

Successor characteristics, change in the degree of firm internationalization, and firm performance: The moderating role of environmental uncertainty

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Abstract

Our study examines the relationship among successor characteristics, post-succession firm change in the degree of internationalization, and firm performance. We use the upper echelon, organization change, and contingency perspectives to frame our conceptual arguments. Based on data from 187 succession observations for listed companies in Taiwan between 2000 and 2005, we find that firms will opt for higher levels of change in their degree of internationalization when they experience outside succession and that the negative impact of change in the degree of firm internationalization on subsequent firm performance is relatively low. We extend the industrial environment, explaining the moderating effect of chief executive officer succession on change in the international strategy model. Outsider successors foster a greater degree of change in the level of firm internationalization when the industrial environment is munificent or complex.

Keywords: succession, change in the degree of internationalization, environmental uncertainty, subsequent organizational performance

Rapid globalization processes and technological developments have rendered organizational change an inevitable part of contemporary organizations. The issue of organizational change over time in order to adapt to environmental or internal contingencies is central to the field of organizational change and development. The literature on organizational development and adaptation generally assumes that organizations can and will make significant and lasting changes, especially in response to the environment (Bradford & Burke, 2005). However, most such studies have focused on the advanced nations. With the increasing importance of the business sector in the emerging and newly industrializing economies (NIEs), such as Taiwan, the study of the likelihood of change and of the conditions that are conducive to change in the newly developed economies has become an important research topic. A study based on a newly developed economy provides a unique research setting and will shed additional light on the literature of organizational adaptation.

It is important for firms in Taiwan and other newly industrializing economies (NIEs) to expand

globally because of their needs for both legitimacy and resources in the international context (Contractor, Kumar, & Kundu, 2007). A change in a firm's degree of internationalization implies strategic change. An increase or decrease in company involvement in globalization is likely to affect the entire organization and can result in both structural and organizational changes as well as changes in the mindsets of individuals and groups in the company (Bartlett & Ghoshal, 1992; Hinings & Greenwood, 1988). Although changes in firm internationalization may occur for many reasons, changes in the composition of the top executives can produce significant changes in the approach to internationalization due to the knowledge, attitudes, information, and networks of the top executives (Andersson, 2000). Upper echelon contingencies are thought to play a significant role in organizational change because their cognitive perspectives may constrain strategic change in the organization. Therefore, an examination of those individuals responsible for strategy within the organization may contribute to our understanding of organizational adaptation. Earlier empirical studies reveal that the

top management can be motivators for change (Carpenter, Geletkanycz, & Sanders, 2004; Virany, Tushman, & Romanelli, 1992). Consistent with a focus on the upper echelons, the departure of a senior manager, particularly the chief executive officer (CEO), constitutes an important event in the history of the company and is a potential trigger for strategic change (Ocasio, 1994). CEO succession thus is an important mechanism to realign with the organizational or environmental contexts and is also often a precipitating force to overcome organizational inertia and resistance.

From an upper echelon perspective (Hambrick & Mason, 1984), organizational outcomes, including strategic choices and levels of performance, can be partially predicted by managerial characteristics. Finkelstein and Hambrick (1990) and Boeker (1997), for example, find a negative relationship between the organizational tenure of the top management and strategic change. Finkelstein and Hambrick (1996) emphasize the importance of the characteristics of the top managers in terms of strategic choice and firm performance. A recent set of studies concludes that CEO characteristics may have a profound impact on a firm's international strategy (e.g., Herrmann & Datta, 2002, 2006). Herman and Datta find that a CEO with international experience, compared to a CEO without such a background or experience, is more likely to prefer full-control entry modes and to favor greenfield investments over acquisitions and joint ventures because he/she perceives foreign expansion to be less risky. Hitt, Bierman, Uhlenbruck, and Shimizu (2006) also find that a CEO's human capital and relational capital with large corporate customers and foreign governments are key elements in decision-making regarding international strategy. This is one of the reasons that Coca-Cola's board sought to hire Muhtar Kent, who had experience in international marketing to gain a significant market share in Japan and Western Europe. In this sense, in order to understand change in firm internationalization, we need to pay attention to the characteristics of successors.

Research on strategy has defined strategic change as the overall change in a multiple key strategic dimensions (e.g., Carpenter, 2000; Finkelstein &

Hambrick, 1990; Zhang & Rajagopalan, 2010), or as the change in a particular strategic dimension, for example, the change in diversification strategy (e.g., Bowen & Wiersema, 2005; Hoskisson & Johnson, 1992). Nevertheless, to date, international business and strategic management scholars have paid little attention to CEO succession effects on a firm's international strategy and resultant firm performance, leaving a gap in international business and strategy studies related to an understanding of the ways in which CEO succession may influence a firm's strategic direction and performance (Karaevli, 2007). Based on this, the first objective of this study is to understand the relationships among successor characteristics, post-succession firm change in the degree of internationalization, and firm performance.

Prior research distinguishes between two types of CEO succession – inside and outside – and examines how the origin of the CEO affects organizational outcomes (e.g., Shen & Cannella, 2002; Wiersema, 1995; Zhang & Rajagopalan, 2004). Although organizational theorists emphasize that a strategic reorientation or post-succession performance is a result of CEO succession, empirical evidence on the impact of CEO succession on firm strategic change or firm performance is decidedly mixed (see Kesner & Sebor, 1994 and Giambattista, Rowe, & Riaz, 2005 for a detailed review). Some new CEOs advance strategic change or increase firm profitability, whereas others do not. This research attempts to reconcile some of the discrepancies in the prior research by exploring how CEOs with different experiences affect the degree of change in firm internationalization, and therefore influence the relationship between the level of change in international strategy and subsequent performance. This study is one of the few empirical studies to assess the simultaneous impact of CEO succession and post-succession strategic change on firm performance (Zhang & Rajagopalan, 2010).

In addition, to understand the relationship between executive succession and the degree of internationalization change, an important contingency that is salient in the strategic decision-making process is the external industry environment. Clark and Soulsby (2007) find that top managers

undertake strategic change to adapt to business environments. As noted above, the replacement of a CEO is a key adaptation mechanism in response to environmental demands. In addition, environmental uncertainties provide CEOs managerial discretion during the process of strategic change. Such power may allow other top managers to accept strategic change, thus removing the stumbling blocks when new CEOs plan to change the company international strategy. In keeping with previous research, we expect that the external industrial environment (which includes environmental dynamism, environmental munificence, and environmental complexity) will likely exert a moderating effect on organizational behavior and consequent outcomes (e.g., Simerly & Li, 2000). Thus, using insights from the contingency perspective, the second objective of this study is to investigate how the external industrial environment moderates the relationship between successor characteristics and post-succession changes in the degree of internationalization.

In sum, by using the upper echelon, organizational change adaptation, and contingency perspectives, this study attempts to identify the direct effect of CEO origins on changes in the degree of firm internationalization, the moderating effects of the external environmental contingencies on changes in international strategy, and the joint effect of CEO origins and changes in internationalization on firm performance.

LITERATURE REVIEW AND HYPOTHESES

Outside succession and firm change in the degree of internationalization

The impact of human capital, especially CEOs and top management teams (TMT), on international strategy has been emphasized in studies of firms in the industrializing countries (Athanassiou & Nigh, 2000; Daily, Certo, & Dalton, 2000). In newly industrializing economies, the internationalization process often focuses on the key person, i.e., the CEO. The individual resources of the CEOs, including their knowledge, experience, and networks of relationships, help them recognize new opportunities for growth or dangers from expanding into foreign markets (Ruzzier, Antoncic, Hisrich, & Konecnik,

2007). During the process of internationalization, CEOs are responsible for gathering information about international markets, establishing objectives, assembling organizational resources, and implementing international strategies. The degree of international involvement reflects the capability and eagerness of the top management, both of which in turn depend on the characteristics of the CEOs. The choice of a CEO is a key organisational decision, with important consequences for organisational strategies (Boeker & Goodstein, 1993). A change in the CEO can fundamentally alter the knowledge, skills, and interaction processes at the top of a company, and these changes can, in turn, significantly influence the organizational structure and strategy, including both the domestic and international strategy of the firm. Differences in a CEO's prior organisational background will affect many aspects of the strategic decision-making process; as a result, when investigating the effects of succession on international strategic change, the insider/outsider distinction merits further study.

We propose that corporate organisations experiencing an outside CEO succession exhibit more strategic changes than firms undergoing an inside succession. As noted earlier, we conceptualize strategic change as the variance in the degree of internationalization from pre-succession to post-succession. According to the research tradition inspired by the upper echelon theory, the background characteristics of a newly selected CEO (e.g., age, firm tenure, and educational background) may influence his/her role in making decisions that will affect the strategic direction of the firm (Hambrick & Mason, 1984; Isabella, 1990). These characteristics often reflect the new CEO's knowledge base, psychological orientation (Datta & Rajagopalan, 1998), and ability to gather and process information (Miller, 1991) regarding strategic decisions during the post-succession period. Among these characteristics, tenure is viewed as the most salient characteristic of a new CEO's insider status in the firm. Previous research highlights that because of socialisation processes within the firm, inside successors are more likely to have a limited knowledge base and a psychological commitment to the status quo (Hambrick,

Geletkanycz, & Fredrickson, 1993), and then reduced quantity and quality of information processing (Finkelstein & Hambrick, 1996). International strategy decision-making is associated with extensive information-gathering and processing and a need for greater flexibility when operating in foreign countries. With a decline in the amount of information gathered and processed, an inside successor may be less inclined to change international operations.

Conversely, if a new CEO is an outsider, he/she tends to be less committed to the status quo and better able to search wider or deeper for foreign markets. He/she is unlikely to be significantly constrained by within-firm social networks (Schleifer & Summers, 1988). Therefore, he/she will be less hesitant to implement international strategic changes (Karaevli, 2007). Moreover, outsiders may be more willing to undertake rapid action in order to demonstrate their ability to the board of directors and to win the trust of other senior executives (Friedman & Saul, 1991). This is necessary because the board of directors usually is not very familiar with them and senior executives who have been selected by their predecessors are often hostile to outside successors (Boeker & Goodstein, 1993).

Thus, outside succession may lead to efforts by the successor to initiate strategic change in terms of both the scale and scope of foreign markets. As a result, an outside successor is thus expected to exhibit more willingness to increase the firm's degree of internationalization.¹ Given this pattern, the following hypothesis is proposed.

Hypothesis 1: Outside succession will have a positive relationship on change in the degree of internationalization of a post-succession firm.

CEO succession, strategic change, and change in performance

Previous research studies whether strategic change improves firm performance. However,

studies on the relationship between strategic change and firm profitability have produced equivocal findings (Rajagopalan & Spreitzer, 1997). The contradictory findings suggest that the relationship between strategic change and firm performance may be contingent on organizational conditions and environmental factors. For example, Hambrick and Schecter (1983) find that the relationship between change in strategy and improved financial performance is contingent on the type of change and the type of industrial environment. In this study, we propose that the insider/outside CEO succession moderates the relationship between change in the degree of internationalization and firm performance.

The level of strategic change reflects the experimental and risk-taking aspects of a firm's strategic choices (Finkelstein & Hambrick, 1990; Zhang, 2006). Change in international strategy is precarious, requiring significant investments to redesign the firm's culture, processes, and organizational structures (Lant, Milliken, & Batra, 1992), and has the potential to trigger conflicts within the firm. The costs, risks, and organizational disturbances associated with high levels of change in international strategy may cause worse performance in the short run. Mitchell, Shaver, and Yeung (1992) find that either increasing or decreasing internationalization can produce a negative effect on a firm's market share in the United States, further suggesting that any change in internationalization strategy is risky. Chief executives are seen as playing a critical role in organizational change because they initiate, shape, and redirect the orientation of the firm. Previous research implies that an immediate change in important components of a firm's strategy triggered by CEO succession may cause a decline in firm performance (Greiner, Cummings, & Bhambri, 2003; Virany et al., 1992).

In this study, we argue that, relative to inside CEOs, outside CEOs can reduce the negative effect of strategic change on firm performance for the following reasons. First, usually an outside CEO is hired because of a decline in performance (Dalton & Kesner, 1985; Furtado & Karan, 1990) and is more likely than an insider to have a mandate to change the existing situation and

¹ In this study, 'change in a firm's degree of internationalization' is defined as the extent to which a firm's degree of internationalization changes after a firm experiences a CEO succession event.

to break with traditional patterns (Cannella & Lubatkin, 1993). In addition, the appointment of an outside CEO may also signal to both external stockholders and internal employees the board's willingness to reshape the organization. High levels of strategic change initiated by a new outside CEO will meet the expectations of the board. With complete backing from the board, it is easier for an outside CEO to overcome employee resistance and to implement major organizational changes, which in turn will decrease the negative impact on firm performance.

Second, as noted above, a new outside CEO can bring in fresh knowledge, skills, and cognitive perspectives (Helfat & Bailey, 2005) that traditionally are considered prerequisites to manage change effectively (Finkelstein & Hambrick, 1996). For example, a new outside CEO may generate novel anticipations and renewed expectations among employees, which will help bring about a commitment to change among employees and reduce internal uncertainties. Furthermore, outside CEOs may also bring in external resources (e.g., new channels and new clients in international markets), or personal international networks to help implement international strategies that previously were blocked either by a lack of resources or inertia (Daily et al., 2000). Their outsider experiences, resources, and open-minded perspectives enable them to assess strategic options more broadly and to overcome difficulties in implementing new international strategies. This conception is consistent with Bonn and Pettigrew's (2009) argument that as firms grow and expand their range of services, they are faced with an increasingly heterogeneous environment. The growing environmental complexity leads to more sophisticated information-processing procedures. Decision-making requires more effort to integrate decisions of different areas to ensure their complementarities.

Therefore, in keeping with previous research exploring the effect of CEO origins on corporate performance, we propose that change in a firm's international strategy due to leadership by an outside CEO, as opposed to an inside CEO, will have less of a negative impact on subsequent firm performance.

Hypothesis 2: The negative relationship between change in a firm's degree of internationalization and its subsequent organizational performance will be weaker when a new CEO is recruited externally.

The moderating effect of the external industrial environment

Previous empirical studies on succession suggest that environmental variables tend to influence the hypothesised relationship between senior executive change and continuation of firm strategy. The uncertainties surrounding globalisation make this particularly relevant to international business studies. Senior executive change has been identified as a key adaptation mechanism in response to shifting environmental demands (Tushman & Romanelli, 1985). One promising approach that has been identified is a set of three environmental dimensions: dynamism, munificence, and complexity, a condensation of Aldrich's (1979) six environmental factors to three environmental dimensions (Dess & Beard, 1984). This taxonomy has been used extensively (e.g., Boyd, 1995; Keats & Hitt, 1988) because it addresses environmental characteristics in a fairly economical and quantitative fashion. However, despite earlier research that has identified environmental effects on top executive characteristics (Carpenter & Fredrickson, 2001) or on post-succession firm performance (Karaevli, 2007), or even firm survival (Ballinger & Marcel, 2010), these studies do not consider the 'three task environment factors' simultaneously. In this study, we focus on the moderating role of the three factors in assessing the relationship between CEO succession and change in a firm's level of internationalization.

First, dynamism defines the extent to which a CEO faces an unpredictable and unstable environment (Finkelstein & Boyd, 1998; Hambrick & Abrahamson, 1995). It may include the extent to which the market is competitively unstable (Grimm, Lee, & Smith, 2006) or the unpredictability of the competitors' actions (Ferrier, 2001). Rapid environmental change poses a unique challenge because it tends to undermine the value of any decisions that emerge after prolonged

consideration (Bogner & Barr, 2000). Successful firms cope with rapidly changing environments by increasing the speed of their decision-making processes (Eisenhardt, 1989). In a stable industrial environment, where the growth rate is typically low, the degree of production diversification is generally low and product or customer demand is considerably predictable, the CEO is more likely to commit to the status quo and maintain current strategies. CEO information-overload and foreign strategy decision-making requirements are more standardised, and the direction of the strategic change is more routine (Kotter, 1982). In contrast, dynamic environments offer top executives greater discretion in terms of the firm's strategic choices (Hambrick & Finkelstein, 1987). Hambrick (2007) points out that managerial discretion is enhanced when means-ends ambiguity, i.e., market dynamism, is high. When market information is stable and reliable, the range of options available to CEOs is significantly constrained. However, when the market does not provide such reliable information, managerial discretion is enhanced. The enhanced discretion allows the CEOs to have a stronger influence on strategic decisions.

Moreover, dynamic environments require successors to have diverse orientations and to be more creative and nimble in their strategic decision-making and to be less likely to be subject to 'group-think' and inertia (Barkema & Vermeulen, 1998). A new outside CEO is likely to make more changes in the post-succession TMT in order to nurture creative strategic ideas. Post-succession TMT change increases team heterogeneity (Wagner, Pfeffer, & O'Reilly, 1984) and alters the bases of competence and dynamics within the team. New top managers must prepare for change in response to environmental fluctuations. Thus, in turbulent environments, a new TMT with a wide breadth of capability has a stronger motivation to change the level of internationalization and thus can exercise more discretion in initiating international strategic change. Therefore,

Hypothesis 3: Environmental dynamism positively moderates the relationship between outside succession and change in the degree of internationalization of a post-succession firm.

Second, environmental munificence describes an environment's ability to support sustained growth. Castrogiovanni (1991) introduces three kinds of munificence: (1) environmental capacity, referring to the level of resources available within an environmental context; (2) environmental growth/decline, referring to the relative change in the environmental capacity; (3) environmental opportunity/threat, referring to the extent to which the capacity is not exploited.

Sufficient environmental resources (i.e., environment capacity) can support organisational growth, such as developing new products, entering new markets, and generally 'going global', because munificent environments help firms buffer themselves from external threats and enable them to accumulate external resources. The lack of environmental resources causes a firm to lack organisational resources and to be more attached to current routines and rigid problem-solving (Yasai-Ardekani, 1989). At the same time, a munificent market also attracts more competitors (Palmer & Wiseman, 1999), resulting in environmental decline because stronger competitors find it more cost-effective, for example, to engage in cut-throat competition rather than to engage in market development. Moreover, new competitive options often accompany a limited understanding of the means-ends linkages and uncertainties about the future. In such contexts, the ability of a successor to explore and evaluate multiple options, to cope with causal ambiguities, and to develop a greater propensity for risk-taking is crucial (Datta, Rajagopalan, & Zhang, 2003). A new outside CEO may consider bringing in a new TMT because it will increase the possibility of processing multiple alternatives and for being more flexible in problem-solving and more accepting of risk-laden experiments. Therefore, a new outside CEO is more likely to attempt proactive strategies, such as acquisitions, innovations, and changes in international strategy. A munificent market provides more opportunities to firms (i.e., environmental opportunities/threats), which in turn provide more 'strategic degrees of freedom' to their CEOs (Hambrick & Finkelstein, 1987). When there are few environmental opportunities/threats, managerial discretion by the CEO is low.

Conversely, when the environment opportunities/threats are munificent, the top executives have greater discretion to make strategic choices related to foreign markets (Finkelstein & Hambrick, 1996). For these reasons, environmental munificence may strengthen the impact of outside succession on post-succession changes in the degree of internationalization.

Hypothesis 4: Environmental munificence positively moderates the relationship between outside succession and post-succession change in the degree of internationalization.

Third, complexity defines the extent to which a firm's operating environment is competitive and heterogeneous. Complex environments consist of many competitors with different competencies catering to a variety of customer segments, whereas simpler environments mirror oligopolies with highly developed rules or norms of interaction. Environmental complexity pertains to the range, variety, and heterogeneity of the environmental factors involved in strategic decision-making (Aldrich, 1979; Palmer & Wiseman, 1999). Firms operating in competitive environments are likely to increase variability in strategic direction with regard to domestic or foreign markets because industrial blind-spots make it difficult to fully estimate the potential effects of recently implemented strategies (Zajac & Bazerman, 1991). For instance, Nelson and Winter (1982) find that the sheer number of rivals increases the possibility of novel reactions to standard strategic actions. In the meantime, a new outside CEO is likely to undertake organizational change, including TMT change and change in strategic direction, to deal with the market complexity.

Moreover, Hambrick and Finkelstein (1987) argue that an industry's structural characteristics may affect managerial discretion. Market complexity will increase as the industrial concentration decreases and as the number of competitor increases. The number of strategic groups in the industry and the intricacy of their interrelations will also increase with the number of competitors (DeSarbo & Grewal, 2008), and the potential interconnectedness of the competitors may increase as well (Chen, 1996; Grimm et al., 2006).

Markets with fewer competitors tend to be simpler and to have highly developed rules, or norms of interaction, which may limit the competitive discretion of a new outside CEO. In contrast, the scope for maneuvering without detection is enhanced when competitors are numerous (Zajac & Bazerman, 1991). Thus, firms operating in more complex markets normally face fewer restrictions, and a new outside CEO tends to have more discretion to carry out change in the international strategy. Overall, these arguments suggest the following.

Hypothesis 5: Environmental complexity positively moderates the relationship between outside succession and post-succession change in the degree of internationalization.

METHOD

Analytical approach

We employed STASTICA 6.0 statistical software to test our hypotheses. Given a data structure in which the dependent variable has a continuous scale, we applied ordinary least squares (OLS) multiple regression analysis to test our research model and hypotheses. Multiple regressions were conducted to estimate the effects of outside successors on change in the degree of firm internationalization. The first step shows the control effect and then adds the dependent variables to the control variables. Second, since our hypotheses concern the moderating effects of environmental dynamism, environmental munificence, and environmental complexity, we examined them through interactions. We took additional actions to avoid multi-collinearity problems by centring the used variables to test the predicted interactions (Aiken & West, 1991). Moreover, we verified the statistical value of the variance inflation factor (VIF) in our regression models. It is recommended that as long as the VIF is less than 10, multi-collinearity is not a concern (Hair, Anderson, Tatham, & Black, 1998). The VIF varied from 1.15 to 2.02, well below the suggested threshold. To examine the effects of outside successors and the change in the degree of firm internationalization on the change in firm performance we used sub-group analyses. We

divided the sample into two sub-groups (outside successor and inside successor). Similarly, we applied OLS regression analysis and compared the results of both models in terms of change in the degree of firm internationalization.

Research sample and data sources

The sample firms in this study are listed on the Taiwan Stock Exchange (TSE) and cover the 2000–2005 fiscal years because this is the most recent time-period for which data are available. The final sample contained a total of 3,262 firm-year observations. Among the 3,262 firm-year observations, 396 successions were observed. To test the change in a firm's degree of internationalization, we omitted 117 samples where the tenure of the successor CEO lasted for less than 1 year. Thus, the samples included 279 succession events. Finally, because of missing data, 92 observations were dropped. Therefore, the usable sample included 187 succession observations.

The study used secondary data from the following sources: the *Taiwan Economic Journal (TEJ)*, the Market Observation Post System, and firm annual reports. First, information on succession events, outside successors, and firm international experience was gathered from the firms' annual reports. Second, data to compute the degree of firm internationalization and other control variables were collected from the TEJ and the Market Observation Post System. Third, data regarding the industry environments were obtained from the Taiwan Industry Economics Service database, the AREMOS database, and the TEJ database.

Measurements

Post-succession change in the degree of firm's internationalization

Thomas and Eden (2004) note that foreign sales and foreign assets represent the 'depth' of MNC involvement abroad. The geographic dispersion captures the 'breadth' of MNC involvement abroad. International business scholars regard these two dimensions as equally important when measuring a firm's internationalization. Thus, we take into account these two dimensions when speculating about changes in the degree of firm

internationalization. The first dependent variable (i.e., post-succession change in a firm's international scale) can capture the change in the 'depth' of a multinational corporation and addresses the following question: What is the change in the percentage of MNC activities conducted abroad? The second dependent variable (i.e., post-succession change in a firm's international scope) can capture the change in the 'breadth' of a multinational corporation and addresses the following question: What is the change in the number of countries where the MNC conducts business? George, Wiklund, and Zahra (2005) note that an assessment of the degree of firm internationalization based on both international scale and international scope is regarded as a complete analysis.

Treating t as the year in which the succession occurred, the *post-succession change in the degree of the firm's international scale* is defined as the extent of the firm's change in the degree of its internationalization from the last year of the previous CEO's tenure ($t - 1$) to the end of the year that followed the succession year ($t + 1$).² Referring to Finkelstein and Hambrick's (1990) composite strategic change measurement,³ we use two dimensions, the ratio of foreign sales to total sales (FSTS) and the ratio of foreign assets to total assets (FATA), to create a composite measurement of post-succession change in terms of the degree of a firm's international scale. The change in a firm's degree of international scale was calculated as follows. First, the firm's 3-year (for $t - 1$ through $t + 1$, inclusive) variance for each dimension regarding the degree of firm internationalization (i.e., the FSTS and FATA) was

² This time-period can capture changes from before the focal year as well as after the focal year. Hence, the approach captures changes by successors who break with the past.

³ They create a composite measure of strategic change. These indicators include six items: advertising intensity, R&D intensity, newness of plants and equipment, non-production overhead, inventory levels, and financial leverage. Thereafter, the firm's 3-year ($t - 1$, t , $t + 1$) variance for each strategic dimension was computed. Next, the six indicators were summed to yield a measure of overall strategic change.

computed. Second, the variance scores for both indicators were summed to yield the measure of the overall degree of change in the scale of firm internationalization.⁴ Similarly, the *post-succession change in the degree of the firm's international scope* was calculated on the basis of the firm's 3-year (for $t - 1$ through $t + 1$, inclusive) variance in the geographic dispersion numbers (country counts).

Post-succession change in firm performance

Following previous research (Tushman & Rosenkopf, 1996), we operationalized the dependent variable as the relative change in ROA from the time of organizational change until 2 years later. This performance change was adjusted by the industry change in ROA to control for the year effects.

$$\text{Performance change} = [r(t+2) - r(t)] \\ - [i(t+2) - i(t)]$$

where $r(t)$ equals ROA at time t and $i(t)$ equals average industry ROA at time t .

Outside succession

As previously noted, the coding of a successor type is binary, with insiders defined as individuals who come from within the organisation and outsiders defined as those who come from other firms (Kesner & Dalton, 1994).

Moderating variables

We consider three moderating variables: environmental dynamism, environmental munificence, and environmental complexity. Environmental dynamism was measured according to the volatility of industry sales across time, using a regression analysis with a variable for each year and a variable for industry sales. Five years of data were used for each equation (for instance, sales from 1994 to 1998 were used to predict turbulence in 1999). Following the equation $y_t = \beta_0 + \beta_1 t + \varepsilon_t$, where y is the industry sales, t is the year, and ε is the residual, the volatility of industry sales

across time is the standard error of the regression slope coefficient (β_1) divided by the mean value of the dependent variable. Environmental munificence was measured using the same regression model, where munificence is the regression slope coefficient (β_0) divided by the mean value of the dependent variable. Following Palmer and Wiseman (1999), we used the inverse of the four largest firms' concentration ratios as one indicator of environmental complexity (i.e., the inverse of the Herfindahl–Hirschman Index). These measurements of the industrial environment were adopted because they have been widely used in prior studies of the industrial environment (e.g., Dess & Beard, 1984).

Control variables

The control variables are categorised in three respects: industry, firm, and the power of the successor. To control for the industry, we introduced dummy variables for the high-tech industry (precision machinery, electronic components, computers and peripherals, and telecommunications), heavy industry (shipping and transportation, automobiles, iron and steel, electronics and machinery, electricity and cables, chemicals, plastics, rubber, cement, glass products, and construction), and consumer and light industry (paper and pulp, food, textiles, department stores, and tourism).⁵

With respect to the firm, we controlled for firm age, size, pre-succession performance, R&D intensity, degree of diversification, and international experience. Older firms have a relatively low innovation-related commitment and motivation to enter the international market, which, in turn, are reflected in less change in their international strategies (Yip, Biscarri, & Monti, 2000). *Firm age* was included as a control variable and calculated as the number of years since incorporation. Previous research on executive successions has consistently identified the role of organisational size in strategic change (Zhang & Rajagopalan, 2010). Therefore, we controlled for *firm size* measured as the logarithm of sales. The empirical results support the notion that managers who perform poorly are in a position to more easily

⁴ We carried out validity assessments to determine whether the composite measure was loaded on one factor and normally distributed; these two component variables demonstrated high inter-item reliability (an alpha of 0.85).

⁵ Consumer and light industry is the reference group.

overcome resistance to change and may be able to use poor organisational performance to legitimate changes that otherwise may be politically difficult to legitimate (e.g., Boeker, 1997; Finkelstein & Hambrick, 1996). We measured *pre-succession firm performance* as the average ROA in the 3 years prior to the succession event. Previous research indicates that a firm's R&D intensity has a large effect on the degree of internationalization (e.g., Filatotchev & Piesse, 2009). We also controlled for *R&D intensity*, measuring it as the ratio of R&D expenses to firm sales. According to Carpenter and Fredrickson (2001), the degree of diversification is negatively related to a firm's global strategic posture. We controlled for firm *diversification* using the Herfindahl–Hirschman Index. Finally, we controlled for *international experience*, which we measured using the number of years since the firm's first internationalization. To obtain the number of years since the first internationalization, we traced the yearly corporate reports to determine the first year of international expansion in terms of establishing foreign subsidiaries or having assets or revenue located outside the home country. Firms with international experience are likely to have richer and more accurate cognitive maps of foreign conditions than firms with less international experience (Barkema & Shvyrkov, 2007).

In terms of the power of the successor, the first successor who has expert power is more likely to have insight into decision-making regarding foreign markets (Herrmann & Datta, 2006). Successor ownership power affects the behaviour of executives in terms of foreign investment (Sanders & Carpenter, 1998). A successor with prestige power can obtain a high social status and access to resources that allow engagement in change. To value these power variables, some scholars have adopted Finkelstein's (1992) view (e.g., Berrone & Geomez-Mejia, 2009). First, we used outsider director ownership as a proxy for *successor ownership power* because a CEO has less power when outsider director ownership is high. Second, we used overseas educational experience as a proxy for *successor expert power*. Third, we used the number of titles that the CEO holds as a proxy for *successor prestige power*. Finally, the

indicator of *successor structural power* is a duality (i.e., whether the CEO is also chairman of the board). Measurements of the variables and data sources are summarized in Table 1.

RESULTS

From Table 2 we find that the number of CEO succession events gradually increased during the 2000–2005 period, especially after 2003. In fact, the CEO succession rate nearly tripled, with 62 in 2005 as compared to 21 in 2000. This phenomenon may reflect the fact that with environmental changes there are more opportunities for CEO successions. Second, among the 279 CEO successions, approximately 45% occurred in four branches of the technology industry: 46 in precision machinery, 34 in electronic components, 18 in computers and peripherals, and 26 in telecommunications. The lowest rate of CEO succession was found in the paper and pulp industry, with only four instances between 2000 and 2005.

Table 3 presents the means and standard deviations of the core variables in the models and the correlations among the variables.

Table 4 shows the coefficient estimates for the main effects of outside succession on change in the degree of the firm's international scale. The first model contains all of the control variables. The second model includes both the control and dependent variable. The interaction effects for environmental dynamism, environmental munificence, and environmental complexity are entered into the regressions one at a time in the third, fourth, and fifth models, respectively. The sixth model is the full model, which includes the control and main variables as well as all interaction variables.

First, the F -statistic value indicates the overall significance of each model. Second, the R^2 statistic value is an indicator of how well the model fits the data. Third, the ΔR^2 statistic value provides a test of the statistical significance for the added variables (i.e., change) in a particular model. For the change in the degree of a firm's international scale, the F -statistic values from Model 1 to Model 6 are significant. Moreover, the ΔR^2 statistic of Model 2, for the change compared to the control effect (i.e., Model 1), is significant ($\Delta R^2 = 0.05$, $P < 0.001$). In addition, regarding the interactive

TABLE 1: THE VARIABLES DEFINITION AND SOURCES

| Variable | Definition |
|--|--|
| High-technology industry | =1 if firm is in high-technology industry, =0 otherwise |
| Heavy industry | =1 if firm is in heavy industry, =0 otherwise |
| Firm size | The logarithm of sales in a prior 1 year |
| Firm age | The number of years since incorporation |
| Pre-succession firm performance | The average ROA for 3 years prior to the succession event |
| R&D intensity | The ratio of R&D expenses to firm sales |
| Diversification | $= 1 - \sum_{i=1}^n S_{ia}^2$, where S_{ia} is the proportion of firm a's sales in business segment i |
| Firms' international experience | The number of years since a firm's first internationalisation |
| Successor expert power | =1 if CEO had studied abroad, =0 otherwise |
| Successor ownership power | Outsider director ownership |
| Successor structural power | =1 if CEO is board chair, =0 otherwise |
| Successor prestige power | The number of titles that the CEO holds |
| Outside succession | =1 if successor is outsider, =0 otherwise |
| Post-succession firm performance change | $[r(t+2) - r(t)] - [i(t+2) - i(t)]$, where $r(t)$ equals ROA at time t and $i(t)$ equals average industry ROA at time t . |
| Change in a firm's international scale degree (abbr. DOI scale change) | The extent of the firm's change in the international scale degree from the last year of the previous CEO's tenure ($t - 1$) to the end of the year that followed the succession year ($t + 1$) |
| Change in a firm's international scope degree (abbr. DOI scope change) | The extent of the firm's change in the international scope degree from the last year of the previous CEO's tenure ($t - 1$) to the end of the year that followed the succession year ($t + 1$) |
| Environmental dynamism | Industry sales turbulence across time measure is the standard error of the regression slope coefficient (β_1) divided by the mean value of industry sales. |
| Environmental munificence | Industry munificence across time measure is the regression slope coefficient (β_0) divided by the mean value of industry sales. |
| Environmental complexity | The inverse of four largest firms' concentration ratio in the industry. |

effects (i.e., Models 3–5), the ΔR^2 statistics for change compared to the main effect are significant for Model 4 and Model 5 ($\Delta R^2 = 0.02$, $P < 0.05$; $\Delta R^2 = 0.02$, $P < 0.05$). Last, Model 6 was used to estimate the effects of all interaction terms in one model. The combined effect of the interaction terms in Model 6 was significant ($\Delta R^2 = 0.05$, $P < 0.001$), explaining the variance over and

above that which is explained by the control and direct effects alone (Model 2). Using Model 2 to examine Hypothesis 1, we find that change in a firm's international scale is positively related to outside succession, providing support for Hypothesis 1 ($\beta = 0.23$, $P < 0.001$): outside successors in a firm are much more likely to bring about change in the degree of a firm's international scale. Moreover, to better understand the effect of outside successors on the degree of a firm's internationalization, we replicated the analyses using another measure, geographic dispersion, which gauges the number of countries in which a firm has subsidiaries. This measure corresponds with the international scope (Thomas & Eden, 2004). We do not find that a firm with an outside successor is more likely to experience change in the degree of its international scope ($\beta = 0.01$, $P > 0.10$). In general, new successors are inclined to engage in change. They tend to be less conservative and therefore to prefer higher levels of change for international expansion. However, this phenomenon is not observed for change in the degree of the firm's international scope, as new investments in foreign countries are not only long-term processes but also present difficult challenges. For instance, Barkema and Shvyrkov (2007) explore the notion that for

firms investing in foreign countries for the first time, the most important task is to spend a long time overcoming the new cultural challenges. A careful analysis of the new foreign market may affect the likelihood of operational success and raise the likelihood of subsequent investments.

The regression results for change in the degree of a firm's international scale, which are presented

TABLE 2: CEO SUCCESSION EVENTS FOR THE SAMPLES

| Industry categories | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Total |
|---|------|------|------|------|------|------|-------|
| Shipping and transportation, automobile | 0 | 5 | 4 | 3 | 2 | 2 | 16 |
| Steel and iron | 0 | 4 | 3 | 3 | 0 | 2 | 12 |
| Electric and machinery | 1 | 0 | 2 | 2 | 1 | 3 | 9 |
| Electrical and cables | 1 | 0 | 3 | 1 | 1 | 4 | 10 |
| Precision machinery | 5 | 4 | 4 | 9 | 13 | 11 | 46 |
| Electronic component | 4 | 3 | 7 | 6 | 8 | 6 | 34 |
| Computer and peripherals | 3 | 2 | 2 | 5 | 3 | 3 | 18 |
| Telecommunication | 2 | 1 | 3 | 7 | 7 | 6 | 26 |
| Chemical, plastics, rubber | 2 | 4 | 7 | 5 | 4 | 9 | 31 |
| Cement, glass products, construction | 1 | 2 | 4 | 5 | 6 | 8 | 26 |
| Paper and pulp | 0 | 0 | 0 | 3 | 1 | 0 | 4 |
| Food | 0 | 2 | 1 | 2 | 1 | 2 | 8 |
| Textiles | 0 | 2 | 2 | 4 | 3 | 3 | 14 |
| Department stores, tourism, others | 2 | 3 | 3 | 9 | 4 | 4 | 25 |
| Total | 21 | 32 | 44 | 64 | 54 | 62 | 279 |

in Model 4 and Model 5 of Table 4, show that the interaction terms (outside succession times industry munificence or complexity) are significant and positive ($\beta = 0.18$, $P < 0.01$; $\beta = 0.17$, $P < 0.05$, respectively), suggesting a multiplicative effect that extends beyond the influence of the single independent variables (i.e., outside succession). Thus, Hypotheses 4 and 5 are supported, but the interaction between outside succession and industry dynamism (Hypothesis 3) is insignificant. We will return to this result in a discussion.

In support of Hypothesis 2, the regression results in Table 5 indicate that change in a firm's international scale is significantly negatively associated with post-succession performance change in a firm with inside succession ($\beta = -0.13$, $P < 0.05$), but not in a firm with outside succession. Moreover, the regression results indicate significant differences between the beta coefficients for post-succession performance change in a firm with outside succession versus a firm with inside succession ($t = 9.18$, $P < 0.001$).

DISCUSSION AND CONCLUSIONS

During the past several decades, research has sketched how a firm determines its international strategy. However, attention has been

devoted to 'firm-level' factors that account for why, where, and when firms engage in international expansion, such as in the Uppsala School (Johanson & Vahlne, 1977), transaction cost economics (TCE; Hennart, 1993), eclectic theory (Dunning, 1993), and real options theory (Kogut, 1991). This study draws on an upper echelon perspective to explore the effects of CEO succession on changes in firm internationalization as well as subsequent performance change. A company's upper echelon proves to be critical in determining the firm's international strategy. This result corresponds with the upper echelon view that emphasizes a link between the backgrounds of the upper echelons and firm strategy (Finkelstein, Hambrick, & Cannella, 2008) and supports the argument of Shen and Cannella (2002) that CEO succession is an incentive for strategic change. More specifically, outside CEOs not also lessen the disruptive effects of strategic change but also bring in outside information, thus enabling the firm to overcome the negative effects from a post-succession change in the degree of internationalization. This study complements the managerial discretion view in business strategy, which emphasizes that environment factors provide more 'strategic degrees

TABLE 3: DESCRIPTIVE STATISTIC AND CORRELATIONS^a

| Variable | Mean | S.D. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| 1. Firm size | 6.57 | 0.63 | 1.00 | | | | | | | | | | | | | | | | |
| 2. Firm age | 29.12 | 12.16 | 0.08 | 1.00 | | | | | | | | | | | | | | | |
| 3. Pre-succession performance | 0.04 | 0.98 | 0.14 | -0.27 | 1.00 | | | | | | | | | | | | | | |
| 4. R&D intensity | 2.01 | 3.13 | -0.02 | -0.42 | 0.29 | 1.00 | | | | | | | | | | | | | |
| 5. Diversification | 0.46 | 0.25 | -0.03 | 0.03 | 0.00 | 0.02 | 1.00 | | | | | | | | | | | | |
| 6. International experience | 0.41 | 0.37 | -0.03 | -0.11 | 0.06 | 0.00 | 0.13 | 1.00 | | | | | | | | | | | |
| 7. Successor expert power | 0.32 | 0.47 | 0.09 | 0.03 | 0.02 | 0.02 | 0.03 | -0.23 | 1.00 | | | | | | | | | | |
| 8. Successor ownership power | 0.12 | 0.10 | -0.15 | -0.16 | 0.23 | 0.14 | -0.10 | -0.12 | 0.05 | 1.00 | | | | | | | | | |
| 9. Successor structural power | 0.14 | 0.35 | 0.18 | -0.16 | -0.01 | 0.05 | 0.16 | -0.05 | -0.11 | 0.11 | 1.00 | | | | | | | | |
| 10. Successor prestige power | 2.88 | 5.57 | 0.21 | 0.00 | 0.20 | 0.28 | 0.12 | 0.02 | -0.14 | 0.08 | 0.08 | 1.00 | | | | | | | |
| 11. Outside succession performance | 0.34 | 0.48 | -0.09 | 0.14 | -0.16 | -0.14 | -0.07 | -0.14 | 0.07 | -0.09 | 0.03 | -0.17 | 1.00 | | | | | | |
| 12. Post-succession performance | 0.00 | 0.08 | -0.04 | 0.02 | 0.00 | 0.05 | 0.04 | -0.03 | 0.15 | -0.11 | -0.08 | 0.02 | -0.19 | 1.00 | | | | | |
| 13. Dynamism | 0.10 | 0.09 | 0.04 | -0.46 | 0.16 | 0.49 | -0.13 | -0.03 | 0.07 | 0.06 | -0.06 | 0.06 | 0.01 | 0.05 | 1.00 | | | | |
| 14. Munificence | 0.01 | 0.03 | 0.02 | -0.51 | 0.28 | 0.47 | -0.04 | 0.16 | 0.05 | 0.05 | 0.00 | 0.04 | -0.04 | 0.01 | 0.68 | 1.00 | | | |
| 15. Complexity | 0.02 | 0.02 | -0.09 | 0.35 | -0.30 | -0.38 | 0.00 | 0.02 | -0.21 | -0.14 | 0.07 | -0.05 | -0.08 | -0.02 | -0.43 | -0.71 | 1.00 | | |
| 16. DOI scale change | 6.62 | 8.44 | 0.05 | 0.02 | 0.03 | -0.04 | -0.17 | -0.06 | -0.05 | -0.11 | -0.06 | -0.05 | -0.19 | 0.05 | 0.16 | 0.18 | 1.00 | | |
| 17. DOI scope change | 0.19 | 0.66 | 0.01 | -0.19 | 0.19 | -0.04 | -0.02 | 0.20 | -0.06 | -0.04 | -0.07 | -0.05 | -0.03 | 0.05 | 0.01 | 0.08 | -0.05 | 0.01 | 1.00 |

Number of observations = 187.

Correlations whose absolute value exceeds 0.16 are significantly different from zero at the 5% level of significance, two-tailed tests.

TABLE 4: RESULTS OF OLS REGRESSION ANALYSES FOR THE CHANGE IN A FIRM'S INTERNATIONAL SCALE DEGREE

| Variable | The change in a firm's international scale degree | | | | | |
|----------------------------------|---|----------------|--------------------------|----------------|----------------|--------------------------|
| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| High-technology industry | 0.08 (0.09) | 0.07 (0.09) | 0.19 (0.11) [†] | 0.01 (0.15) | 0.10 (0.10) | 0.04 (0.15) |
| Heavy industry | 0.00 (0.07) | 0.00 (0.07) | 0.03 (0.07) | 0.01 (0.07) | 0.02 (0.07) | 0.01 (0.07) |
| Firm size | 0.04 (0.06) | 0.06 (0.06) | 0.07 (0.06) | 0.09 (0.06) | 0.09 (0.06) | 0.13 (0.06) |
| Firm age | 0.03 (0.07) | 0.02 (0.07) | 0.01 (0.07) | 0.03 (0.07) | 0.03 (0.07) | 0.02 (0.07) |
| Pre-succession performance | 0.06 (0.06) | 0.08 (0.06) | 0.07 (0.06) | 0.09 (0.06) | 0.10 (0.06) | 0.08 (0.06) |
| R&D intensity | -0.05 (0.07) | -0.03 (0.07) | 0.00 (0.07) | -0.02 (0.07) | -0.02 (0.07) | 0.05 (0.07) |
| Diversification | -0.16 (0.06)** | -0.16 (0.05)** | -0.17 (0.05)** | -0.18 (0.05)** | -0.17 (0.05)** | -0.19 (0.05)** |
| International experience | -0.07 (0.06) | -0.05 (0.06) | -0.07 (0.06) | -0.04 (0.06) | -0.05 (0.06) | -0.08 (0.06) |
| Successor expert power | -0.07 (0.06) | -0.08 (0.05) | -0.07 (0.05) | -0.08 (0.05) | -0.06 (0.05) | -0.04 (0.05) |
| Successor ownership power | -0.13 (0.06)* | -0.12 (0.06)* | -0.13 (0.06)* | -0.11 (0.06) | -0.12 (0.05)* | -0.12 (0.06)* |
| Successor structural power | -0.02 (0.06) | -0.01 (0.06) | -0.02 (0.06) | -0.03 (0.06) | -0.03 (0.06) | -0.05 (0.05) |
| Successor prestige power | -0.04 (0.06) | -0.02 (0.06) | -0.02 (0.06) | -0.03 (0.06) | -0.02 (0.06) | -0.01 (0.06) |
| Dynamism | | | 0.13 (0.09) | | | 0.15 (0.10) |
| Munificence | | | | 0.17 (0.13)* | | 0.19 (0.16)** |
| Complexity | | | | | 0.02 (0.08)* | 0.02 (0.09) [†] |
| Outside succession | | 0.23 (0.05)*** | 0.24 (0.05)*** | 0.22 (0.05)*** | 0.25 (0.05)*** | 0.26 (0.05)*** |
| Outside succession × dynamism | | | 0.06 (0.07) | | | 0.06 (0.10) |
| Outside succession × munificence | | | | 0.18 (0.07)** | | 0.18 (0.12)* |
| Outside succession × complexity | | | | | 0.17 (0.07)* | 0.19 (0.09)* |
| F-statistic | 1.65* | 2.99*** | 3.03*** | 3.14*** | 3.15*** | 3.31*** |
| R ² | 0.06 | 0.11 | 0.12 | 0.13 | 0.13 | 0.16 |
| ΔR ² | - | 0.05*** | 0.01 | 0.02* | 0.02* | 0.05*** |

Number of observations = 187; regression parameter appears the standardized standard error (in parentheses) and standardized coefficient.

[†] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; two-tailed tests.

TABLE 5: RESULTS OF SUB-GROUP OLS REGRESSIONS FOR POST-SUCCESSION FIRM PERFORMANCE CHANGE: MODERATING EFFECTS OF OUTSIDE SUCCESSION

| Variable | Post-succession firm performance change | |
|---|---|-----------------------------------|
| | Model 1 (outside succession = 64) | Model 2 (inside succession = 123) |
| High-technology industry | 0.08 (0.13) | 0.22 (0.10) |
| Heavy industry | 0.21 (0.08)** | 0.31 (0.08)*** |
| Firm size | -0.21 (0.07)** | -0.09 (0.06) |
| Firm age | 0.05 (0.09) | -0.04 (0.08) |
| Pre-succession performance | -0.01 (0.07) | -0.08 (0.07) |
| R&D intensity | -0.16 (0.08)† | 0.11 (0.07) |
| Diversification | 0.03 (0.07) | 0.05 (0.06) |
| International experience | 0.09 (0.07) | 0.05 (0.06) |
| Successor expert power | 0.39 (0.06)*** | -0.03 (0.06) |
| Successor ownership power | 0.05 (0.07) | -0.08 (0.06) |
| Successor structural power | -0.13 (0.07)* | -0.08 (0.06) |
| Successor prestige power | 0.35 (0.06)*** | -0.03 (0.07) |
| DOI scale change | -0.04 (0.07) | -0.13 (0.06)* |
| F-statistic | 7.80*** | 6.17** |
| R ² | 0.33 | 0.12 |
| t-Value – difference in standardized coefficient for DOI scale change | - | 9.18*** |

Regression parameter appears the standardized standard error (in parentheses) and standardized coefficient.

†p < 0.10, *p < 0.05, **p < 0.01, ***p < 0.001; two-tailed tests.

of freedom’ to the CEO and allows him/her to build new capabilities to implement change. This finding closely parallels Hambrick (2007) who examines some enhancements to the upper echelon theory. One of the notable refinements is managerial discretion, which affects the theory’s predictive strength.

Implications for research

This study has some implications for management theory. First, current research on the degree of internationalization is primarily grounded in the Uppsala School, which regards internationalization as an incremental process. But why do some firms leap-frog domestic space at an early stage whereas others reduce the scale and scope of international activities? These phenomena contradict the views of the Uppsala School. This article addresses this important but under-explored question based on the upper echelon

perspective. International strategic decisions are dependent on the cognition and values of the top manager. When a firm encounters a succession event, especially an outside succession event, the firm will either reduce or expand its current international activities (i.e., thereby effecting change in the degree of the firm’s internationalization) because the new TMT will hold a different view with regard to international expansion. Some new successors will argue that internationalization brings benefits, including economies of scale and growth opportunities. Thus, the result of succession on change in international strategy will be international expansion. However, other new successors will view internationalization as costly and risky due to increasing transaction and coordination costs; therefore, such successions will result in international contraction. The theoretical implications of this study based on the upper echelon view helps explain one of the most debated issues in internationalization research, that is, why phenomena associated with new international ventures (Oviatt & McDougall, 1994, 2005) and born globals (Knight & Cavusgil, 1996) are inconsistent with the Uppsala School. Succession studies grounded in the Uppsala School regard internationalization as an incremental process (e.g., Herrmann & Datta, 2002, 2006; Karaevli, 2007). In contrast, this study emphasizes the importance of the characteristics of the successor and his/her effects on firm-level decisions and outcomes, a key tenet of upper echelon theory. Therefore, this study may help advance research on the impact of CEO succession on post-succession strategic change and firm performance. It also highlights the critical role of the industrial environment in affecting the behaviour of new CEOs because environmental

uncertainties provide them with managerial discretion. This power may allow other top managers to approve of strategic change and thus may remove the stumbling blocks when new CEOs plan to introduce international strategic change. For instance, firms that face munificent and complex industrial environments are more likely to accept change because they recognize that they must rapidly and simultaneously deal with the industrial complexity and seize the opportunities from the industrial munificence. With respect to industry dynamism, our study does not show a significant influence on outside succession. One possible explanation is that dynamism implies a high risk because it describes environments characterized by change that is difficult to predict. According to research by Hofstede, the Uncertainty Avoidance Index of Taiwan is 69, which is considered to be moderate among 69 countries (Hofstede, 1997). Based on this index, Taiwanese are more risk-averse than Americans. As a result, a successor will tend to stabilize firm strategy rather than to make risky decisions in uncertain environments. Researchers taking a contingency perspective may wish to further explore whether the interplay between the decision makers' attitudes and managerial discretion can generate organizational change, especially during the post-succession period. Previous research on environment contingencies has generally focused on the Western context, often the United States (Finkelstein & Boyd, 1998). The Taiwan context offers an opportunity to understand the generalizability of the research findings on environmental contingencies.

Implications for practice

The results of this study also have some practical implications for the board of directors and managers. First, CEO mindsets, competencies, and skills that vary between inside and outside CEOs may crucially affect strategic change and the consequences of strategic change on performance. Our results show that relative to inside CEOs, leadership by outside CEOs may increase the likelihood of strategic change. Traditionally, insider family members held key management positions in family-controlled Taiwanese firms

(Claessens, Djankov, & Lang, 2000). However, Hsu (1997) finds that family dominance has been decreasing in Taiwanese firms, with a concomitant increase in the number of outside, professional managers serving in executive positions. Boards of directors in Taiwan should carefully evaluate the candidates for succession. For example, firms may depend less on family members for leadership and instead appoint outsiders as CEOs, particularly when the firms are pursuing high levels of international strategic change. Second, although leadership by outside CEOs may increase the benefits of strategic change relative to leadership by inside CEOs, outside CEOs often face the challenge of recruiting competent and supportive senior executives (Friedman & Saul, 1991). Thus, succession plans should focus not only on the CEO position but more generally on other executive positions as well. Third, if new outside CEOs are to make strategic changes, they must first understand the industrial environment. Senior executives are unlikely to resist change in firms that face munificent or complex industrial environments because they recognize that change is necessary.

Limitations and future research

The limitations to this study provide opportunities for future research. First, the nature of the data prevents us from making definitive causal statements. It is also possible that an opposite causal chain may occur. A change in the CEO may also be due to the firm's posture in its global strategy. In other words, a board of directors may adapt a high-level management structure, including the CEO and the TMT, to deal with the complex information-processing demands arising from efforts to globalise. Second, our empirical results are derived from a sample of listed companies in Taiwan. Although this sampling frame controls for firm size and parent nationality, it may be limited in terms of generalizability. Third, our measure of the insider-outsider dichotomy considers only whether the successor is internal or external to the firm. But it is also important whether outsiders are from the same industry because they are more likely to have cognitive bases that are similar to those of the insiders (Geletkanycz & Hambrick, 1997; Zhang & Rajagopalan, 2003).

Finally, future research can be extended to examine the relationship between CEO succession and firm change in terms of choice of entry mode. For example, outside successors with no experience in the industry are likely to make less ambitious foreign entry decisions, such as joint ventures, alliances, and M&A because they may fear that they will fail or lose their existing power or market share. Moreover, although we have linked CEO succession and post-succession structural changes with change in a firm's degree of internationalization, in future research it will be interesting to examine CEO successors who have been in their roles for less than 1 year to see how this will affect sequential succession planning.

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