boards context, process and dynamics: some challenges for the future. ***British Journal of Management***, 16 (Supplement 1): 27-38.
Ramaswamy, K., Kroeck, K. G. & Renforth, W 1996., Measuring the degree of internationalization of a firm: a comment. ***Journal of International Business Studies***, 27 : 167-177.
Reuber, A.R. & Fischer, E. 1997. The influence of the management team´s international experience on the internationalization behaviors of SMEs. ***Journal of International Business Studies,*** 28: 807-825.
Ricks, D. Toyne, B. & Martinez, Z. 1990. Recent developments in international management research. ***Journal of Management***, 16: 219-253.
Rindova, V.P. 1999. What corporate boards have to do with strategy: a cognitive perspective. ***Journal of Management Studies***, 36: 953-975.
Rivas J.L., Hamori, M., & Mayo, M. 2009. Board composition and firm internationalization. ***Academy of Management Proceedings***: 1-6.
Roberts, J. McNulty, T. & Stiles, P. 2005. Beyond agency conceptions of the work of non-executive director: creating accountability in the boardroom. ***British Journal of Management***, 16, (Supplement 1): 5-26.
Ruigrok, W., Peck, S. & Tacheva, S. 2007. Nationality and gender diversity on swiss corporate boards. ***Corporate Governance: An International Review***, 15: 546-557.
Sambharya, R.B. 1996. Foreign experiences of top management teams and international diversification strategies of U.S. multinational corporations. ***Strategic Management Journal***, 17: 739-746.
Sanders, W.G., & Carpenter, M.A. 1998. Internationalization and firm governance: the roles of CEO compensation, top team composition and board structure. ***Academy of Management Journal***, 41: 158-178.
Schmidt, S.L. & Brauner, M. 2006. Strategic governance: how to assess board effectiveness in guiding strategy execution. ***Corporate Governance: An International Review***, 14: 13-22.
Simon, Herbert A.1955. A behavioural model of rational choice. ***Quarterly Journal of Economics,*** 69: 99-118.
Sonnenfeld, J.A. 2002. What makes great boards great? ***Harvard Business Review,*** 80: 106-113.
Spender J. C. 1996. Making knowledge the basis of a dynamic theory of the firm. ***Strategic Management Journal,*** 17: 45-62.
Stiles, P. & Taylor, B. 2001. ***Boards at Work: How Directors View their Roles and Responsibilities.*** Oxford: Oxford University Press.
Sullivan, D. 1994. Measuring the degree of internationalization of a firm. ***Journal of International Business Studies***, 25: 325-342.
Sundaramurthy, C. & Lewis, M. 2003. Control and collaboration: paradoxes of governance. ***Academy of Management Review***, 28: 397-415.
Thomas, D.E. & Eden, L. 2004. What is the shape of the, multinationality-performance relationship? ***Multinational Business Review***, 12: 89-110.
Tian, J., Haleblian, J. & Rajagopalan, N. 2010. The effects of board human and social capital on investor reactions to new CEO selection. ***Strategic Management Journal***, article first published online: DOI: 10.1002/smj.909, 17 Dec 2010.
Tihanyi, L., Johnson, R.A, Hoskisson, R.E & Hitt, M.A. 2003. Institutional ownership differences and international diversification: the effects of boards of directors and technological opportunity. ***Academy of Management Journal***, 46: 195-211.

Review Copy

Tribó, J. A., Berrone, P. & Surroca, J. 2007. Do the type and number of blockholders influence R&D investments? New evidence from Spain. ***Corporate Governance: An International Review*,** 15: 828–842.

Useem, M.1982. Classwide rationality in the politics of managers and directors of large corporations in the United States and Great Britain. ***Administrative Science Quarterly***, 27: 199-226.

Vafeas, N. 2003. Length of board tenure and outside director independence. ***Journal of Business Finance & Accounting***, 30: 1043-1064.

Van den Berghe, L.A.A. & Baelden, T. 2005. The complex relation between director independence and board effectiveness. ***Corporate Governance:* The *International Journal of Effective* Board *Performance***, 5: 58-83.

Van Ees, H., Van der Laan, G. & Postma, T.J.B.M. 2008. Effective board behavior in the Netherlands. ***European Management Journal***, 26: 84-93.

Wan, D. & Ong, C.H. 2005. Board structure, process and performance: evidence from public-listed companies in Singapore. ***Corporate Governance****,* 13: 277-290.

Ward, A.J. & Feldman, D.C. 2008. Survival of the embedded: expelling and embedding forces on members of the corporate elite. ***Corporate Governance: An international Review***, 16: 239-251.

Webb, E. 2008. Bank stock repurchase extent and measures of corporate governance. ***International Journal of Managerial Finance,*** 4: 180-199.

Westphal, J. D.; Zajac, E. J. 2005. Who shall govern? CEO/Board power, demographic similarity, and new director selection. ***Administrative Science Quarterly***, 40: 60-83.

Westphal, J.D.1999. Collaboration in the boardroom: behavioral and performance consequences of CEO-board social ties. ***Academy of Management Journal***, 42: 7-24.

Westphal, J.D. & Bednar, M.K. 2005. Pluralistic ignorance in corporate boards and firms' strategic persistence in response to low firm performance. ***Administrative Science Quarterly***, 50: 262-298.

Westphal, J.D. & Fredrickson, J.W. 2001. Who directs strategic change? Director experience, the selection of new CEOs, and change in corporate strategy. ***Strategic Management Journal****,* 22: 1113-1137.

Wiersema, M., & Bantel, K. A.1992. Top management team demography and corporate strategic change. ***Academy of Management Journal***, 35: 91-121.

Wincent J., Sergey, A. & Håkan, B.2009. Network board continuity and effectiveness of open innovation in Swedish strategic small-firm networks. ***R&D Management***, 39: 55-67.

Winter, S.G. 1995. Four Rs of profitability: rents, resources, routines and replication. Resource-based and evolutionary theories of the firm: towards a synthesis, in: C.A. Montgomery. Norwell, MA, Kluwer (Eds), Academic Publishers: 147-178.

Yawson, A. 2006. Evaluating the characteristics of corporate boards associated with layoff decisions. ***Corporate Governance: An International Review***, 14: 75-84.

Yermack, D. 1996. Higher valuation of companies with a small board of directors. ***Journal of Financial Economics*** 40 : 185–212.

Zahra, S. A. & Filatotchev, I. 2004. Governance of the entrepreneurial threshold firms: A knowledge-based perspective. ***Journal of Management Studies***, 41: 885-897.

Zahra, S.A. & Pearce J.A., II 1990. Determinants of board of directors' strategic involvement, ***European Management Journal****,* 8: 164-173.

Zahra, S.A., Neubaum, D.O. & Naldi, L. 2007. The effects of ownership and governance on SMEs' international knowledge-based resources. ***Small Business Economics****,* 9: 309-327.

Zajac, E. & Bazerman, M. 1991. Blind spots in industry and competitor analysis: implications of interfirm misperceptions for strategic decisions. ***Academy of Management Review***, 16: 37-56.

Zhou, K.Z. 2006. Innovation, imitation, and new product performance: the case of China. ***Industrial Marketing Management****,* 35: 394-402.

Zona, F. & Zattoni, A. 2007. Beyond the black box of demography: bard processes and task effectiveness within Italian firms. ***Corporate Governance: An International Review***, 15: 852-864.

Review Copy

Table 1

Descriptive Statistics

	MEAN	S.D.	Minimum values	Maximum values	Median	Skewness	Kurtosis
Firm's degree of international diversification	0.62	0.42	0	1.68	0.54	0.46	-0.52
1.-Board tenure	6.52	6.92	0	19	4	1.02	0.36
2.- Experience in CEO positions	-	-	0	1	-	-	-
3.- Industry-specific experience	-	-	0	1	-	-	-
4.- International background	-	-	0	1	-	-	-
5.- Level of academic achievement	-	-	0	1	-	-	-
6.- Firm size	7,54	2,08	-.42	11,01	7,62	-.80	1,69
7.- Firm age	37.9	26.25	8	140	32	0.99	0.34
8.- Industry	-	-	0	1	-	-	-

Review Copy

Table 2

Zero-order Correlation

	1.-	2.-	3.-	4.-	5.-	6.-	7.-	8.-	VIF
1.- Firm's degree of international diversification	1								
2.-Board tenure	-.13**	1							1.07
3.- Experience in CEO positions	-.07	.19**	1						1.12
4.- Industry-specific experience	.12*	- .15**	-.19**	1					1.06
5.- International background	.04	-.10**	-.10	-.04	1				1.13
6.- Level of academic achievement	.10*	-.04	-.01	-.04	.33**	1			1.09
8.- Firm size	.09*	-.08	-.14**	.05	.04	-.08	1		1.04
9.- Firm age	-.16*	-.01	-.10	-.00	-.13*	.00	.00	1	1.04
8.- Industry	.01	.09	.09	.04	-.05	-.01	-.15*	-.07	1.03

**** p.01 (bilateral)**
Number of observations: 45

Review Copy

Table 3:

Linear Regression of the Board Influence on the Firm's Degree of International Diversification

	Model 1		Model 2		Model 3		Model 4		Model 5	
	t	*p-value*	*t*	*p-value*	*t*	*p-value*	*t*	*p-value*	*t*	*p-value*
(Constant)	5.86	.00	5.58	.00	3.89	.00	3.85	.00	3.22	.00
Firm size	1.60	.11	1.60	.11	1.61	.10	1.61	.10	1.84	.06
Firm age	-3.05	.00	-3.02	.00	-3.00	.00	-2.16	.03	-2.90	.00
Industry	.34	.73	.33	.73	.19	.84	.19	.84	.20	.81
Board Tenure	-2.39	.01	-2.36	.01	-2.16	.03	-2.16	.02	-2.21	.02
Experience as chief executive of other companies			.13	.89	.50	.61	.50	.61	.60	.54
Industry-specific experience					2.17	.03	2.12	.03	2.28	.02
International background							.00	.99	-.74	.46
Level of academic achievement									2.62	.00
R	.23		.23		.25		.25		.29	
R squared	.05		.05		.06		.06		.08	
Adjusted R-squared	.04		.03		.04		.04		.06	
Standard error of the estimate	.37		.37		.37		.37		.36	
Number of observations	45		45		45		45		45	

Review Copy

Table 4

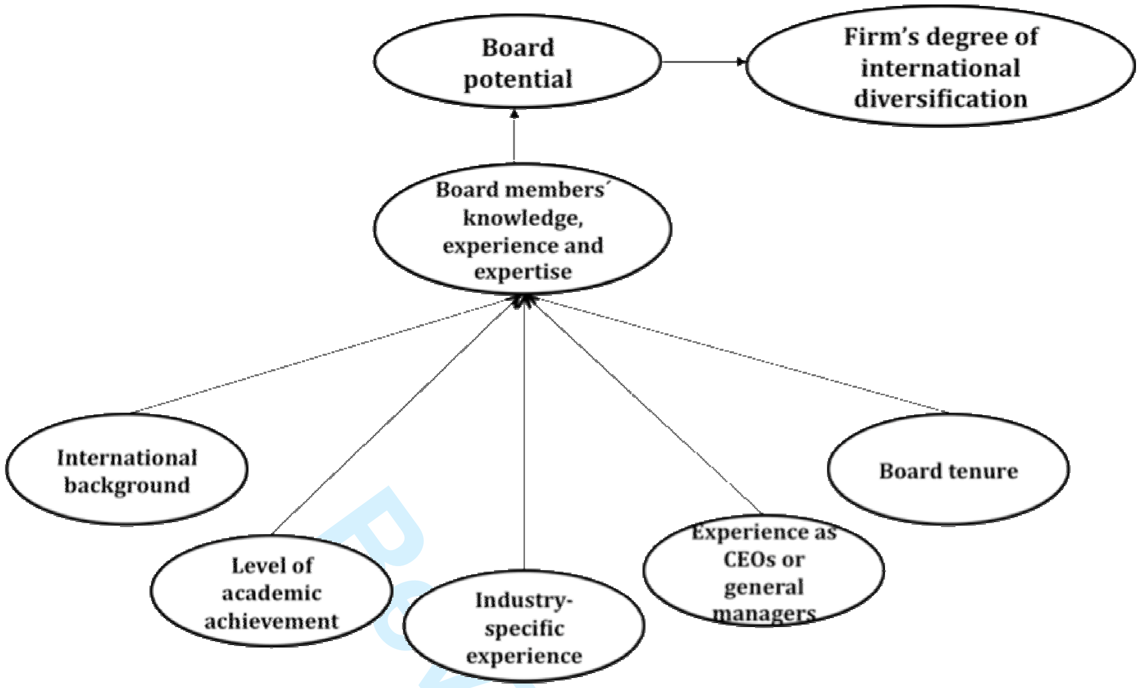
The Profile of Boardroom in Europe and Spain

Composition of board	Europe	Spain
Average size of board	**11,8**	**14,3**
Proportion of executive director	**10%**	**18%**
Proportion of reference shareholders	**16%**	**43%**
Proportion of independent non executive	**45%**	**30%**
Proportion of others non-independent directors (former executive directors, employee representatives, others)	**29%**	**9%**
Proportion of non national directors	**23%**	**10%**
Duality board chairman and CEO	**16%**	**60%**

Source: Heidrick Struggles Corporate Governance Report 2009. Heidrick Struggles Corporate Governance Report 2009 selects the top companies based on the reference stock exchange as follows: Austria (ATX), Belgium (BEL20), Denmark (C20), Finland (OMX Helsinki), France (CAC40), Germany (DAX30), Italy (S&PMIB), Netherlands (AEX), Portugal (PSI20), Spain (IBEX35), Sweden (OMX Stockholm), Switzerland (SMI) and the United Kingdom (top 50 of the FTSE).

Review Copy

Figure 1: Proposed Model



Review Copy