

## **Track 5. International Corporate Strategies**

### **The impact of managerial characteristics and strategic orientation on the SME's internationalization profile**

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The authors appreciate the support from the research projects: UV2002-0790 and GV2004A16, funded by the University of Valencia (Spain) and the Generalitat Valenciana (Spain) respectively.

# **The impact of managerial characteristics and strategic orientation on the SME's internationalisation profile**

## **Abstract:**

This study investigates the relationship between top management team characteristics and the level of internationalisation considering firm's strategic orientation as an intervening process that might mediate the relationship.

Relying on primary data from 181 Small and Medium-sized Enterprises (SMEs), which had a regular international activity, our findings suggest that some characteristics of the managerial team are related to a more proactive strategic orientation. Such orientation may allow the resource-constrained smaller firms to obtain a greater commitment in foreign markets and achieve success via emphasis on quality and innovation.

Specifically, our data shows that firms that operate in a higher number of countries are characterised by proactive strategic orientations and tend to be managed by teams which are less controlled by family members, and are composed by relatively younger people who have more diverse previous experiences and possess higher levels of education.

## **Keywords:**

Internationalisation; small and medium-sized enterprises; firms' strategic orientation; top management team characteristics

# **The impact of managerial characteristics and strategic orientation on the SME's internationalisation profile**

## **Introduction**

Internationalisation is now considered an inevitable step in the quest for sustainable competitive advantage because of the heightened competition in the global environment. However, not all firms are able to increase their international presence, particularly SMEs that have more limited resources than large firms to cope with the risks and complexities of foreign expansion (Morgan and Katsikeas, 1997). SMEs lack the amount of slack resources and hierarchical administrative systems that can help companies manage their decision-making processes (Lubatkin et al., 2006), so they have to rely more on the abilities of their top management team (TMT). In fact, differences in the capability of firms to expand into foreign markets have been linked, among other factors, to the characteristics of the top management team (Herrmann and Datta, 2005; Carpenter and Fredrickson, 2001; Tihanyi et al., 2000).

Although many studies acknowledge the importance of executives in the internationalisation, the “processes” or “mechanisms” through which TMT characteristics influence firm internationalisation is noticeably absent in the literature (Lee and Park, 2006). Accordingly, this paper aims to address this gap in the literature by examining the mediating effect of firm's strategic orientation for the relationship between TMT characteristics and firm internationalisation.

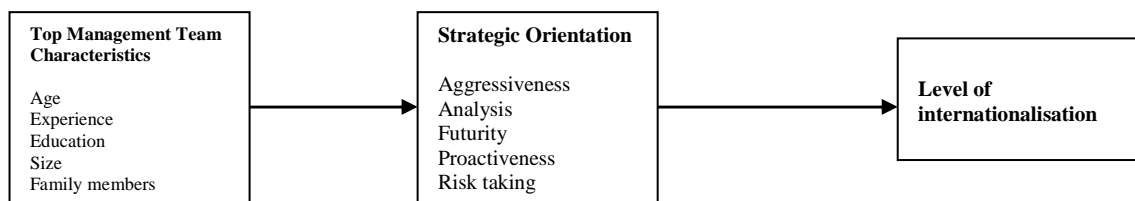
Strategic orientation is “a pattern in a stream of decisions (past or intended) that guides the organisation's ongoing alignment with its environment and shapes internal policies and procedures” (Hambrick, 1983, p.5). We focus on strategic orientation as a potential mediator because it is likely to engender the development and activation of strategies in foreign markets (Knight, 2001; Fletcher, 2004; Knight and Cavusgil, 2004; Sapienza et al., 2005). Firms developing more proactive orientations perceive new markets opportunities more quickly than their competitors, and their willingness to take higher risks facilitate the exploitation of those opportunities before their competitors. Furthermore, the international environment entails a range of complexities related to

political systems, cultural differences, etc., and thus proactive strategic orientation may allow the resource-constrained smaller firm to obtain a greater commitment in foreign markets and achieve success via emphasis on quality and innovation (Knight, 2001).

Building upon internationalisation literature, this study endeavours to provide an understanding of the international involvement exhibited by SMEs. While it is recognized that the characteristics of the managerial team are a key variable in SMEs internationalisation, the focus of this study is placed upon the firm's orientation as an intervening process that can mediate the relationship between TMT characteristics and firms' internationalisation.

Figure 1 summarizes the objective of our study.

**Figure 1: Theoretical model**



The paper is structured as follows. First, we analyze the influence of the firms' strategic orientation to the extent to which a firm engages in new markets. Next, we identify how the managers' characteristics can shape the SO of the firms. In the following section, we describe the methodology used for the empirical analysis and the measurement of dependent and independent variables. Finally, we discuss the main results of our study and present the conclusions and suggestions for further research.

### **The relationship between Strategic Orientation and Level of internationalisation**

Firms that enter foreign markets are exposed to high uncertainty emanating from their lack of knowledge and the increased complexity of operating in multiple markets, different requirements (product standards, industry norms, customer needs...) and different tendencies and capabilities of local competitors. The extent to which a firm engages in international markets is likely to be related

to its strategic orientation (Sapienza et al., 2005). A strategic orientation represents the rules and processes by which a firm makes strategic decisions, seek new business opportunities and develop competitive advantages. Therefore, strategic orientation it is likely to be associated consistently with the extent and scope of the internationalisation process (Knight, 2001).

Strategic orientation has been examined along a continuum. However, this continuum has been anchored by the terms “proactive” and “reactive” (Wood and Robertson, 1997; Czinkota and Ronkainen, 1995; Porter, 1980). A proactive strategic orientation leads to ongoing demand and market analysis and aggressively pursued strategic plans (Wood and Robertson, 1997). A firm with such orientation engages in product market innovations, undertakes somewhat risky ventures, and is first to come up with innovations (Covin and Slevin, 1989; 1991; Kreiser et al., 2002; Messeghem, 2003; Spicer and Sadler-Smith, 2006). A reactive orientation reflects a short-term perspective with relatively little value placed on formal planning, low levels of demand and market analysis and anticipation of environmental changes (Miller and Friesen, 1982).

The notion of strategic orientation suggests that some firms are more willing than others to continually search for opportunities (Lumpkin and Dess, 1996). Decisions with regard to international expansion imply a high level of complexity and uncertainty as the firms enter into markets different from the more familiar domestic market. Firms with proactive strategic orientations are willing to make risky decisions and are expected to exhibit higher levels of risk tolerance in ambiguous situations such as those involved in internationalisation (Sapienza et al., 2005; Knight, 2001). Moreover, SMEs with proactive strategic orientations are prone to develop product and process innovations and, thus, such firms have an important knowledge base that allows them to pursue fast and risky routes to growth and to diversify towards a wide range of markets and businesses (Kitching, 1967; Reed and Luffman, 1986; Tyler and Steensma, 1998; Silverman, 1999; Tihanyi et al., 2000).

Therefore, firms with proactive strategic orientations will show more aggressive and positive attitudes to foreign markets and they will attempt to be first in developing new markets,

favouring the firms' process of consolidation abroad in terms of the scope of their foreign markets or the intensity of activities within a foreign market (Dess et al., 2003; Clercq et al., 2005). However, firms with more reactive strategic orientations will show more defensive behaviours in their international strategies and they will have a less visible effect on the international consolidation of the firms (Sapienza et al., 2005; Pla and Escriba, 2006). We hypothesize:

*H1: SMEs' proactive strategic orientation will be positively related with the level of internationalisation*

### **The influence of Top Management Team Characteristics on the Behaviour of Firms**

According to Hambrick and Mason's (1984) Upper Echelons (UE) Theory, the characteristics of managers reflect their specific beliefs, values, and viewpoints. Thus, executives make decisions that are consistent with their cognitive base, which consists of two elements: (i) psychological characteristics (including values, cognitive models, and other personality factors) and (ii) observable experiences (experience, age, education, etc.). Given that the psychological characteristics are difficult to measure, they are typically imputed from more observable managerial characteristics. Hambrick and Mason (1984) argued that such observable demographic attributes are reasonable proxies for underlying differences in cognition, values, and perceptions, which in turn, influence important strategic decisions enacted by managers and organisational outcomes. However, the demographic approach has been criticized. The central concern is that the demographic approach does not provide the processes by which top management teams go about their tasks (Pettigrew, 1992). Thus, intervening mechanisms and processes such as information processing, problem solving, coordination procedures, etc. need to be addressed to fully understand the link between demographic managerial characteristics and strategic choices and performance (Pettigrew, 1992).

This paper attempts to access the "black box" by introducing the concept of Strategic Orientation as an indicator of the processes developed to analyze and integrate new information, to coordinate decisions, to examine the evolution of environmental factors and to assess new projects

(Venkatraman, 1989; Covin and Slevin, 1989; Lumpkin and Dess, 1996; Morgan and Strong, 2003). We will try to examine if firm's SO might be a reflection of the characteristics of its managers such as their average age, level of education, amount of experience, number of members (TMT size) or number of family members that formulate the strategic actions of the firm. Below are descriptions of the impact of TMT characteristics on a firm's SO.

### Age

A top manager's age can be viewed both as a proxy for the extent of experience and as a signal of his/her resistance to risk taking and change. Age is associated with greater conservatism and less risk taking (Hart and Mellons, 1970; Child, 1974), reduced ability to learn new behaviours, and greater commitment to the status quo (Hambrick et al., 1993; Weinzimmer, 2000, Datta et al., 2003). Younger managers might tend to seek additional information when making decisions, evaluate information more accurately, and have better cognitive resources to map complex crisis events (Hambrick and Mason, 1984; Greening and Johnson, 1996). Because younger managers have a heightened ability to recognize and act on environmental opportunities, they may be more prone to pursue more proactive behaviours. However, older managers have less ability to grasp new ideas and learn new behaviours and have a limited capacity for dealing with changing situations, meaning that they will adopt a more conservative stance (Herrmann and Datta, 2006; Musteen et al., 2006). Therefore, our second hypothesis asserts that:

*H2: Higher age of TMT members will be negatively related to a SME's proactive SO.*

### Level of education

The level of education of a firm's top managers is closely related to the individuals' knowledge and skill base (Hambrick and Mason, 1984). Executives with a high level of education have cognitive abilities and qualities to process information and to execute more complex decision-making to manage ill-structured situations (Üsdiken, 1992; Papadakis and Barwise, 2002). They also can discriminate between an extensive variety of alternatives to understand environmental and organisational problems and, therefore, to devise more appropriate responses to complex situations

(Wiersema and Bantel, 1992; Greening and Johnson, 1996; Goll et al., 2001; Herrmann and Datta, 2005). Furthermore, a higher level of education has been associated with greater tolerance for ambiguity and greater openness to change and innovation (Kimberly and Evanisko, 1981; Wally and Becerra, 2001; Herrmann and Datta, 2005). Therefore, we expect that TMTs with higher levels of education will enhance the firm's proactive SO.

*H3: The level of education of TMTs will be positively related to a SME's proactive SO.*

#### Previous experience

The previous experience that managers accrued by working in other firms, industries or markets is linked to innovative ideas (Finkelstein and Hambrick, 1990) and to the breadth and variety of experience that members of the TMT have within the organisation (Auh and Menguc, 2006). Companies often seek executives from other industries to fill top management positions. Recruitment of executives from another industry, another firm from within the same industry, or with international experience may indicate that the demands placed on the upper echelon are changing due to changes in corporate strategies, the life stage of the firm, its business environment, or perceptions of the chief executive officers about the extent of cultural change needed in the company (Carpenter, 2002). Teams that include managers with experience in other firms or markets, have a wider vision of strategic decisions, make use of a higher variety of information sources, and have differentiated capabilities (Lee and Park, 2006). Therefore, they tend to make more changes in structure, procedures, and people compared to teams whose members have been promoted from within the firm (Hatum and Pettigrew, 2006). In fact, managers who have developed their careers exclusively in one organisation can be assumed to have relatively limited perspectives when faced with an unprecedented problem or environmental changes (Cyert and March, 1963; Hambrick and Mason, 1984; Hermann and Datta, 2006). Hence, higher levels of experience from outside the firm tend to be associated with receptivity to innovation (Kimberly and Evanisko, 1981) and a wider range of creative solutions to face with complex problems (Hitt and Tyler 1991). As a result, firms with experienced managers are likely to show more proactive behaviours.



*H4: Higher experience of TMTs from outside the firm will be positively related to a SME's proactive SO.*

#### TMT size

TMT size is a critical element of group demography (Ancona and Nadler, 1989). Size is important to team composition because it represents a team's structural and compositional context (Amason and Sapienza, 1997). As TMT size grows, the diversity of opinions, values, and interests increase (Bantel and Jackson, 1989; Wiersema and Bantel, 1992; Smith et al., 1994), which can have both positive and negative effects on performance. On the one hand, larger groups have greater cognitive resources at their disposal, which may contribute to improved group knowledge, creativity, and performance (Haleblian and Finkelstein, 1993; Mueller and Barker III, 1997; Trevis Certo et al., 2006). On the other hand, larger teams are more prone to conflict because of the potentially diverse points of view that might prevail. Moreover, larger groups may suffer from problems related to control and coordination, which can lead to performance declines (Mueller and Barker III, 1997). As Simsek et al. (2005) pointed out, opportunities for interaction and reciprocity among team members decrease as teams grow in size, and thus quality and quantity of communication among team members diminish. For these reasons, many studies have posited that team size is negatively related to organisational performance (Haleblian and Finkelstein, 1993; Smith et al., 1994; Amason and Sapienza, 1997; Simsek et al., 2005).

Because the TMT formulates and implements the firm's strategy, it must coordinate and control the behaviour of its members. The greater the size of the team, the greater the likelihood that goal and information asymmetries between team members will exist, which in turn means that rules and regulations are more likely to be used as means of coordination and control. Formal bureaucratic control can impede the organisation's ability to innovate and adapt in changeable environments, resulting in poor results. For these reasons, we expect that team size will be negatively related to proactive SO.

*H5: Size of the TMT will be negatively related to a SME's proactive SO.*

### Family members' involvement

Because family firms generally dominate the economic landscape, Chrisman et al. (2005) suggested the convenience of including familial links in the upper echelons model. Behavioural processes of the TMT depend on the composition of the team (Hatum and Pettigrew, 2004). Thus, it is reasonable to expect different behavioural processes between TMTs in family firms and non-family firms. Moreover, it is also possible that behavioural processes in family firms with parents involved in managerial functions (parental family firms) will be different from those in family firms without parents actively involved (non-parental family firms).

Ensley and Pearson (2005) observed that TMTs of non-family firms had more idea conflict than TMTs of family firms. The family members' involvement in the firm management enhances the TMT cohesion and shared strategic cognition, but it also may constrain other team members to speak out and question ideas. By reducing constructive questioning and creativity, family firms may be less likely to adopt a proactive SO.

Chrisman et al. (2005) also theorized that TMTs of parental family firms tend to follow defender strategies that emphasize efficiency, consistency, and reliability. Conversely, teams of non-parental family firms are likely to be prospectors, exhibiting a great deal of innovative behaviour when the teams are able to harness the multitude of ideas emanating from their members. Therefore,

*H6: A higher number of family members in TMTs will be negatively related to a SME's proactive SO.*

## **Methodology**

### Sample

Data were collected from a 2003 mail survey that was randomly sent to Small and Medium-sized Enterprises (SMEs) from sectors that make important economic and employment

contributions in Spain. We had the sponsorship from local economic authorities, which contributed with letters explaining the objectives of this research and asking managers to collaborate by responding a questionnaire. The survey instrument consisted of a questionnaire that we mailed to 1800 senior-level managers, who were most likely to be involved in the decision-making process in their firms. Over the course of three months, we made a series of reminder phone calls to increase the response rate.

Overall, we obtained primary data from 301 SMEs from seven industries (furniture; textiles; tiles and ceramics; road transportation; food processing; machine-tool producers; and shoe manufacturing). Six questionnaires were ineligible because the research instrument was inadequately completed. Thus, we used a total of 295 questionnaires for our analyses. The response rate (16.39 %) is comparable with that of other studies that have used a similar research design in Spain (Entrialgo, 2002).

For the purposes of the paper, we selected a sample composed only by SMEs that acknowledged a regular international activity. Finally, 181 firms were used in the analyses. These firms are from traditional industries, which are mostly mature and fragmented in nature. Hence, the effect of industrial sector on internationalisation has been somewhat controlled for by selecting companies operating in markets with low growth rates.

#### Measurement of variables

*Dependent variable.* We rely on multidimensional measures of internationalisation to improve validity (Sullivan, 1994). We measured the **extent** of internationalisation as the ratio of foreign sales over total sales. We defined the **scope** of internationalisation as the number of countries in which a firm operates.

*Independent variables.* In the survey, CEOs were first provided with a definition of a TMT (“a group of senior managers that generally makes decisions that are important to the firm’s future) and were then asked to identify and provide demographic information about those who had been members of their TMTs over the past two years. We measured **Age** of the TMT as the average of

the team members. **Educational level** was defined as the percentage of managers with university level of education. We used the percentage of managers with previous experience in other firms, sectors and/or markets to measure the level of **experience** of the managerial team. **Size** was defined as the number of top managers composing the team. And, finally, **familiar nature of TMT** was measured as the percentage of managers related to the family owners.

Table 1 shows how we measured the dependent and independent variables as well as the previous studies that we used in order to operationalise them.

**Table 1: Variables' measurement**

Variables	Measure	Cronbach $\alpha$	Studies
<b>Strategic Orientation</b>	See scale's measurement below (Fig. 2; Tables 2 and 3)	0.720	Adapted from Covin and Slevin (1989) and Venkatraman (1989)
<b>TMT's age</b>	Average age of the top managers	N/A	Norburn and Birley (1988); Weinzemmer (1997)
<b>TMT's level of education</b>	Percentage of managers with university level of education	N/A	Wiersema and Bantel (1992); Datta et al. (2003)
<b>TMT's experience</b>	Percentage of managers with previous experience in other firms, other sectors and/or markets	N/A	Finkelstein and Hambrick (1990); Acedo and Casillas (2007)
<b>Familiar nature of TMT</b>	Percentage of managers related to the family owners	N/A	Chrisman et al. (2005); Ensley and Pearson (2005)
<b>TMT's size</b>	Number of top managers composing the team	N/A	Haleblian and Finkelstein (1993); Smith et al. (1994); and Simsek et al. (2005)
<b>Internationalisation</b>	Extent: Foreign sales as a percentage of total sales	N/A	Extent: Tallman and Li (1996), Athanassiou and Nigh (1999); Sapienza et al. (2005)
	Scope: Number of countries		Scope: Tallman and Li (1996); Fischer and Reuber (1997); Sapienza et al. (2005)

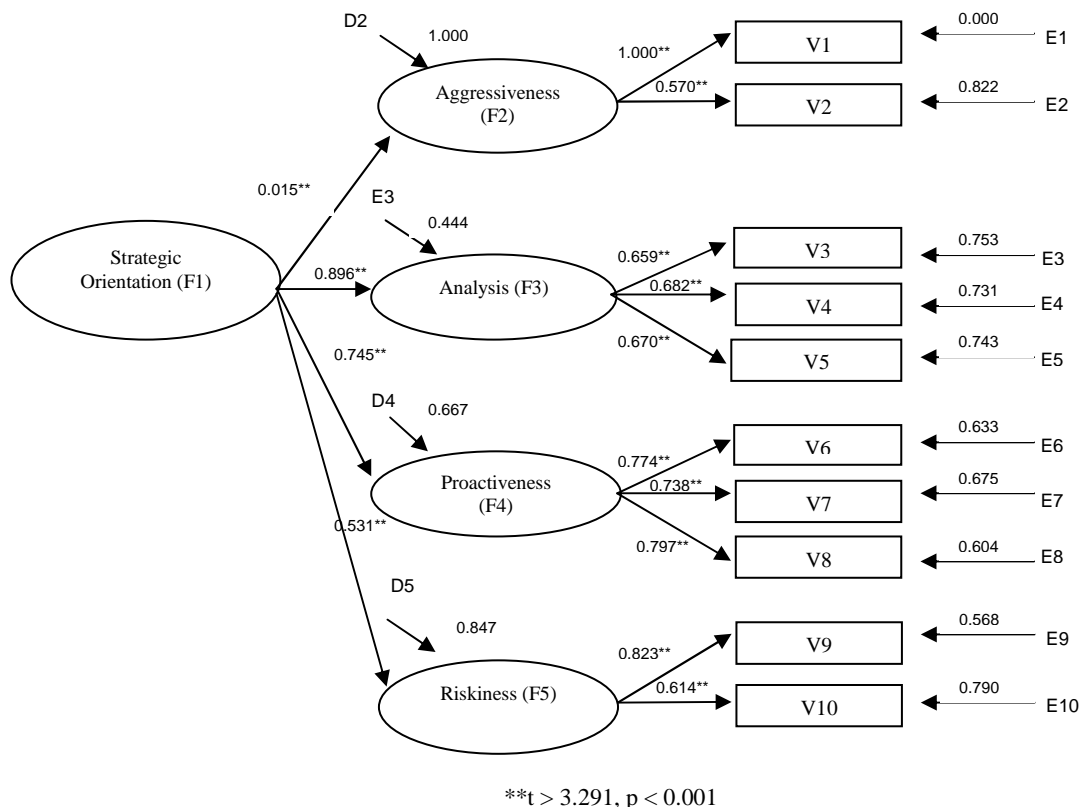
N/A: Not Applicable

*Mediating variable.* A twelve-item scale measured the **Strategic Orientation** construct. This scale was adapted from existing instruments proposed by Miller and Friesen (1982), Covin and Slevin (1989), Venkatraman (1989), and Morgan and Strong (2003). The scale focuses on five different features of the firms' SO: aggressiveness; analysis; innovation; proactiveness; and risk taking. No theoretical foundations exist to suggest that some TMT characteristics are linked to specific dimensions of SO and we did not expect different influences of each dimension on international commitment; therefore, we used a one-dimensional construct according to other authors (Miller,

1983; Covin and Slevin, 1989; Wiklund, 1999; Miles et al., 2000; Kreiser et al., 2002). Thus, firms showing a more proactive SO are characterized by aggressive competitive behaviour, the seeking and analysis of information to improve decision making, proactive attitudes demonstrated by anticipation, frequent product innovation, and a strong propensity for risk taking.

We asked respondents to characterize their firm's SO in terms of these twelve items, and we used the average rating as the firms' SO score. To assess construct validity, we ran a factor analysis. In exploratory factor analysis, the factor loadings for the items included in the SO scale indicated the existence of four dimensions. Two items showing factor loadings lower than 0.60 were dropped from the scale (see Table 2, items V7 and V12). Next, we subjected the remaining set of items to Confirmatory Factor Analysis (CFA) using EQS software to assess construct validity and the overall model fit for four-factor solution (Bentler 1995). Figure 2 shows a diagram of the final scale, and Tables 2 and 3 list the items included in each dimension and the fit indices for SO scale.

**Figure 2: Strategic Orientation Scale (Confirmatory Factor Analysis)**



**Table 2: Strategic Orientation Scale's measurement**

DIMENSION	Managers' perceptions about... (1: Strongly disagree; 2: Disagree; 3: Indifferent; 4: Agree; 5: Strongly agree)
<b>Aggressiveness</b>	<ul style="list-style-type: none"> <li>- Sacrificing profitability to gain market share (V1)</li> <li>- Cutting prices to increase market share (V2)</li> </ul>
<b>Analysis</b>	<ul style="list-style-type: none"> <li>- Establish deliberated plans to cope with environment opportunities and threats (V3)</li> <li>- Emphasize effective information seeking and key information identification for decision-making (V4)</li> <li>- Follow formal procedures to coordinate decisions in different areas (V5)</li> </ul>
<b>Futurity</b>	<ul style="list-style-type: none"> <li>- Emphasize innovation to anticipate future market needs (V6) (<i>associated with the proactiveness dimension after EFA</i>)</li> <li>- Conduct prospective studies to examine the evolution of key environmental factors (V7) (<i>removed after EFA</i>)</li> </ul>
<b>Proactiveness</b>	<ul style="list-style-type: none"> <li>- Constantly seeking new products and markets (V8)</li> <li>- Usually the first ones to introduce new brands or products in the markets (V9)</li> </ul>
<b>Risk-taking</b>	<ul style="list-style-type: none"> <li>- Sometimes, decisions in the company have produced important changes in the way we operate as an organization (V10)</li> <li>- The company tends to develop less risky investment projects than competitors, although income expectations are lower (V11) (reverse-coded)</li> <li>- Assessment of new projects is based on intuition instead of analysis (V12) (<i>removed after EFA</i>) (reverse-coded)</li> </ul>

**Table 3: Goodness of fit (Strategic Orientation Scale)**

Indices	Level of an acceptable fit	Level of our scale
BENTLER-BONET NOMERD FIT INDEX	Close to 0.9	0.932
BENTLER-BONET NONNORMED FIT INDEX	Close to 0.9	0.952
COMPARATIVE FIT INDEX	Close to 1	0.967
LISREL GFI FIT INDEX	Close to 0.9	0.960
LISREL AGFI FIT INDEX	Close to 0.9	0.929
STANDARDIZED RMR	Lower than 0.08	0.041

We assessed the reliability of the scale by analyzing Cronbach's alpha. The alpha level for the strategic orientation scale was 0.720, which is an acceptable level according to Nunally and

Bernstein's (1994) recommendations (levels above 0.70). The scale also presents convergent and discriminant validity. To assess the dimensionality and convergent validity of the scale, we observed the results of the CFA. All factorial loadings had acceptable magnitudes (higher than 0.6) and were highly significant, as their t-values were higher than 3.291 ( $p < 0.001$ ). Moreover, the value of the Bentler Bonett Normed Fit Index (BBNFI) for our scale was 0.932, exceeding the recommended value of 0.9 and indicating strong convergent validity (Bentler and Bonet, 1980). To assess discriminant validity, we performed a correlation analysis among the dimensions of SO (aggressiveness; analysis; proactiveness; and risk taking). The four dimensions (factors F2 to F5 in fig. 2) exhibited correlations below 0.90. The correlation coefficient between F2 and F3 was -0.042; between F2 and F4, -0.013; between F2 and F5, -0.080; between F3 and F4, 0.502\*\*; between F3 and F5, 0.451\*\*; and between F4 and F5, 0.407\*\*;  $p < 0.01$ . Thus, latent variables explain different concepts and our scale exhibits discriminant validity.

After assessing the reliability and validity of the scale, we determined the firms' SO to be the mean of scores from the ten items finally included on it. Although the correlations between the four dimensions (meaning aggressiveness; analysis; proactiveness; and risk taking) of the SO scale were below 0.50, indicating that they may vary independently, we did not expect any significant differences between the four dimensions and the level of internationalisation. Therefore, we used an aggregate measure of the SO of the firm, following Kreiser et al.'s (2002) recommendations when no differences are expected.

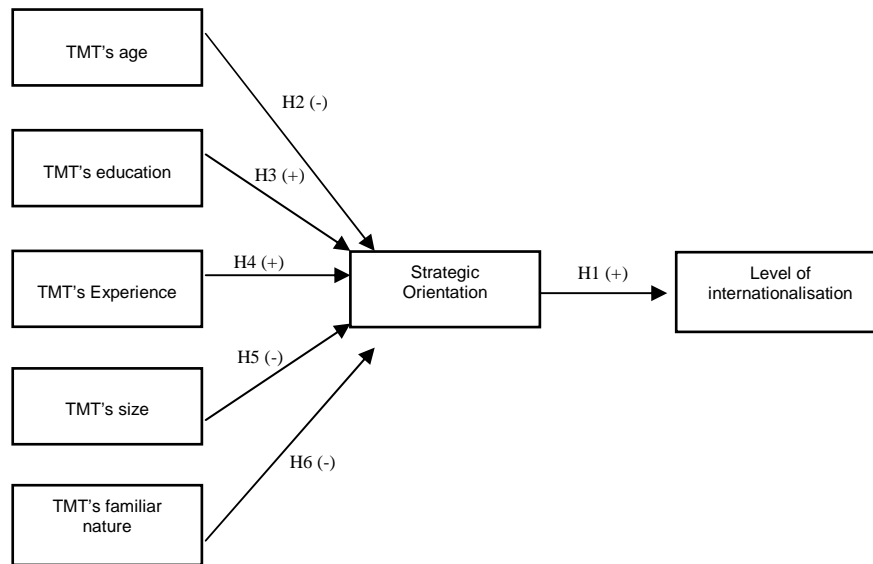
## **Results and Discussion**

Table 4 lists descriptive statistics for the variables in this study and the correlation matrix, and Figure 3 presents our theoretical model and the hypotheses derived from it.

**Table 4: Descriptive statistics and correlation matrix**

Variable	Mean	S.D.	1	2	3	4	5	6	7	8
1. Scope of internationalisation	15.14	21.935	1							
2. Extent of internationalisation (%)	38,29	27,43	0.378**	1						
3. Strategic orientation	3.22	0.8343	0.353**	0.093	1					
4. Familiar nature of TMT (%)	47.7533	42.4212	-0.268**	-0.134	-0.478**	1				
5. TMT's size	4.15	2.989	0.477**	0.091	0.205**	-0.336**	1			
6. TMT's age	42.3722	7.003	-0.034	0.073	-0.212**	-0.055	-0.139	1		
7. TMT's level of education (%)	45.9619	35.8471	0.303**	0.070	0.458**	-0.328**	0.294**	-0.330**	1	
8. TMT's experience (%)	27.7188	31.0945	0.241**	0.162*	0.571**	-0.491**	0.177*	-0.051	0.446**	1

\*  $p < 0.05$ ; \*\*  $p < 0.01$

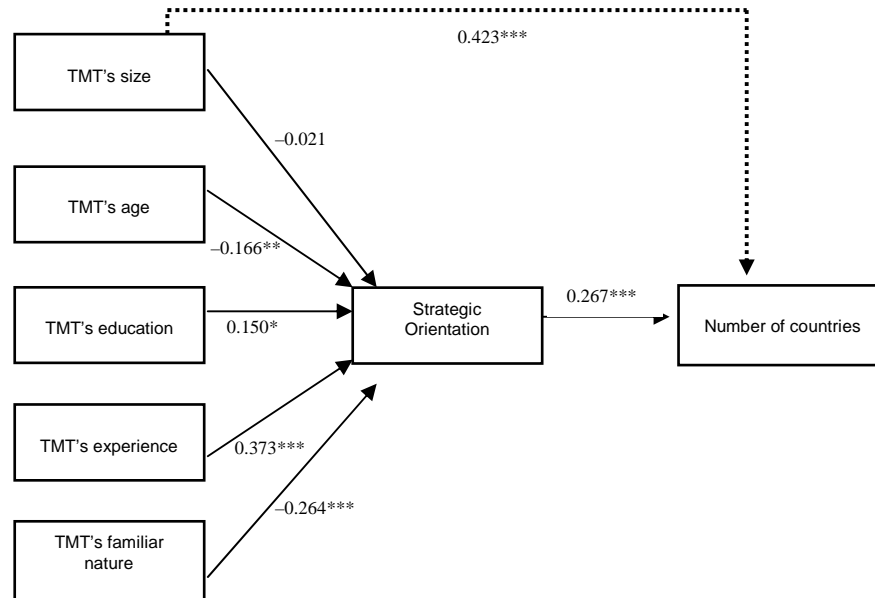
**Figure 3: Theoretical Model**

We used the structural equation model using EQS software to determine whether the observed pattern of relationships among the variables was consistent with our theoretical model. As we measured two dimensions of the internationalisation, two models were estimated (scope -Model I, and extent-Model II). Figure 4 and 5 shows the standardized path coefficients and t-test for each of them. As it can be observed, the statistical technique suggested new relationships that should be incorporated in the original model I. Specifically, it suggested a relationship between TMT's size and scope of internationalisation (measured as number of countries). Adding the new path to the



original model resulted in good model's fit. The chi-squared statistic of the revised model was 4.691 (4 degrees of freedom;  $p=0.32045$ ).

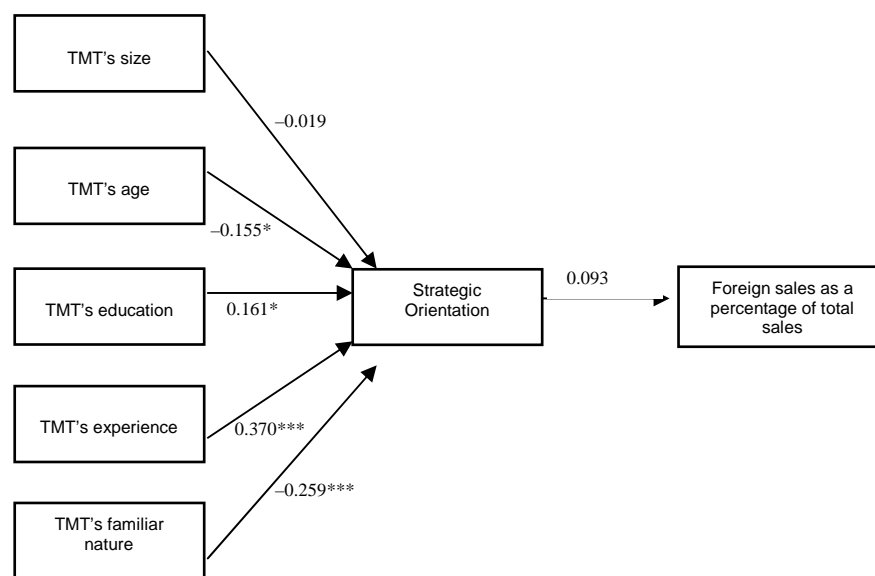
**Figure 4: Estimated model I (internationalisation measured as number of countries)**



$t > 1.96$ ;  $p < 0.05$ ; \*\*  $t > 2.576$ ;  $p < 0.01$ ; \*\*\*  $t > 3.291$ ;  $p < 0.001$

..... Relationship proposed by the technique

**Figure 5: Estimated model II (internationalisation measured as foreign sales)**



$t > 1.96$ ;  $p < 0.05$ ; \*\*  $t > 2.576$ ;  $p < 0.01$ ; \*\*\*  $t > 3.291$ ;  $p < 0.001$

Table 5 shows the indices for the goodness of fit of the two models. All indices reveal a good fit of models, and the  $\chi^2$  values are not significant at  $p = 0.05$ . Therefore, we cannot reject the null hypothesis of good models fit and our results support the models.

**Table 5: Goodness of models' fit**

Indices	Level of an acceptable fit	Level of model I (number of countries)	Level of model II (foreign sales)
BENTLER-BONET NORMED FIT INDEX	Close to 0.9	0.986	0.978
BENTLER-BONET NONNORMED FIT INDEX	Close to 0.9	0.988	0.990
COMPARATIVE FIT INDEX	Close to 1	0.998	0.998
LISREL GFI FIT INDEX	Close to 0.9	0.993	0.991
LISREL AGFI FIT INDEX	Close to 0.9	0.948	0.951
STANDARDIZED RMR	Lower than 0.08	0.020	0.034
Chi-squared		$\chi^2 = 4.691$ (4 degrees of freedom; $p = 0.32045 > 0.05$ )	$\chi^2 = 5.562$ (5 degrees of freedom; $p = 0.35119 > 0.05$ )

Consistent with previous studies (Miller and Friesen, 1984; Davis et al., 1991; Pla and Escriba, 2006), our results in Model I show that there is a significant, direct, and positive relationship between SO and firm's scope of internationalisation measured as number of countries (see Fig. 4). However, this relationship is not statistically significant in model II when we measure the extent of the internationalisation, i.e. foreign sales as a percentage of total sales (see Fig. 5). Therefore, H1 is partially supported. These findings suggest that firms with proactive strategic behaviours enter into a higher number of different countries. However, firm's proactive strategic orientation does not seem to be related with a higher level of dependence on international revenues. Our results could reflect that more proactive behaviours are linked to the exploration of new opportunities through entering new international markets but firms' involvement and commitment in foreign markets are influenced by other factors, maybe more related to local characteristics and conditions.

Results related to demographic variables are similar in Model I (scope of internationalisation as dependent variable) and Model II (extent of internationalisation as dependent variable). In H2, we posited that average age of TMTs should be negatively related to the proactive behaviour of firms. Our results in both models show a significant, direct, and negative relationship between TMT

age and the firm's proactive orientation. Younger managers seem to adopt less conservative behaviours than older ones, supporting hypothesis 2 (see Fig. 4 and 5).

H3 focused on the potential positive effect of the level of education of the top managers on the firm's proactive orientation. We found a significant relationship between these variables in Models I and II, and thus our data support hypothesis 3 (see Fig. 4 and 5). Therefore, these results show that executives with higher levels of education have greater cognitive abilities to manage complex situations and that they are more open to change, contributing to a more proactive orientations.

We found that the presence of managers with previous experience in other firms, industries or markets enhanced their firm's proactiveness because the team benefited from a wider conceptualisation of the problems, a greater variety of information sources, and greater capabilities to manage new business opportunities. Thus, the data in Models I and II supported H4.

Although our results in Models I and II do not allow us to confirm H5, we discovered an interesting non-significant relationship between TMT size and proactive strategic orientation (see Fig. 4 and 5). Larger groups have more cognitive resources to help in decision-making but they can also suffer from conflict because of irreconcilable points of view from different managers or groups. Smaller groups have less cognitive resources available for generating knowledge and creativity, but they usually enjoy of more cohesion among individuals. Thus, the non-significant relationship between TMT size and the SO of the firms is especially interesting. The size of the managerial team is strongly related to the size of the firm (Denis and Sarin, 1999; Yermack, 1996). Our results suggest that the firms' proactive SO is not exclusive to bigger or to smaller firms. Thus, the evidence shows that the adoption of proactive strategic behaviours to face environmental challenges is feasible for all SMEs regardless of their relative size.

Nevertheless, the technique proposed the influence of TMT size on the scope of internationalisation for a good fit of Model I (scope of internationalisation as dependent variable). This relationship is statistically significant and shows a positive sign. A possible way of handle the

increased and varied dependencies and complexity associated with international operations is to add members to the team who have particular expertise or who more generally increase the overall information-processing capacity of the group (Sanders and Carpenter, 1998).

Our data in Models I and II support H6. Increased influence by family members on the TMT had a negative influence on the firm's proactive SO. As we expected, non-family firms and family teams with lower parental influence exhibited a great deal of innovative and proactive behaviour compared to family firms with parental control. In general, top managers in parental family firms prefer to control the future of their firms and are more prone to sacrifice growth objectives in favour of independence (Kets de Vries, 1993). Moreover, family firms usually have a stable organisational culture (Kets de Vries, 1993; Kets de Vries, 1996) characterized by strong routines and personal values. Such a culture may be an obstacle to growth and to facing changes and new business opportunities (Hollander and Elman, 1988; Hollander and Bukowitz, 1990; Miles and Snow, 1994). In contrast, non-family firms and non-parental family firms could be more prone to accept innovations and to explore new arenas.

## **Conclusions**

Our findings suggest that there is a relatively strong association between certain TMT characteristics, firms' strategic orientation and internationalisation. Characterized by higher levels of uncertainty and ambiguity, the international business environment requires firms' behaviours that are flexible, open to change, exhibit greater tolerance for ambiguity and possess superior information processing abilities. These firms tend to be managed by teams composed by relatively younger people who have had more diverse previous experiences, possess higher levels of education, and are less controlled by family members.

This research makes three important contributions. First, it probes into the "black box" to specifically explore the intervening processes that might mediate the relationships between TMT characteristics and international commitment. Traditionally, studies have analyzed how TMT characteristics influence the strategic choices made by companies and ultimately how they impact

on performance. However, this approach, based on the upper-echelons perspective, have been criticized because it assumes that demographic characteristics (such as age, education, experience, etc.) are indicators of involvement in strategic choice and change, but little is known about the processes by which top teams go about their tasks (Pettigrew, 1992). The focus of the present research on the firms' strategic orientation is new and attempts to overcome the limitations of using observable demographic attributes as proxies for underlying cognitive abilities, values and expertise which, in turn, substantially impact decision-making and behaviour.

Second, this study involves extension of the original upper echelons model to the global arena. If top executives often are obstacles to proactive behaviours that would lead to a greater level of internationalisation, then an understanding of what causes such resistance is important for researchers and practitioners. Our findings improve the understanding of the origins and implications of executive mindsets and shed new light on the role of TMT characteristics in the firm's strategic behaviour and internationalisation strategies.

And, finally, many prior studies rely on secondary data to analyse the influence of executives' characteristics on internationalisation profile. This study provides evidence about this topic by asking managers about demographic data of the team and processes developed to analyze and integrate new information, to coordinate decisions, to examine the evolution of environmental factors and to assess new projects.

Furthermore, this paper has important implications for managers. Our findings indicate that firms whose managers promote a proactive strategic orientation obtain higher internationalisation levels than firms not oriented to these types of behaviours. Such orientation is more likely to emerge when the managerial team benefits from the cognitive diversity offered by younger members and executives with distinct prior experiences in other firms, industries or markets. The involvement of family-owner members in managerial roles can constrain the adoption of a proactive strategic behaviour and, consequently, limit the international expansion of firms. Accordingly, these findings could lead to more informed corporate policies regarding executive staffing, development,

and TMT composition. Additionally, proactive strategic orientation can be used as a mechanism to overcome constraints imposed by limited resources in SMEs and to take advantage of new opportunities arising from challenging environmental conditions. It is under such conditions that managers can really benefit from being proactive and from pursuing risky new initiatives, thus differentiating their company from competitors.

Despite these contributions, this study has some limitations that provide further research opportunities. First, we collected the empirical data during 2003 from firms operating in mature industries in Spain. Thus, generalisations to other industries and countries should be made with caution, especially for those aspects that could vary in different settings, such as the characteristics of the environment faced by firms or the managerial influence over different kinds of firms and industries. Future research should test our theoretical model in different geographic locations and industries, and comparing our results with findings from other settings could provide interesting contributions to the understanding of the context in which strategic postures lead to higher internationalisation levels.

A second issue is the limited range of demographic variables examined in this study. We studied the TMT characteristics using simple descriptive statistics. Future research should include more characteristics of the TMT, as for example the specific educational and functional backgrounds of top managers or their team tenure, among others. In addition, futures studies should consider heterogeneity/homogeneity measures of these demographic variables to better capture the underlying constructs of the cognitive bases of team members.

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