CEO Successor Characteristics and the Choice of Foreign Market Entry Mode: An Empirical Study

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Based on the upper echelons theory, this study of 126 CEO successions and 271 foreign market entry events examines the relationships between successor CEO characteristics and choice of entry mode. Results indicate that CEO position tenure, throughput functional background, and international experience are associated with full-control entry modes. Additionally, these relationships were observed in the subgroup of high-performing firms but not in the low-performing subgroup.

INTRODUCTION

Over the past decade, considerable research attention has focused on CEO (Chief Executive Officer) succession. It is not surprising, given that the selection of a new CEO is a critical decision and represents a defining event in an organization's life. In their review of the executive succession literature, Kesner and Sebora (1994) describe CEO succession as an "important, unique, and very visible event", one that has profound impact on the organization and its strategy. Recent years have also witnessed greater pressures on CEOs to internationalize their firms, as they respond to increased globalization of their industries (Sanders and Carpenter, 1998). This is particularly true for successor CEOs, who typically assume their positions under implicit and explicit demands for better performance. In this context, key strategic decisions, including those related to foreign market entry-mode choices, assume considerable significance.

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Research on CEO succession has generally adopted a strategic contingency perspective, examining the importance of fit between organizational context and demographic characteristics of newly selected CEOs. Such characteristics include functional background experience, tenure, and educational level—characteristics that are considered valid proxies for the cognitive orientation and knowledge base of newly selected CEOs (Finkelstein and Hambrick, 1996). A related stream of research has focused on relationships between CEO background characteristics and firm strategies, again based on the argument that executive experiences reflect cognitive orientation and knowledge base and consequently have important implications for strategic choices.

Simultaneously, a significant body of research has emerged on the choice of foreign market entry modes. Entry mode choice has been defined as a "frontier issue" in international business (Anderson and Gatignon, 1986) and a "very important, if not critical, strategic decision" (Agarwal and Ramaswami, 1992, p. 2). Research on entry mode selection has been based on several theoretical perspectives, including transactions cost economics, industrial organization, and strategic behavior, with a wide array of antecedent factors being used to explain entry-mode choices. However, the role of top management has been largely ignored in such research, and, although CEOs typically play key roles in the choice of entry modes (Conference Board, 1995), research on how their knowledge, skills, and cognitive orientations influence entry-mode choices is noticeably absent.

Our research here seeks to fill this important void in the executive succession and entry-mode literatures. Based on upper echelons theory (Hambrick and Mason, 1984) and grounded in executive leadership literature (Finkelstein and Hambrick, 1996), we examine relationships between demographic characteristics of CEO successors and choice of foreign market entry modes. We focus on position tenure, educational level and functional background—characteristics identified by Finkelstein and Hambrick (1996) as being particularly important in influencing executive knowledge base, cognitive orientation, and values. In addition, we include international experience given its important influence on formulation of international strategies as identified in prior studies (Black, 1997; Daily, Certo, and Dalton, 2000; Sambharya, 1996).

We focus on CEO successors because the post-succession period is typically characterized by formulation and implementation of strategies where new CEOs seek to have the greatest impact (Ocasio, 1994; Tushman and Romanelli, 1985). Major organizational and strategic changes often occur after a succession (Hambrick, Geletkanycz and Fredrickson, 1993), with CEO successors frequently initiating strategies that reflect their knowledge base and experiences. In other words, the post-succession phase is typically characterized by CEOs making decisions based on a strong commitment to their mental paradigms. We expect the same to be true for foreign market entry, with characteristics of newly selected CEOs being reflected in their choice of foreign market entry modes.

LITERATURE REVIEW

CEO Characteristics and Firm Strategy

The empirical literature on executives' demographic characteristics, strategic choices, and firm performance has been based largely on the upper echelons theory advanced by Hambrick and Mason (1984). This theoretical perspective, which draws on literatures in organizational behavior and strategic management, posits that strategic choices made by executives "...reflect the idiosyncrasies of decision makers" (Hambrick and Mason 1984, p. 195). The underlying logic lies in the Carnegie School of thought and the argument that complex decisions are largely outcomes of behavioral factors, including the values and cognitive orientation of key players (Cyert and March, 1963). Hambrick and Mason (1984) argue that managers' cognitive orientation influence the perceptual process behind strategic decision making through selective perception, by limiting their field of vision and by filtering information. Thus, differences in managers' cognitive perspectives affect all aspects of the strategic decision-making process, including issue identification (Dutton and Duncan, 1987), information search, and information processing (Cyert and March, 1963), as well as alternative specification and selection of the course of action. In other words, the beliefs, assumptions and values that executives bring to the decision setting drive their decision-making and actions.

Hambrick and Mason (1984) also argue that the background characteristics and experiences of managers shape their cognitive perspective and knowledge base. Although psychological factors are central to upper echelons theory, such phenomena are rarely studied directly in studies of top executives (Kesner and Sebora, 1994). Rather, psychological orientations are typically imputed from more readily observable characteristics, including tenure (Barker and Mueller, forthcoming; Datta and Guthrie, 1994), educational level (Wiersema and Bantel, 1992), functional background, (Datta and Rajagopalan, 1998) and international experience (Sambharya, 1996). The underlying assumption is that experience, personal background, and education shape managerial cognition, knowledge, and skills in ways that substantially impact decision making and behavior (Hitt and Tyler, 1991). Kiesler and Sproull (1982) also suggest that background characteristics and experiences reflect executives' underlying psychological orientation and knowledge base and consequently should impact strategic choices and outcomes. Additional support for the demographic approach comes from Pfeffer (1983) who argues that, "...demography is an important causal variable that affects a number of intervening variables and processes, and through them, a number of organizational outcomes" (p. 350). Furthermore, he adds that demography might explain more variance in the dependent variable than the presumed intervening constructs and mental processes. Widespread use of the demographic approach can also be attributed to other benefits, namely, objectivity, parsimony, and testability (Hambrick and Mason, 1984).

Much of the extensive research on top management demography (Finkelstein and Hambrick, 1996; Kesner and Sebora, 1994) centers on CEO characteristics, with the implicit assumption that power and key decision making authority is concentrated in the hands of CEOs. An important stream of research has examined relationships between CEO characteristics and firm strategies. Based on the strategic choice paradigm (Child, 1972) and the upper echelons perspective (Hambrick and Mason, 1984), the primary question in this research stream is whether managers' strategic choices reflect their individual experiences, cognitive orientations, and knowledge base. Empirical support comes from studies that have found top management characteristics to be related to firms' strategic orientations, at both the corporate and the business level. Smith and White (1987), for example, identified systematic relationships between new CEOs' functional backgrounds and firms' diversification strategies. Likewise, Song (1982) found functional backgrounds of CEOs to be related to the diversification strategies of their firms, with those adopting a strategy of internal diversification typically being led by CEOs with marketing and production backgrounds. In contrast, firms that pursued acquisitions were more likely to have CEOs with backgrounds in accounting, finance, and law. At the business level, Chaganti and Sambharya (1987) and Govindarajan (1989) identified relationships between the functional background of key managers and firms' competitive strategies. In addition, Miller, Kets De Vries and Toulouse (1982) found that firms led by confident and aggressive CEOs adopted risky and innovative strategies, whereas those headed by CEOs given to feelings of helplessness adopted more conservative strategies. More recently, Barker and Mueller (forthcoming) found firm R&D spending to be greater in firms with CEOs who were younger and had output backgrounds. In the international context, Channon's research (1979) indicates systematic associations between CEO profiles and internationalization strategy, and executive international experience has been shown to be closely associated with a firm's level of international diversification (e.g., Black, 1997; Sambharya, 1996). In sum, the above studies provide descriptive validity to the proposition that systematic relationships exist between CEO demographic characteristics and firm strategies, suggesting that experientially acquired reference frames of CEOs critically influence their choice of strategies. Extending the argument to the international arena, one can similarly argue that the characteristics of successor CEOs should have an important impact on international strategies and decisions, including the choice of foreign market entry modes.

Foreign Market Entry Mode

Firms seeking to enter foreign markets have a number of strategic choices, including, wholly-owned subsidiaries (greenfield investments or acquisitions), joint ventures, and contractual entry modes (such as licensing or franchising). These different modes imply different levels of ownership and control, leading Erramilli and Rao (1993) and Hill, Hwang and Kim (1990) to classify entry modes into two broad categories: full-control and shared-control. Firms can opt for full control and ownership by choosing greenfield investments or cross-border acquisitions, whereas licensing and joint ventures entail sharing of control and ownership. The decision on the extent of control and ownership is important, as managers often visualize the foreign market entry decision in two stages. In the first stage, if control is important, firms are likely to choose greenfield investments or acquisitions. In the second stage, if managers accept the possibility of shared control, decisions are made between options with lower levels of ownership and the subsequent seeking of appropriate partners (Gatignon and Anderson, 1988).

In addition to control and ownership, entry modes differ in other important ways. First, there are differences in risk exposure (Agarwal and Ramaswami, 1992). Full-control entry modes are typically more susceptible to environmental uncertainties and involve greater exposure to political risks. Second, resource commitments are usually greater in full-control entry modes often involving deployment of assets which cannot be easily redeployed without incurring substantial sunk costs (Hill et al., 1990). Such assets constitute exit barriers limiting strategic flexibility and thereby increasing venture risks. Several authors have related higher control to higher risk in entry modes, given the resource commitment, switching costs, and exposure of a firm entering a foreign market (Anderson and Gatignon, 1986). Agarwal and Ramaswami (1992, p.3) also associate full-control entry with high risk, arguing "...the sole venture mode is a high investment and consequently high risk/return alternative that also provides a high degree of control to the investing firm. The joint venture mode involves relatively lower investment and hence provides risk, return, and control commensurate to the extent of equity participation of the investing firm." From their perspective, the choice of entry mode can be viewed as a strategic decision in which firms make trade-offs between resource commitment and degree of risk. Finally, the use of full-control entry modes requires entering firms to develop their own knowledge base and competencies to function effectively in the foreign environment, whereas firms using shared-control entry modes have access to local partner's knowledge on markets, competitors, and governmental policies.

Because the ultimate success of wholly-owned manufacturing subsidiaries is dependent on many political, economic, sociocultural and market factors, information needs associated with full-control entry decisions are typically much greater than those associated with shared-control entry modes. Consequently, decision-makers must be effective and efficient in extensive, in-depth environmental scanning as well as in processing and gathering information. For example, in cross-border acquisitions, obtaining reliable information for evaluating potential candidates can be extraordinarily difficult. Furthermore, with any foreign market entry there are significant learning challenges in developing strategies that create and sustain competitive advantages (Hitt, Hoskisson, and Kim, 1997), and these challenges are inevitably greater in full-control entry modes. The characteristics of full-control and shared-control entry modes discussed above are summarized in Table 1.

RESEARCH HYPOTHESES

In view of the relationships between CEO characteristics and strategic choices, and the differences between full and shared-control entry modes, we argue that the characteristics of successor CEOs will have a significant influence the choice between entry modes. The expected relationships between specific characteristics and entry mode choice is discussed in the following paragraphs.

CEO Position Tenure

Hambrick and Fukutomi (1991), highlighting the significance of position tenure (number of years in the position) in their model of the "seasons of a CEO's tenure", argued that CEOs typically start with a strong commitment to their implicit models of causal relations, options, and priorities. This leads them to adopt approaches and enact strategies that they are more comfortable with and which have been effective in their careers. In the initial phase of their tenure,

TABLE 1
CHARACTERISTICS OF FULL-CONTROL AND SHARED-CONTROL ENTRY MODES

Characteristics/Determinants	Shared-Control Entry (Joint Ventures, Contractual Agreements)	Full-Control Entry (Greenfield Investments, Acquisitions)
Extent of risk exposure (Influenced by resource and asset commitment; risk sharing by partners)	Low-Moderate	High
Returns (Directly related to ownership and control)	Low-Moderate	High
Resource commitment (Associated with entering foreign market and maintaining operations, increases with increasing ownership and control)	Low-Moderate	High
Knowledge of local markets (Enhanced with local partners. Exchanges with partners facilitate access to knowledge needed to understand environment)	Low-Moderate (Given access to partner knowledge base)	High (Must develop knowledge base independently)
Control (Directly related to ownership)	Moderate	High

CEOs can be expected to be somewhat risk averse, avoiding risky strategies that might jeopardize their position. In addition, the early years of a CEO's tenure are typically characterized by limited task knowledge, making it more difficult for CEOs to endorse risky strategic options (Hambrick and Fukutomi, 1991).

However, with greater position tenure, CEOs become more familiar with the decision process and acquire greater task knowledge, expertise, and experience along with increased power within the organization. The leading role that CEOs typically play in board appointments results in board co-optation which, over time, serves to strengthen their influence over corporate decisions and helps insulate them from the pressures of economic performance (Boeker, 1989). Additionally, the development of a patriarchal aura, together with accumulation of shareholdings over time provides CEOs with greater power, allowing more resource-intensive and riskier strategies to be pursued (Pfeffer and Salancik, 1977). Moreover, the greater task knowledge associated with increased position tenure (Finkelstein and Hambrick, 1996) makes CEOs more confident about adopting riskier strategies. Position tenure also results in greater autonomy (Miller, 1991) providing CEOs with greater opportunities to pursue strategic options involving higher levels of risk and resource requirements.

The above arguments suggest that newly selected CEOs are likely to favor options that involve lower resource commitments and risks, preferring shared-control entry modes. However, with increasing position tenure, as they acquire greater legitimacy and power, CEOs are likely to become more comfortable choosing entry modes that provide greater control over operations, even if these options involve higher resource commitments and greater investment risks. Thus:

Hypothesis 1: Position tenure of CEO successors will be positively associated with preference for full-control entry modes.

Educational Level

Educational level has been associated in the upper echelons literature with open mindedness, tolerance for ambiguity, capacity for information processing, and ability to identify and evaluate multiple alternatives (Dollinger, 1984; Hambrick and Mason, 1984). It has been argued that managers with greater educational levels are more likely to possess the cognitive ability to process complex information, analyze new situations, and discriminate among available alternatives (Wiersema and Bantel, 1992). Because full-control entry modes require superior knowledge and understanding of foreign markets, the ability to process complex information from multiple sources is more important in such modes. Full-control entry modes typically involve more extensive project analysis and require a more precise assessment of enterprise value than do shared-control entry modes (Kogut and Singh, 1988). In addition, educational level has been associated with receptivity to innovation and risk taking among executives (Finkelstein and Hambrick, 1996; Kimberly and Evanisko, 1981). Given that full-control entry modes are associated with higher risks (Agarwal and Ramaswami, 1992), it can be argued that CEOs with greater educational levels are likely to be more receptive to such ventures than those with lower educational levels.

In sum, we can argue that more highly educated CEOs have the cognitive orientation and ability to analyze the complex set of factors and accept the risks associated with full-control entry modes. On the other hand, CEOs with lower educational levels are more likely to opt for shared-control entry modes, which require less information processing and entail less risk. Thus:

Hypothesis 2: Educational level of CEO successors will be positively associated with preference for full-control entry modes.

Functional Background

An executive's functional experience, an important indicator of the cognitive biases and type of knowledge that executives bring to their jobs, provides a lens through which business problems and solutions are often identified and defined (Dearborn and Simon, 1958). Although CEOs are presumed to have a generalist's view, they often bring an orientation developed in their primary functional area (Hambrick and Mason, 1984). For example, an "output" functional background (marketing, sales, product R&D, entrepreneurship), as defined by Hambrick and Mason (1984), has been associated with a preference for new products, new markets, and new opportunities, and a "throughput" background (accounting, operations, process R&D) with the need to maintain control and operational efficiency. Consequently, CEOs who have spent most of their careers in throughput functions are more likely to have a control and efficiency orientation that should favor the choice of full-control entry modes, with greater strategic and financial control.

Also, the fact that entry modes differ with regard to interdependencies has important implications for choices. Strategic interdependencies are typically greater in shared-control entry modes, where significant interaction with foreign partners is likely in day-to-day operations. Executives with an output background and an external focus are likely to be more comfortable managing such interdependencies, whereas those with a throughput background are likely to favor full-control entry modes with lower levels of interdependencies. Gupta and Govindarajan (1984) also suggest that executives with experience in marketing and sales fit better in situations involving greater ambiguity and more uncontrollable factors. Thus, we can expect CEOs with "output" backgrounds to exhibit a preference for shared-control entry modes (characterized by greater ambiguity and less control). In contrast, CEOs with "throughput" backgrounds, whose skills and cognitive orientation are more appropriate to foreign operations where the focus is more on control than on management of interdependencies, are likely to prefer full-control entry modes. Thus:

> **Hypothesis 3:** CEO successors with throughput functional background are more likely to choose full-control entry modes.

International Experience

International experience among top managers has been associated with reduced levels of uncertainty in international operations (Sambharya, 1996), increased awareness of international opportunities, and superior ability to manage operations in different countries (Black, 1997). Such experience can be particularly important in the context of foreign market entry, given the challenges of competing in international markets. The diversity of foreign markets confronts firms with a broad array of demand characteristics and greater variety of rivals, suppliers and buyers (Barkema and Vermeulen, 1998). Under such circumstances, learning associated with international experience can lead to fewer mistakes and, consequently, increased likelihood of success. In addition, by diminishing the idea of "foreign" and helping managers integrate the learned culture with their own, international experience can have an important impact on the values and cognitive orientation of managers. CEOs who have accumulated knowledge of foreign cultures and business practices through international experience can be expected to possess the skills sets that give them greater confidence to operate in foreign business environments (Black, 1997).

The value of international experience has also been emphasized by other researchers (e.g., Daily, et al., 2000), who argue that such experience provides executives with skills not easily developed through other means. Such international experience is likely to be particularly valuable in the context of entry modes that require greater market knowledge and understanding, i.e., full-control entry modes. As suggested by Melin (1992), knowledge about foreign markets is important in overcoming the "psychic distance" of doing business overseas (caused by differences in language, culture, business practices, and legislation). A CEO with greater international experience possesses superior insights on how to operate in diverse national and product settings, which increases the propensity to use full-control (versus, shared-control) entry modes. Moreover, international experience is likely to be more valuable in full-control entry modes, where local partners' knowledge base cannot be used to overcome the "psychic distance". Finally, as Tung and Miller (1990) and Kedia and Mukherji (1999) argue, international experience in managers contributes to the development of a "global mindset" that leads to greater confidence in foreign environments and more effective handling of global competition. This mindset along with a better-developed global business perspective increases the likelihood that internationally experienced CEOs will opt for full-control entry modes. Thus:

Hypothesis 4: International experience of CEO successors will be positively associated with preference for full-control entry modes.

Studies by Thomas, Litschert and Ramaswamy (1991), Datta and Rajagopalan (1998) and Gupta and Govindarajan (1984), among others, suggest that firms exhibiting superior performance better align their strategy to executive background characteristics. Gupta (1984) argued that a match between managerial characteristics and firm strategy leads to superior performance and Gupta and Govindarajan (1984) found that performance was a function of the extent of fit between the experiences and personalities of managers and the strategy of the firm. In other words, from a normative perspective, it can be been argued that firms choosing strategies that fit their top executives' characteristics typically exhibit superior performance. Extending the same to choice of entry mode, we argue that while better-performing firms should exhibit a strong fit between entry-mode choices and CEO characteristics, lower-performing firms are not likely to do so. Thus:

Hypothesis 5: The relationships between CEO successor characteristics and entry-mode choice identified in hypotheses 1-4 will be present in high performing but not in low performing firms.

METHODS

Sample

Firms with foreign market entry following CEO succession had to satisfy the following criteria to be included in the sample. First, only firms in manufacturing industries (two-digit SIC codes 20-39) were selected. Second, firms were required to have sales over $250 million and to have international sales. Third, firms had to derive at least 50 percent of sales from their main business segment (primary four-digit SIC industry)[1]. The underlying rationale was that CEOs in less-diversified firms are more likely to be involved in international entry-mode decisions than those in more-diversified firms. In the latter, CEOs are more likely to be involved in decisions associated with identifying the appropriate portfolio of businesses than in strategies pertaining to the competitiveness of individual divisions, including entry-mode choices. Moreover, CEO experience and background in the context of strategic choices become more relevant for firms competing primarily in a single business (Gupta, 1988). Finally, our sample was limited to publicly traded firms, enabling us to gather data on firms and CEOs from secondary sources.

There were a total of 126 CEO succession events between 1989 and 1997 in our sample of firms. Data availability on foreign market entry in the five years following each succession resulted in 271 foreign market entries (involving 45 countries)—184 involved full-control entry modes (49 greenfields and 135 acquisitions) and 87 shared-control entry modes (60 joint ventures and 27 contractual agreements).

Measures

Dependent Variable. Following past research (e.g., Erramilli and Rao, 1993; Hill et al., 1990), entry modes were classified into two categories: full-control (coded "1"), which were either greenfield investments or cross-border acquisitions, and shared-control (coded "0"), which were joint ventures and contractual agreements (franchising, licensing, and other non-equity agreements). Data on foreign market entry used was based on information reported in *The Wall Street Journal Index*, *Mergers and Acquisitions*, *Moody's Industrial Manual*, and *Moody's OTC Manual*, supplemented with information in firms' annual reports and 10-K statements.

Independent Variables. CEO position tenure was measured as the number of years the CEO had held the position at the time of foreign market entry (Miller, 1991). CEO educational level (based on number of years of schooling) was assessed using a seven-point scale: 1=high school, 2=attended college, 3=undergraduate degree, 4=attended graduate school, 5=master's degree, 6=attended doctoral program, and 7=doctorate (Datta and Rajagopalan, 1998). CEO functional background was coded as a categorical variable to reflect either "output" or "throughput" experience. Following Hambrick and Mason (1984), dominant functional experience in production/operations, finance and accounting/data processing/information systems, and process R&D was categorized as throughput functional background (coded as "1"); dominant experience in sales/marketing, product R&D, and entrepreneurship was categorized as output functional background (coded as "0"). Finally, CEO international experience was operationalized as the total number of years spent abroad on assignment, in higher education, and/or in a firm's international division (Sambharya, 1996). Data on CEO characteristics and succession events were drawn from the *Dun and Bradstreet Reference Book of Corporate Management*, *Standard & Poor's Register of Corporations, Directors and Executives*, *Dun and Bradstreet Million Dollar Disc*, and *Who's Who in Finance and Industry*.

Control Variables. We controlled for several factors known to impact entry-mode choice. Firm size was operationalized as the natural logarithm of a three-year average of the total number of employees (Guthrie and Olian, 1991) and firm growth as the average growth in sales over the three years preceding foreign entry (Bühner, 1987). Following Aulakh and Kotabe (1997), firm international experience was defined as the ratio of its foreign sales to total sales. In addition, we controlled for selected industry and macroenvironmental factors. Industry R&D and advertising intensity were operationalized as industry R&D and advertising expenses divided by total industry sales, respectively (Gatignon and Anderson, 1988). The size of the host market was measured using real gross domestic product (GDP) and growth was assessed as GDP growth, both in the year of entry (Barkema and Vermeulen, 1998). Following Barkema and Vermeulen (1998), the stage of host market development was operationalized as GDP per capita in the year of entry with GDP data being obtained from the U.N. *Statistical Yearbook*, and the *International Financial Statistics* of the IMF. We also controlled for cultural distance, given that firms are more likely to favor full-control entry modes in countries with cultures perceived to be similar to their own (e.g., Kogut and Singh, 1988). Consistent with past research (Kogut and Singh, 1988) cultural distance was measured using a composite index derived from Hofstede's measures. Finally, firm performance was measured as the post-entry three-year average of firm ROA relative to industry ROA (primary 4-digit SIC). We used the relative measure to control for inter-industry performance variations (Finkelstein and Hambrick, 1990).

Data Analysis and Results

To examine the relationships between successor CEO characteristics and choice of entry mode (a binary dependent variable), we used logistic regression (Hosmer and Lemeshow, 2000; Pindyck and Rubinfeld, 1998)[2]. This approach has been widely used in the entry mode literature (e.g., Barkema and Vermulen, 1998). The logit model in this context is based on the cumulative probability function and can be specified as:

$$P_i = F(a + bX_i),$$

where P_i is the probability that a full-control entry mode choice will be made given conditions specified by the independent and control variables. We first entered the control variables (Model 1) and then added the independent variables (Models 2,3,4, and 5). This approach (rather than a stepwise selection procedure) was chosen because the control variables included in the model have been shown in the prior literature to impact choice of entry mode. Significance levels of regression coefficients were computed using the Wald statistic. To test hypothesis 5, the sample was divided into two subgroups based on a median split on firm performance. Logistic regression models were then estimated for the subgroups of high and low performers.

Means, standard deviations, and zero-order correlations among study variables are provided in Table 2 and results of the logistic regression used to test hypotheses 1-4 are presented in Table 3[3]. As predicted (hypothesis 1), CEO position tenure was positively associated with preference for high-control entry modes ($p<0.05$), i.e., CEOs who have been in their positions longer are more inclined to use full-control entry modes. We also found strong support for the hypothesis that functional backgrounds of CEO successors influence entry-mode choice (hypothesis 3). CEOs with throughput functional backgrounds prefer full-control over shared-control entry modes ($p<0.001$). In addition, as hypothesized, we found a significant positive relationship between international experience of CEO successors and their propensity to use full-control entry modes ($p<0.05$). However, no support was found for the hypothesized relationship between educational level and entry-mode choice. Although the relationship was in the expected direction (positive), it was not statistically significant. This non-finding can be attributed to the seniority of executives being selected as CEOs (Shenkar and Zeira, 1992). As Finkelstein and Hambrick (1996, p. 99) caution, educational level may not necessarily play an important role in strategic choices of top executives because they typically complete their formal education many years before being appointed CEOs. In summary, support for three of the first four hypotheses indicates that the characteristics and experiences of CEO successors have an important and significant influence on entry-mode selection[4].

TABLE 2
CORRELATION MATRIX AND DESCRIPTIVE STATISTICS

Variables	Means	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Entry Mode	.69	.46														
2. CEO Position Tenure	2.37	1.20	.15													
3. CEO Educational Level	3.93	1.34	.01	.18												
4. CEO Throughput Background	.83	.37	.21	.11	.18											
5. CEO International Experience	3.29	4.97	.16	−.04	−.17	.14										
6. Firm Size	3.33	1.70	.01	.11	.32	.04	.37									
7. Firm Growth	8.96	17.52	.13	−.01	.20	−.12	−.06	−.26								
8. Firm ROA	3.28	4.25	−.01	−.01	−.05	−.13	−.22	−.35	.26							
9. Firm International Experience	30.41	13.57	.02	.11	.10	.18	.09	.16	.12	−.03						
10. Host country Real GDP	67.61	732.93	.01	−.07	.15	.06	−.08	.02	.02	.10	.09					
11. Host country GDP/capita	22.94	141.88	.08	−.08	.06	.04	.03	.13	−.03	−.08	.02	.04				
12. Host country GDP growth	3.94	4.16	−.39	.16	.04	.04	−.05	.06	.12	.03	.07	−.25	−.09			
13. Cultural Distance	1.69	1.22	−.40	.04	−.02	−.13	.05	−.05	−.02	−.01	−.01	−.31	−.13	.39		
14. Industry Advertising Intensity	.04	.81	−.01	−.02	.17	−.08	.10	.44	−.01	−.06	−.08	−.01	.01	−.01	.02	
15. Industry R&D Intensity	1.13	3.72	−.03	−.15	.01	.09	−.07	.00	−.04	.34	.18	.24	−.07	−.16	−.01	.11

Correlations greater than .14 are significant at $p<.05$, correlations greater than .18 are significant at $p<.01$

TABLE 3
LOGISTIC REGRESSION RESULTS: CHOICE OF ENTRY MODE

Variable	Model 1 (Control Variables)	Model 2 (with CEO Position Tenure)	Model 3 (with CEO Educational Level)	Model 4 (with CEO Functional Background)	Model 5 (with CEO International Experience)
Intercept	1.821**	2.086*	2.659**	2.423**	1.309†
Firm size	.015	.022	.026	−.039	−.800
Firm sales growth	.042*	.061**	.075**	.062**	.028*
Firm ROA	.039	.050	−.017	.127*	−.007
Firm int. experience	−.010	−.029*	−.027†	−.034*	.000
Real GDP	−.001**	−.001***	−.002***	−.002***	−.001**
GDP per capita	.067**	.095**	.114***	.109***	.092**
GDP growth	−.082*	−.116*	−.073	−.078†	−.067*
Cultural distance	−.523***	−.742***	−.562**	−1.031***	−.457**
Ind. Adv. intensity	.912	.491	−.445	2.183	−.642
Ind. R&D intensity	−.011	.015	.007	−.041	.004
CEO Position Tenure		.388*			
CEO Educational Level			−.090		
CEO Throughput Background				1.685***	
CEO International Experience					.069*
Chi-Square	78.340***	113.915***	94.993***	123.007***	64.324***
Log likelihood	273.21	218.535	222.534	201.594	233.824
N	269	269	248	265	238

†p<.10; *p<.05; **p<.01; ***p<.001

Results for the logistic regressions for the subgroups of high and low performers are presented in Table 4. Consistent with the pattern of significant effects found in the full sample, position tenure, functional background, and international experience of CEO successors were all significantly associated with entry-mode choice in the high-performing subgroup. However, these relationships were not significant in the subgroup of lower performing firms. Interestingly, the association of CEO successor educational level to entry mode, which was not significant in the full sample, was significant in the high performers subgroup ($p<0.01$). Overall, results of our subgroup analyses suggest a stronger fit between entry-mode choice and CEO demographic characteristics in firms exhibiting superior performance.

In testing hypotheses 1-4, we used separate regression for individual CEO characteristics, because data on individual CEO characteristics was not available in all cases ('N' ranged from 238 to 269). However, when we ran a single regression, incorporating all CEO characteristics variables simultaneously, the results were identical to those reported in Table 3. Likewise, for Hypothesis 5 the combined regression results (with all four CEO characteristics entered) were identical to those reported in Table 4.

TABLE 4

LOGISTIC REGRESSION RESULTS—HIGH VERSUS LOW PERFORMERS

Variable	Model 1 (with CEO Position Tenure)		Model 2 (with CEO Educational Level)		Model 3 (with CEO Functional Background)		Model 4 (with CEO International Experience)	
	High	Low	High	Low	High	Low	High	Low
Intercept	.545	1.132	−.394	2.882**	.618	1.671†	1.183	1.004
Firm size	−.020	−.044	.031	.097	.021	−.059	−.091	.077
Sales growth	.039*	−.010	.079**	−.028	.092**	−.010	.037*	−.005
International experience	.001	−.011	−.021	−.006	.001	−.013	.001	.026
Real GDP	−.001*	−.000	−.001**	−.000	−.001*	−.001	−.001**	−.000
GDP per capita	.072*	.060*	.103*	.055†	.052	.056†	.080*	.013
GDP growth	−.087	−.008	−.097	−.004	−.117†	−.005	−.046	−.134*
Cultural distance	−.549*	−.443*	−.491*	−.394†	−.731**	−.463*	−.580*	−.250
Industry advertising intensity	16.666†	.913	19.212†	.631	26.500*	1.110	6.467	−.370
Industry R&D intensity	−.246	−.002	−.427*	−.047	−.405*	−.018	−.044	−.051
CEO Position Tenure	.318†	.265						
CEO Educational level			.415*	−.429*				
CEO Throughput background					1.209*	.447		
CEO International Experience							.092*	−.027
Chi-Square	49.507***	22.435**	56.594***	24.176**	57.946***	21.931**	47.086***	16.393*
Log likelihood	130.508	164.886	104.129	158.817	111.456	156.012	122.306	121.215

†p<.10, *p<.05, **p<.01, ***p<.001

Discussion and Conclusions

This study was motivated by a desire to address a key gap in the empirical literatures on CEO succession and foreign market entry modes. Although previous studies (e.g., Chaganti and Sambharya, 1987; Govindarajan, 1989; Sambharya, 1996; Smith and White, 1987; Song, 1982) have examined relationships between executive characteristics and firm strategies, none have done so in the context of foreign market entry-mode choices. Overall, our findings provide interesting insights into the relationships between CEO successor characteristics and the choice of entry modes. Consistent with theoretical arguments, with increasing position tenure, CEOs favored full-control entry strategies. Greater legitimacy in their position, along with higher levels of confidence and experience, probably resulted in CEOs being more inclined to select full-control entry options, characterized by greater risks and higher resource requirements. Moreover, CEOs with throughput backgrounds seem to favor full-control entry modes, a preference that probably stems from a desire for greater control and efficiency. In addition, findings indicate that international experience among successor CEOs has important implications for entry-mode choices. They suggest that international experience and associated learning provide CEOs with the mindset, knowledge, and confidence to select full-control entry modes, involving higher levels of information processing along with greater resource commitments and risks. Finally, from a normative perspective, our study found some support for the notion that high performing firms exhibit greater coalignment between CEO characteristics and choice of entry modes.

Findings and conclusions presented in this paper must, however, be interpreted in the context of study limitations. First, our sample was restricted to relatively large, non-diversified U.S. firms in the manufacturing sector, limiting the generalizability of our findings. Future research examining the relationships explored in this study with different samples (e.g., firms in the service sector and, possibly, more diversified firms) and in different settings (e.g., entry modes used by non-U.S. firms) should provide additional insights. Second, it can be argued that in decisions related to entry-mode choices, CEOs are likely to be influenced by their previous strategic decisions (and associated outcomes). Future research on the role and impact of prior decisions would undoubtedly improve our understanding of factors influencing entry-mode choices. Third, although researchers (e.g., Barker and Mueller, forthcoming; Datta and Guthrie, 1994; Datta and Rajagopalan, 1998; Hambrick and Mason, 1984) have strongly advocated the use of demographic factors, it is recognized that such factors may not fully capture the cognitive variables of interest. We believe that future research using qualitative and longitudinal methods (Kesner and Sebora, 1984), case studies and field experiments (Bantel and Jackson, 1989) as well as reliable measures of personality (Pitcher, Chreim and Kisfalvi, 2000) would be particularly useful in assessing the validity of our study findings. Finally, the current study can be extended to examine the role of top management teams (TMT) in the choice of entry mode. Although CEOs have the ultimate responsibility for key strategic decisions, it can be argued that, in most large organizations, they typically share power and decision making with other members of top management. TMT characteristics, therefore, are important predictors of organizational strategies. The same should also be true for entry-mode choices—a question that deserves to be examined in future research.

In conclusion, although our study provided interesting new insights on the relationships between CEO successor characteristics and entry-mode choices, there remain several unanswered questions. As Kesner and Sebora (1994, p. 327) note, "...when it comes to executive succession, there is little that we know convincingly, much that we do not know because of mixed results and even more that we have not yet studied." We hope this study spurs additional research that helps improve our understanding of the complex set of issues and relationships surrounding executive characteristics, international strategies, and firm performance.

Notes

1. We also conducted analyses using firms satisfying a 70% cutoff (instead of 50%). While the number of entry cases dropped to 163, findings were identical to those reported in this paper.

2. In logistic regression the conditional mean of the regression equation is formulated to be bounded between 0 and 1 and the conditional distribution of the outcome variable follows a binomial distribution with probability given by the conditional mean.

3. To assess if multicollinearity was a problem, we employed the variance inflation (VIF) approach suggested by Neter, Wasserman and Kutner (1985). This approach measures how much the variances of the estimated regression coefficients are inflated when compared to the case in which the independent variables are not linearly related. The computed VIF values were below 10, suggesting that multicollinearity was not a problem.

4. Supplementary analysis, using only a single foreign market entry (randomly chosen) for each firm/successor CEO in the sample provided very similar results.

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