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BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION

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BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION

Manuscript Type: Empirical

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

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

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

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

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

BOARD INFLUENCE ON A FIRM'S INTERNATIONALIZATION

INTRODUCTION

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

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

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3 Sanders and Carpenter (1998) argue that firms respond to international complexity
4 through their governing bodies. The importance of having top managers who know about
5 and understand the logic and dynamics of the firm's foreign markets and global business
6 environment has been discussed for decades by practitioners and researchers alike (Herrmann
7 & Datta, 2005; Luo, 2005; Nielsen, 2010; Nielsen & Nielsen, 2009). Apart from this aspect,
8 however, board influence on the firms' degree of international diversification has been
9 overlooked. Thus, whether and how board and the directors' characteristics affect the degree
10 of a firm's internationalization remains an open question that deserves further exploration. In
11 this study we attempt to bridge this empirical gap by examining how the board of directors
12 influences the extent of international expansion.
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27 The Uppsala internationalization process model (Johanson & Vahlne, 1977)
28 emphasizes the use of experiential knowledge in expanding and managing firms'
29 international operations. The role learning from experience can play in the process of
30 gradually increasing the level of international involvement has been studied in the
31 internationalization literature. However, the impact of directors' level of knowledge and
32 expertise remains largely unexplored (Nielsen, 2010). In other words, the board members
33 characteristics those shape their ability to advise managers effectively on international
34 strategic decisions remains pretty much unexplored.
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46 From our point of view, the effectiveness of the board depends as much on the
47 knowledge, experience, education, and expertise of their directors as on the relationship
48 dynamics that are generated on the board. This prompts us to refine and extend, from the
49 resource-based view (RBV), the concept of "board capability" (Macus, 2008) as an adequate
50 configuration of potential (measured by the resources that directors bring to board) and the
51 relationship dynamics/interactions that allow boards to undertake their tasks competently
52 over time. This article suggests that the knowledge, experience, education and expertise of
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3 their directors are important sources of competence and ability to deal with the complexity of
4 globalization. Based on these arguments, this work focuses on the study of boards'
5 effectiveness in driving forward the firms's degree of international diversification.
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10 The contribution of this article is three-fold; it emphasizes the role of directors in the
11 board effectiveness, investigating why and how relevant elements of directors' human capital
12 can enhance board ability to perform their roles making up the board potential. Secondly, it
13 refines and extends the concept of "board capability" as an adequate configuration of
14 potential and relations dynamics that allow board to undertake their task competently over the
15 time. Third, this article stresses the active participation of board in firm internationalization.
16 Therefore implications of this piece of research are important for executives and scholars
17 alike seeking an understanding of how resources that directors bring to board can influence
18 on the firms' degree of international diversification.
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31 This paper is structured as follows. The first section explains why we have chosen this
32 theme, and sets out our aims. In subsequent sections we carry out a literature review that
33 enables us to propose a set of hypotheses. The final section sets out the empirical evidence,
34 as well as our analysis and interpretation of the data obtained.
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41 **LITERATURE REVIEW**

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43 The effectiveness of the board is a key variable in the current study of corporate
44 governance, as a recent review showed (Petrovic, 2008). The most of the literature agrees on
45 the definition of effectiveness as the board's ability to perform its service and control roles
46 effectively, adding value to the company (Aguilera, 2005; Murphy & McIntyre, 2007).
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53 The literature has traditionally assigned three roles to the board of directors: control;
54 service/collaboration; and the provision of resources (Johnson, Ellstrand & Daily, 1996).
55 Each of these roles has been independently analyzed and justified from different theoretical
56 perspectives (Bennett & Robson, 2004). Thus, agency theory has emphasized the role of
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3 control (Langevoort, 2001; Sundaramurthy & Lewis, 2003); the stewardship perspective has
4 stressed service role (Donaldson, 1990; Donaldson & Davis, 1991, 1994) and the resource
5 dependency perspective takes a view on the board as a means for providing resources and
6 protection (Goodstein, Gautam & Boeker, 1994; Hillman, Cannella & Paetzold, 2000;
7 Kakabadse, Kakabadse & Kouszmin, 2001; Pearce & Zahra, 1991; Pfeffer & Salancik, 1978).
8 The resource dependency theory has recently been further enhanced by contributions from
9 the social network perspective (Carpenter & Westphal, 2001; Westphal, 1999). Despite these
10 studies, a significant number of authors believe that the distinction between the roles of the
11 board is unclear and that there is no real difference between them (Hendry & Kiel, 2004;
12 Hillman & Dalziel, 2003; Stiles & Taylor, 2001). Moreover, they point out that boards carry
13 out several roles at once (Hillman & Dalziel, 2003; Lynall, Golden & Hillman, 2003; Macus,
14 2008; Roberts, McNulty & Stiles, 2005).

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32 To summarize, agency theory, while providing a sound theoretical mechanism for the
33 external monitoring of a firm's management by its directors, does not account for the wide
34 range of other attributes that directors bring to the boardroom besides their non-employment
35 relationship with the firm. The resource dependency theory provides a mechanism whereby
36 firms have links to critical resources from the environment through the affiliations of its
37 directors and tends to emphasize the economic nature of these resources. Furthermore, these
38 are often regarded as tangible resources. The board's role in the provision of resources
39 includes providing legitimacy, administering advice and counselling, acting as a link to
40 important stakeholders or other significant bodies, facilitating access to resources such as
41 capital, building external relations, and so forth. Hillman and Dalziel (2003) have proposed a
42 theoretical model, which combines both of these perspectives. They argue that board capital
43 (human and relational capital) positively influences all functions of the board: service,
44 monitoring and the provision of resources. Moreover, they argue that in order to make the
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3 best decisions; directors need motivation and ability in the form of relevant experience,
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5 knowledge and skills (Tian, Haleblian & Rajagopalan, 2010).
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8 Kor and Sundaramurthy (2009) contributed to this line of research by developing a
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10 theory on how particular elements of directors' human and social capital can enhance their
11
12 ability to perform their advisory and governance duties. They focus on directors' collective
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14 human and social capital, which is affected not only by individuals' skills, knowledge, and
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16 connections, but also by the bundle or combination of skills. However, they do not specify
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18 the integration of resources with the firm's internal processes. The resource-based view may
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20 offer such a theoretical perspective by looking at how the attributes that directors bring to the
21
22 firm are used and by providing an explanation of how the board's resources are integrated
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24 with the firm's internal processes, to produce outcomes that are unique to the firm. Therefore,
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26 in this study we propose the resource-based view of the firm (RBV) may provide the
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28 theoretical explanation as to how boards perform their different roles.
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34 Some studies start with the premise that boards' behavior can be inferred from their
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36 composition and structure (Finkelstein & Hambrick, 1990; Hambrick & Mason, 1984;
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38 Pfeffer, 1983), and study boards as black boxes, relating board demography directly to
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40 company performance. These works focus on the "usual suspects": insider/outsider ratios,
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42 board size, directors' shareholding and CEO-Chairperson duality, all of them easily
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44 accessible to researchers. The inconclusive empirical results of such studies (Daily, Dalton &
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46 Cannella, 2003; Dalton, Daily, Ellstrand & Johnson, 1998; Johnson et al., 1996) have
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48 emphasised the need to examine in greater depth the psychosocial processes and the
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50 relationship dynamics within boards of directors (Finkelstein & Mooney, 2003; Gabrielsson
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52 & Huse, 2004; Pye & Pettigrew, 2005), together with the social and human capital inherent to
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54 them (Carpenter, Sanders & Gregersen, 2001, Kim & Cannella, 2008; Nicholson & Kiel,
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56 2004b).
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3 Thus, Forbes and Milliken (1999) view the board as a social system with unique
4 characteristics and point out that its effectiveness depends, to a large extent, on the
5 psychosocial processes at work in every decision-making group. Subsequent works have
6 confirmed the importance of these variables (Van Ees, Van der Laan & Postma, 2008; Wan
7 & Ong, 2005; Zona & Zattoni, 2007) and have highlighted the importance of relationships
8 within the board when it comes to explaining its performance (McDonagh, 2006; Nadler,
9 2004; Sonnenfeld, 2002; Van den Berghe & Baelden, 2005). Relationship dynamics on
10 boards need to be understood in a broad sense, including dynamics among directors, between
11 directors and the firm's management and between directors and external constituencies
12 (Huse, 2005; Macus, 2008). On the other hand, Nicholson and Kiel (2004b) said that boards
13 carry out their roles when individuals apply their knowledge, skills and abilities (human
14 capital) to the task at hand. This makes the board's human capital the starting point in
15 understanding the transformation process of the board.
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34 We consider that the knowledge, experience and expertise accumulated by directors
35 may be a resource that is integrated with firm strategies in ways that produce positive
36 performance results. The RBV (Barney, 1991; Eisenhardt & Martin, 2000; Grant, 1991)
37 suggests that sustained competitive advantage stems from the integration of resources in
38 unique ways that competitors find difficult to replicate. The resources that directors bring
39 along may be considered part of the intangible resource base of the firm and may integrate
40 themselves to provide firms with the capabilities that are the root of sustainable competitive
41 advantage.
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53 The RBV has established that a firm's various tangible and intangible resources need
54 to be dynamically reconfigured for a firm to be able to enjoy the performance benefits
55 inherent in its resources. The idea that board interactions determine the extent to which the
56 board's problem-solving potential can be realized is closely related to the concept of
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3 capability in the RBV. Capabilities allow the firm to address and resolve a particular issue or
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5 problem and to do so better than its competitors (Eisenhardt & Martin, 2000; Grant, 1991). A
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7 firm's resources and the internal processes coordinating them are the basic building blocks of
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9 capabilities because they interact in complex patterns, which allow the firm's problems to be
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11 resolved. Thus in the context of this paper, board capability can be understood as the
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13 combination of a board's potential and interactions, which allow a variety of tasks to be
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15 completed competently over time. Board capabilities consist of two interdependent elements:
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17 its potential and the interactions of the board. Board potential incorporates the individual
18
19 directors' potential to carry out the board's various tasks and board interactions are those
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21 relationship dynamics that bring the individual directors' problem-solving potential to bear on
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23 a particular task. In view of the arguments set out, we refine and extend, from the resource-
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25 based view, that the concept of "board capability" (Macus, 2008) is an appropriate
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27 configuration of potential and the relationship dynamics that allow boards to undertake their
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29 tasks competently over time.
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36 In this way, we consider that the resources that directors bring to board determine its
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38 potential, and they must be considered as necessary resources to achieve an effective board.
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40 Relationship dynamics are currently viewed as an enabling factor to allow the board's
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42 potential to be put to use (Macus, 2008; Nicholson & Kiel, 2004a, 2004b). Reciprocally,
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44 relationship dynamics will empower the effectiveness of these resources. In this study, we
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46 begin this line of research by focusing exclusively on the board's potential. In summary, the
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48 RBV may offer such a theoretical perspective by addressing the utilization of resources that
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50 directors bring to the firm and by providing an explanation as to how board resources are
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52 integrated with a firm internal processes to produce outcomes that are unique to the firm.
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57 On the other hand, the debate on board's strategic contributions dates as far back as
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59 the 1970s. Some scholars have viewed the contribution of board to strategy as fairly limited
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3 while others have argued that the board is legally responsible (Yawson, 2006) and must
4 contribute to strategy (Carpenter & Westphal, 2001). Today strategic involvement is widely
5 recognised as one of the major roles of a board (Hendry & Kiel, 2004; McNulty & Pettigrew,
6 1999; Pugliese et al., 2009; Zahra & Pearce, 1990). In spite of these findings, relatively little
7 is known about the relationship between corporate governance and internationalization. As
8 we have stated before, previous studies have analyzed the influence of the TMT in the firm's
9 international behavior (Athanassiou & Nigh, 2002; Reuber & Fischer, 1997) and the link
10 between the demographic characteristics of the board (overall percentage of outside/inside
11 directors or board size) and variables of firm internationalization (Burgess & Tharenou, 2002;
12 Sanders & Carpenter, 1998; Tihanyi, Johnson, Hoskisson & Hitt, 2003; Zahra, Neubaum &
13 Naldi, 2007). Others have analyzed the board's relationships within international context
14 (Gabrielsson, 2007; Ward & Feldman, 2008), underlining the importance of the board's
15 effectiveness in this context. Sanders and Carpenter (1998) state that firms respond to
16 international complexity through their bodies of governance. These studies do not specify the
17 concept of board potential, and this leaves therefore ample room for a more detailed
18 investigation into the role of this governing body in a firm and how it adapts to the
19 international environment.

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

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3 largely ignores the role of knowledge and experiences in the process of firm
4 internationalization (Nielsen & Nielsen, 2009; Nielsen, 2010).
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8 In this work we propose that the intangible resources directors bring along such as
9 experience and expertise (board potential) are very valuable for board effectiveness. The
10 RBV suggests that resources which are valuable, rare, inimitable and non-substitutable
11 provide the basis for developing capabilities that distinguish firms from one another. The
12 intangible resources that directors bring to the firm may be integrated in unique ways that
13 result in superior firm performance. Directors bring to the firm a variety of resources that
14 may make boards different across firms. Furthermore, this distribution of directors'
15 background, skills and expertise suggests that board capabilities are heterogeneously
16 distributed across firms. This heterogeneity implies that 1) boards may vary significantly on
17 the level of critical governance resources they bring to the firm; 2) some resources may be
18 more critical to one specific firm than others. The conditions of value, rarity, inimitability
19 and non-substitutability may apply to the unique combination that exists on a firm's board. In
20 other words, resources directors bring to the board may be a source of "board capability".
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24 Figure 1 shows the model proposed for our research. In line with earlier works
25 (Hillman & Dalziel, 2003; Kor & Sundaramurthy, 2009; Minichilli & Hansen, 2007;
26 Petrovic, 2008; Pugliese & Wenstøp, 2007), we show directors' contribution to board
27 potential, driving its effectiveness towards internationalization.
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Insert Figure 1 about here

Board Potential

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

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3 interactions, but that they themselves are resources for the firm, and will be regarded as being
4
5 of greater or lesser value in view of their own competence, knowledge or experience (Barney,
6
7 1991). Thus board members could be evaluated based on their contribution to the creation of
8
9 a sustainable competitive advantage through their personal and professional qualities (Huse,
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11 2005; Pugliese & Wenstøp, 2007). Moreover, it is very difficult for competitors to imitate
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13 characteristics such as board members' knowledge and experience etc., compared to other
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15 attributes of the board's composition, such as board size or insider/outsider ratios, which are
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17 more easily imitable and therefore less powerful when creating a sustainable competitive
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19 advantage (Ortíz, Aragón & Gomez, 2009). In a very similar argument, from the knowledge
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21 management perspective (Pugliese & Wenstøp, 2007), members of the board could be
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23 regarded as experts who use the experience they have gained in previous posts to resolve
24
25 strategic problems (Rindova, 1999; Zahra & Filatotchev, 2004). Furthermore, in complex
26
27 environments, it is even more important to make use of expert knowledge, experience and
28
29 information (Rindova, 1999). Finally, boards of directors play an important part in the
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31 management of the firm, as they take an active role in the choice and implementation of
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33 strategic decisions, advising management and observing the consequences of those decisions
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35 (Haunschild, 1993).
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44 Because firms differ on resources and capabilities they possess and how they manage
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46 these resources, experimental board members' knowledge of the firm can be critical for
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48 enhancing directors' ability to perform their monitoring and advising roles (Kor &
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50 Sundaramurthy, 2009). Fama and Jensen (1983) and Gabrielsson and Winlund (2000)
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52 demonstrate that the extent of the board members' knowledge of the firm determines how it
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54 fulfils its function of control. Likewise, in-depth knowledge of the firm has been recognised
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56 as an important resource regarding the extent of board strategic involvement (Kor &
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3 Sundaramurthy, 2009; Minichilli & Hansen, 2007; Pugliese & Wenstøp, 2007; Zahra &
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6 Pearce, 1990).

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8 On the other hand, directors' industry-specific experience shape directors' thinking,
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10 frame of reference and perceptions and allow them to develop specific skills and knowledge
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12 about how an industry operates. Having an understanding of the industry in which the firm
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14 competes is essential to directors' involvement in strategic decision making (Kroll, Walters
15
16 & Wright, 2008; Pugliese & Wenstøp, 2007; Westphal & Fredrickson, 2001).

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19 We therefore consider that *the board members' knowledge of the firm; their skills and*
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21 *experience* are the essential attributes of the board's potential. Based on these arguments, we
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23 propose the following overarching proposition as the starting point for our investigation.
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27 *Overarching proposition. The board members' level of knowledge, their*
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29 *experience and developed skills, help to define board's potential and is*
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31 *positively related to the firm's degree of international diversification.*
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34 This proposition will be explored by five subsequent hypotheses.

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36 In general terms, it could be assumed that a board member's level of knowledge about
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38 the firm would increase with tenure. The RBV (Barney 1991; Grant, 1991; Hillman, Cannella
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40 & Paetzold, 2000) suggests board members are resources for the firm, and will be regarded as
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42 being of greater or lesser value in view of their own competence, knowledge or experience
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44 (Barney, 1991). Certainly a long tenure on a board brings with it positive aspects, such as
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46 those mentioned above.
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50 However, along with these positive connotations, more significantly, negative aspects
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52 can appear. In this respect, the RBV assume the well-known key concepts of bounded
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54 rationality and routine on decision making (Amit & Schoemaker, 1993; Argote & Greve,
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56 2007; Barney, 1991; Nelson & Winter, 1982).
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3 In this context, Barney (1991) refers to bounded rationality. If managers completely
4 understood their resources and those of others, then we would expect almost all advantage to
5 be competed away –the ‘no rules for riches’ problem. In order to resolve this problem,
6 Barney assumes that managers do not understand their resources, which is a form of bounded
7 rationality (Bromiley & Papenhausen, 2003).
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11 The firm’s management acquires a critical role for the RBV (Madhok, 1997), as it takes
12 charge not only of the use of existing resources, but also responsibility for the development of
13 new ones (Spender, 1996). In this way the view of firm management is similar to that
14 defended by proponents of BTOF, for whom management is the decision-maker –with
15 bounded rationality– whose behavior is conditioned by the firm’s circumstances and its
16 environment and which is driven by a set of rules or norms of action concretized in
17 organizational routines (Simon, 1955). Amit and Schoemaker (1993) not only take up
18 Simon’s concept, but, furthermore, they indicate the existence of a complementarity between
19 RBV and BTOF, so that business decisions relating to resources and capabilities develop
20 within a framework characterized by 1) environmental uncertainty; 2) complexity; and 3) the
21 conflict of interest between members of the organization (Amit & Schoemaker, 1993).
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41 A second key concept that recent research has brought to the fore is that boards of
42 directors operate from the basis of “routines” that are built up over time (Nelson & Winter,
43 1982; Ocasio, 1999; Zahra & Filatotchev, 2004). The implication is that routine of decision
44 making is an important source of stability, which both enables and constrains organizational
45 action. Nelson and Winter (1982) also adhere to the idea of bounded rationality when they
46 consider that the set of routines available to the firms limits its possible actions. For these
47 authors, routines form a previously learned menu of patterns of action and the decision
48 consists of choosing one option from the routine menu (Winter, 1995); in other words, the
49 firm will only be able to take those actions allowed by their organizational routines. These
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3 routines have been formed slowly over time, since they depend on past actions, just as future
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5 decisions depend on current ones, thus the trajectory of the firm becomes another element
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7 which confirms the existence of bounded rationality. This development of routines based on
8
9 organizational learning can lead to problems of myopia, since determined learning processes
10
11 tend to reinforce past behaviors (Levinthal, 1995; Levinthal & March, 1993), which presents
12
13 clear proof of the existence of the decision-maker's limited rationality.
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17 Under these arguments directors with exceptionally long tenures are influenced by their
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19 own beliefs and schemes when it comes to facing key decisions such as an
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21 internationalization strategy and their knowledge of the firm could eventually become a less
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23 valuable resource.
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27 In this respect some studies suggest that long tenures are associated with a higher
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29 resistance to change (Musteen, Barker & Baeten, 2006; Wiersema & Bantel, 1992).
30
31 Moreover, according to Vafeas (2003), board members who serve longer on the board and
32
33 who therefore have greater experience are more likely to form friendships and less likely to
34
35 supervise the management. Additionally, Katz (1982) considers that when board members
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37 are in their post for a long time, communication within the group is reduced and, as a result,
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39 isolated groups form, which hold key information. At the international level, Golden and
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41 Zajac (2001) show that boards with long-serving members are not keen on strategic change;
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43 therefore they will be reluctant to introduce innovative strategies, which include
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45 internationalization. These authors suggest that extended tenure of board members is
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47 associated with a greater rigidity, and can result in trenching behind existing practices and
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49 procedures, with directors distancing themselves from new ideas. In this sense Katz (1982)
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51 states that boards with long tenure are likely to be rigidly committed to the current strategy.
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53 We therefore consider that they will be reluctant to embrace new internationalization
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55 strategies.
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3 Likewise, the National Association of Corporate Directors (NACD, 1996) indicates that
4 the replacement of board members is an important challenge and argues that the changing
5 commercial conditions that may be faced when it comes to internationalization may require
6 changes in the board. It demonstrates that long tenure reduces communication within the
7 board and creates isolated groups with key sources of information that will not be shared.
8 The mentioned association proposes a maximum of 10 to 15 years' service on the board in
9 order to gain new, fresh ideas that, in our view, would favour internationalization. On the
10 basis of these arguments, we propose the following hypothesis:

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22 *Hypothesis 1. Board members' firm tenure is negatively related to the firm's*
23 *degree of international diversification.*
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27 The experience of board members as CEOs or general managers of other companies
28 becomes too an important resource that allows them to develop their strategic role on the
29 board. Rindova (1999) points out that thanks to their previous professional experiences as
30 CEOs, most directors have developed strategic problem-solving skills, which enable them to
31 carry out their strategic work on the board of another firm.
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38 According to the RBV (Barney, 1991), directors with experience as CEOs of other
39 companies have developed a tacit knowledge, which is not readily available from secondary
40 sources and is difficult to imitate. Intangible resources brought to the board by its directors, in
41 the form of knowledge, experience and expertise, may be uniquely integrated with resources
42 at the firm level to create core competencies. The causal ambiguity and social complexity
43 associated with CEOs' experience may make it even more difficult for other companies to
44 imitate this unique resource.
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54 We contend that board members' experience as chief executives has to be considered as
55 a valuable and inimitable resource; part of a board's human capital. This resource is even
56 more valuable when bundled with others in a complementary fashion. The results
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3 demonstrate that board members act as the medium for improving access to information that
4 is vital for identifying the opportunities and threats affecting the firm, thanks to their broad
5 experience as chief executives of other companies. These experienced board members can
6 assist management in the formulation and revision of their strategic actions (Harrison, 1987),
7 including their internationalization strategies.
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11 Likewise, directors that are or have been CEOs of other firms can be a source of
12 external variety on the board (Rindova, 1999). Overall, the appointment of CEOs from other
13 firms to the board increases the range of perspectives and interpretations and reduces internal
14 biases in the board's strategic decision-making process. Directors' experience in another firm
15 may eliminate competitive "blind spots" (Zajac & Bazerman, 1991) and may be crucial for
16 ensuring the firm's competitiveness, which benefits from the discussion of entrepreneurial
17 issues on the board. CEOs of other companies might also belong to elite, which in turn
18 provides access to other resources (Jaw & Lin, 2009; Useem, 1982). Company CEOs are the
19 most powerful and influential individuals within the business environment; this powerful and
20 unified group of executives are able to develop relationships with other members of the
21 corporate elite, giving them access to a wide range of powerful individuals and organizations.
22 In summary, experience as a CEO captures a broad range of the skill sets and network
23 resources available to boards (Carpenter et al., 2001). The performance of global firms
24 depends on their ability to cope with heterogeneous cultural, institutional, and competitive
25 environments (Ricks, Toyne & Martínez, 1990). This complexity is likely to make CEOs of
26 other firms an invaluable resource. Their range of experience in other firms enables them to
27 bring inimitable knowledge, worldviews, and professional ties that give them a greater ability
28 to manage the complex operations of a multinational company. Individuals adhere to the code
29 of thinking typical of their professional area (Blau & McKinley, 1979), and CEOs with a
30 broad background (not drawn to any particular functional area) and stronger networks will be
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3 better able to deal with the environmental complexities that accompany internationalization
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5 (Sanders & Carpenter, 1998). For these reasons, we propose the following working
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7 hypothesis:
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10 *Hypothesis 2. Board members' experience in chief executive positions is*
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12 *positively related to the firm's degree of international diversification.*
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15 With regard to directors' industry-specific experience, we start from the premise that
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17 the environment for international firms is often more difficult and complex for decision-
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19 making (Prahalad, 1990). We can therefore be confident that the evaluation of the strategic
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21 decisions is largely made on the basis of the implicit theories that have been developed with
22
23 regards to firm's current environment (Carpenter & Westphal, 2001). Kroll, Walters and Le
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25 (2007) suggest that the members of the board with experience in the industry to which the
26
27 firm belongs, rather than across different industries, have developed robust knowledge
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29 structures of the firm's environment (Day & Lord, 1992) and consequently should be in a
30
31 superior position to advise the management about international strategic decisions. This
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33 industry-specific knowledge of the directors can help them detect emerging opportunities in
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35 the industry and evaluate managers' proposals for growth (Castanias & Helfat, 2001).
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37 Equally important, through positions in an industry, directors have developed goodwill and
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39 connections with industry players (suppliers, distributors, major customer), through which
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41 directors can help the firm acquire critical resources for international growth strategies (Kor
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43 & Sundaramurthy, 2009). We therefore propose that the previous experience of directors in
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45 the same industry is likely to bring along specific knowledge and skills, as well as network
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47 relations, which may help board strategic decision-making in the future.
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55 *Hypothesis 3. Board members' specific experience in the industry to which*
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57 *the firm's belongs is positively related to the firm's degree of international*
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59 *diversification.*
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3 Directors' international background represents specific tacit knowledge, which
4 constitutes some of the most difficult to imitate resources (Barney, 1991). Companies may
5 enhance their ability to deal with challenges in the international environment by appointing
6 members of the board with particular characteristics, skills, or experiences that are sought
7 after in the internationalization process. Board members' international experience could be an
8 attractive feature to other firms that are interested in acquiring such tacit knowledge.
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17 It is important to point out that many works have covered the role of top management
18 teams in the firm's international behavior (Athanassiou & Nigh, 2002; Peyrefitte, Fadil &
19 Thomas, 2002; Reuber & Fischer, 1997; Sambharya, 1996), establishing links between TMT
20 international experience and firm internationalization, but few works have considered the
21 influence of the board on the firm's internationalization. Board members with experience in
22 international markets provide useful connections to existing institutions, companies and
23 networks in foreign markets. They also facilitate the gathering, analysis and interpretation of
24 information about opportunities around the globe. Therefore, they can play a critical
25 supporting role in decision-making processes about international business opportunities
26 (Zahra et al., 2007).
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41 Human capital, defined as resources that are embedded within people, also refers to the
42 investment undertaken by individuals in the form of education and training. Directors with an
43 international educational background will have a more open-minded attitude towards other
44 cultures. Thus, directors with foreign education may be more aware of international issues
45 and may be more inclined to look at international opportunities in a favourable way.
46 Consequently, we consider board members' international experience and international
47 educational background is positively related to the level of international development
48 achieved by the firms that they govern.
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Therefore,

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3 *Hypothesis 4. Board members' international background is positively*
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5 *related to the firm's degree of international diversification.*
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8 Finally, board members' academic achievements determine their skills and knowledge
9 level. Specific human capital refers to the accumulation of skills and knowledge necessary to
10 perform a specific task. Having a high educational level is likely to provide additional human
11 capital and be regarded as an asset by business firms. Many authors (Bennett & Robson,
12 2004; Handy, 1987; Hendry, Jones, Arthur & Pettigrew, 1991; Kirby, 1991) have identified
13 relatively low levels of education as a general shortcoming in the proper functioning of the
14 firm. However, if the board members are highly educated, they are more likely to participate
15 in the firm's international strategies since there is a positive relationship between higher
16 levels of education among directors and their readiness to use external information, the
17 creation of networks, the use of external consultants, or a closer monitoring of the firm's
18 accounting systems (Crabtree & Gomolka, 1991). Individuals with high education are better
19 able to contribute to finding creative solutions to the organization that they represent
20 (Wincent, Sergey & Håkan, 2009). Such investments are instrumental in acquiring, using and
21 mastering knowledge and developing insights in methods that support thought-full decision
22 (Gradstein & Justman, 2000). Greater educational level is also associated with receptivity to
23 innovation and tolerance for ambiguity (Goll, Brown, Johnson & Rasheed, 2007), both
24 fundamental aspects when board members deal with the strategic change that involves the
25 firm internationalization.
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50 Our working hypothesis therefore will be:

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

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Sample and Data Collection

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

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

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3 The unified good governance code (CNMV, 2006), not only provides guidance on the
4 structure, composition and correct functioning of boards, but it also recommends taking into
5 account demographics and professional profiles when it comes to selecting their members,
6 information which should be publicized. Generally speaking boards of Spain's quoted
7 companies focus their energy and attention on establishing the right business models and
8 setting out the best internationalization plans. To this purpose they are aware selecting the
9 right board members is a crucial stepping stone (PWC, 2010). Finally, Spain has a corporate
10 reputation index comparable to other measures analyzed in previous research (Delgado-
11 García, Quevedo-Puente & De la Fuente-Sabate, 2010).
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25 The Corporate Governance and Transparency of Information Agency (Crespí, 2008)
26 analyzes the level of observance of the Unified Good Governance Code (CNMV, 2006)
27 recommendations by listed Spanish companies and develop an indicator about quality on
28 corporate governance practices. With reference to this indicator, it creates a ranking of firms
29 classified in four levels (A, B, C and D) according to obtained score. Because of the
30 requirement of transparency of information in order to get the faced objectives in our
31 research, we chose the first two levels of the ranking that include firms more inclined to offer
32 information about their board composition and structure and others parameters referring to
33 their functioning.
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46 With regards to the sample, we would also draw attention to the idiosyncrasies of
47 Spanish boards of directors, both in their composition and their behavior, relative to other
48 European countries (Heidrick & Struggles, 2009). We would highlight the following aspects:
49 (1) they follow a unitary system of corporate governance, like UK, Italian and Portuguese
50 companies, where there is a single board, consisting of executive management and non-
51 executive directors; (2) with only 30% of independent non-executives, there is a low level of
52 independence within Spanish boards; (3) the high proportion of reference shareholders (non
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3 executives directors representing large shareholders) on boards, the highest in Europe, is a
4 remarkable difference us from other European countries; and (4) the absence of non-national
5 directors remains a challenge for many companies. This is not unique to Spain: one out of
6 four European boards has no foreign directors, despite the most of these companies having
7 significant non-national revenues and operating locations. The average number of Spanish
8 board meetings has increased in the last years, reflecting the growing involvement of boards
9 and Spain now ranks above the European average (11.4 full board meetings per year in Spain
10 compared to 9.6 in Europe). Spanish boards are mostly formed by long-serving directors.
11 Board directors' long terms of tenure might contribute to board ineffectiveness, allowing for
12 fewer opportunities to adjust board composition in order to reflect changing priorities,
13 particularly in theses turbulent times.
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29 **Dependent Variable**

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32 International diversification is a strategy through which a firm expands the sale of its
33 goods or services across regional and national borders into different geographic locations or
34 markets (Hitt, Tihanyi, Miller & Connelly, 2006). Internationalization has been measured in
35 a number of ways and remains the subject of debate in the literature (Elango & Sethi, 2007;
36 Reuber & Fischer, 1997). Sullivan (1994) argues that multiple-item measures should be used,
37 rather than, for example, foreign sales as a percentage of total sales (FSTS), and he was
38 among the first to identify the term 'a firm's degree of internationalization' by three
39 dimensions: performance (foreign sales), structure (foreign assets) and attitudinal aspects of
40 internationalization (top managers' international experience). Ramaswamy, Kroeck &
41 Renforth (1996) recognize that multiple-item measures are more reliable than single-item
42 measures and furthermore, they identify several limitations relating to the individual items
43 used, as well the process used to combine them into a single measure.
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3 In this study, following Sullivan (1994) and other studies (Carpenter & Sanders, 2004;
4 Daily, Certo & Dalton, 2000; Lee & Park, 2006; Rivas, Hamori & Mayo, 2009; Sanders &
5 Carpenter, 1998) we measured the firm's internationalization using more than one dimension;
6 specifically, performance and structure. Both dimensions represent the 'depth' of a firm's
7 involvement abroad (Thomas & Eden, 2004). Following Reuber and Fischer (1997) we could
8 not employ a measure of experience as a component of internalization, because experience
9 already plays a conceptual role in our hypotheses.
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20 The performance dimension is most commonly calculated by the ratio of foreign
21 subsidiary sales to total sales (FSTS) (Geringer, Beamish & da Costa, 1989). It captures the
22 extent of the importance of international operations relative to total operations and thus the
23 extent of the firm's dependence on foreign markets (Thomas & Eden, 2004). The structural
24 dimension is a most commonly calculated using foreign asset as a percentage of total assets
25 (FATA) (Daniels & Bracker 1989). FATA reflects a firm's reliance on the foreign stocks it
26 owns. In the international business literature, the dimensions of sales and assets relate to a
27 firm's dependence on foreign consumer markets and foreign resources, respectively (Sanders
28 & Carpenter, 1998).
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41 The theoretical range for each dimension is 0 to 1. The two variables (foreign sales
42 and foreign assets) were added to form our composite measure of the degree of
43 internationalization, which therefore has a theoretical range of 0 to 2. Validity assessments
44 were consistent with Sullivan (1994); we found that these variables demonstrated a high
45 inter-item reliability (an alpha of .76) and loaded on one factor with a high eigenvalue (1.65)
46 and high-explained variance (82.85). To summarize, this composite measurement was chosen
47 because of its ability to reflect the extent of a firm's internationalization better than uni-
48 dimensional variables (Lu & Beamish, 2004).
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3 For information on the firm's level of internationalization we have used the Lexis-
4 Nexis Academy database (year 2009), which provides company-specific and macroeconomic
5 data, together with aspects of the legal framework or press cuttings from the main national
6 and international newspapers. This database has been used in numerous previous studies
7 (Braun & Latham, 2009; Carter, D'Souza, Simkins & Simpson, 2010; Chahine & Tohmé,
8 2009; Ning, Davidson & Wang, 2010; Webb, 2008).

17 **Independent Variables**

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

23 Information on board members was obtained from their companies' annual reports
24 and websites. In some cases, it was necessary to supplement that data with information
25 obtained from files held on the SABI and e-Inforna databases (Mateos, Gimeno & Escot,
26 2011).

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

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

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

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

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

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3 such posts as being poorly experienced or inexperienced. In line with previous studies (Kroll
4 et al., 2008; Tian et al., 2010) board industry-specific experience was measured as the
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6 percentage of board members who are highly experienced in the same industry as the focal
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8 firm. The board could only be said to have this type of resource when 40% or more of the
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10 directors had industry-specific experience.
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15 In order to measure board members' international background (experience and/or
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17 foreign education) we have used a dichotomous variable coded 1 if a director spends or
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19 previously spent time abroad on a given assignment and/or in higher education or in an
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21 international division. We code this variable 0 if none of this occurs (Rindova et al., 2009).
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23 Finally, in order to calculate the board members' level of academic achievement we have
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25 used the following scale: 1 if the board member has an additional Master's degree and 0 if
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27 not (Ruigrok, Peck & Tacheva, 2007; Sambharya, 1996; Westphal & Zajac, 1995; Wiersema
28
29 & Bantel, 1992). Almost all board members included in the sample hold a bachelor degree
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31 (Law, Business, Engineering...) and 43% of them have also obtained an additional Masters
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33 degree. In Spain up until the new regulation on European Credit Transfer System, holding a
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35 bachelor degree was a prerequisite to accessing a Masters or specialization degree. Board
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37 international background and educational level was operationalized as the percentage of
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39 members of the board with these resources (Wincent et al., 2009). Only when the proportion
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41 of directors on the board with an international background or with a Master's degree was
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43 40% or more could it be considered to have either of these resources.
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50 **Control Variables**

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52 In line with previous studies on the governance of firms, we have included three
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54 variables to monitor the extent to which they might affect the proposed relationships. These
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56 variables are firm size, industry and company age.
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3 Firm size is a common control variable, due to its reported relationship to firm
4 performance. Larger companies are more active in exporting and other international
5 operations (Calof, 1993; Zahra et al, 2007), probably because they have more resources.
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7 Larger companies may also have specialized staff are able to explore foreign markets and
8 oversee international expansion. Several earlier studies have demonstrated the positive
9 relationship between firm size and board size, looking at US markets (Boone, Casares,
10 Karpoff & Raheja, 2007; Denis & Sarin, 1999; Lehn, Patro & Zhao, 2008; Linck, Netter &
11 Yang, 2008; Yermack, 1996), European markets (Andrés, Azofra & López, 2005; Coles,
12 Naveen & Naveen, 2008; Frick & Bermig, 2009) and, in particular, at Spanish firms listed on
13 the stock exchange (Acero & Alcalde, 2010). Firm size was measured, as in prior
14 investigations, by the logarithm of sales achieved by each firm in the study's reference year.
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16 We used the Lexis-Nexis Academy database as source of data.
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32 Our sample includes firms from a variety of industries since membership of a
33 particular industry may affect internationalization (Rivas et al., 2009) and we have therefore
34 included this control variable in our study. To achieve this, we used the unified industry
35 stock exchange classification proposed by CNMV (2006), which includes the following
36 categories: (1) Petroleum and Energy, (2) Basic materials, Industry and Construction, (3)
37 Consumer goods, (4) Consumer services, (5) Financial and Real estate services and (6)
38 Technology and Telecommunications. Given the high frequency of observations within
39 category 2 in our sample, we have assigned "1" to this category and "0" to the rest.
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50 Finally, the third variable we have used is firm age. This variable was measured as
51 the number of years a firm has been in existence. We included this variable since older
52 companies are more likely to internationalize their operations (Calof, 1993; Zahra et al.,
53 1997) and to develop the expertise required to harvest these operations and increase their
54 revenues. The data were published on the company websites.
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RESULTS OBTAINED

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

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

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

Insert Table 1, Table 2 and Table 3 about here

DEBATE AND CONCLUSIONS

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

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

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

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3 analysis of the ways in which the different variables that make up the board's potential exert
4 a significant influence on the firm's degree of international diversification.
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8 From our perspective, and in line with the most recent proposals (Kor &
9 Sundaramurthy, 2009; Macus, 2008), we consider that the resource-based view may offer a
10 theoretical explanation as to how boards perform their different roles, by addressing the
11 utilization of the attributes that directors bring to the firm and by providing an explanation of
12 how the board's resources are integrated with the firm's internal processes to produce
13 outcomes that are unique to the firm.
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22 We suggest that board potential, as measured by using attributes of directors' human
23 capital (knowledge, experience, skill, expertise) is an essential element of board
24 effectiveness. Our results show the importance of these variables, in consistency with our
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32 Golden and Zajac (2001) show that boards with long-serving members are not keen
33 on strategic change; therefore they will be reluctant to introduce innovative strategies, which
34 include internationalization. The empirical results of this study show that the tendency for
35 board members to remain longer on the board of directors has a negative influence on the
36 firm's degree of international diversification. This result is consistent with the argument that
37 those board members who serve for many years will be more rigidly engaged with the current
38 strategy, developing pre-set practices and procedures and distancing themselves from new
39 ideas. As a consequence, they will look less favourably on strategic change and the
40 introduction of innovative strategies, including internationalization, preventing their deep
41 knowledge of the firm, after many years on their boards, from deploying its full strength as a
42 resource.
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58 In contrast, results demonstrate that it is not possible to establish a relationship
59 between board experience in CEO position and the firm's degree of international
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3 diversification. This conclusion contradicts our argument that the board members' experience
4 as CEOs of other firms (Harrison, 1987) enables them to carry out their strategic role on the
5 board, bringing their experience to the target firm. Instead, these results are consistent with
6 the supposition that directors are particularly influenced by the risks implicit in the
7 international context (a rather difficult and complex environment for decision-making), and
8 they can be fearful when faced with a strategy that might adversely affect their professional
9 reputation (Zhou, 2006). Nevertheless, the peculiarities of the composition of Spanish boards
10 might help explain the unexpected results. Therefore, separating the role of the CEO and the
11 chairman is one of the major issues facing Spanish boards. 60% of Spanish companies
12 combine both positions (compared to the European average of 16%) and nearly one out of
13 four non-executive chairmen are the former CEO.
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29 Kroll et al., (2007) suggest that the members of the board with experience in the
30 industry to which the firm belongs have developed robust knowledge structures on the firm's
31 environment (Day & Lord, 1992) and consequently should be in a superior position to advice
32 the management about international strategic decisions. The empirical results of this study
33 have established that board industry-specific experience is positively related to the firm's
34 degree of international diversification. This measure captures the directors' managerial
35 knowledge of opportunities, threats, competition and technologies specific to the firm's
36 industry. Industry-specific experience rather than cross-industries provide directors with
37 robust knowledge structures about how their industry operates as well as connections with
38 industry players. These resources enhance the directors' ability to advise managers on
39 strategic decisions. That is to say that the members of the board with a greater knowledge of
40 the firm's industry are an important resource for international-level decisions.
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57 To the contrary, the hypothesis related to the influence of board international
58 background on the firm's degree of international diversification has not been confirmed.
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3 Previous studies have investigated the role of top management team's international
4 background (Athanassiou & Nigh, 2002; Peyrefitte et al., 2002; Reuber & Fischer, 1997;
5 Sambharya, 1996), but no studies have considered this variable applied to board. In spite of
6 considering feasible that board members' experience in international markets provide them
7 with useful connections to existing institutions, companies and networks in foreign markets
8 our result show that this attribute of human capital of board members does not help increase
9 the firm's degree of internationalization. The correlation between both variables is low and
10 not significant (Table 2). The measure applied to calculate the firm's degree of
11 internationalization might explain the obtained results. To measure the degree of
12 internationalization we have used two of the three dimensions proposed by Sullivan (1994),
13 performance and structure. We thought that incorporating their third dimension, attitude,
14 could affect the results. We will reconsider this point in future research.

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

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

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3 relationship with their international background or previous CEO experience. The theoretical
4 implications of these results enable us to state that directors' resources are valuable so long as
5 they are uncommon and bundled with complementary resources. Indeed, if directors possess
6 only generic, undifferentiated skill portfolios, there is little reason to expect director-based
7 differences.
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15 We recognize certain limitations of this work. Firstly, the sample has been selected
16 from the companies ranked as being more inclined to offer information about their board.
17 Such a choice, although driven by the need to analyze transparent companies, can provoke a
18 "sample selection bias" limiting the inference process.
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25 Secondly, the firms used in the sample are exclusively Spanish firms, so extrapolating
26 results to other countries could be questionable. However, we believe that the results obtained
27 can be applied to other countries, insofar as the codes of good corporate governance tend to
28 concentrate on the essential aspects of the composition and structure of large firms. Certainly
29 the principal differences between Spanish and other European boards lie in the proportion of
30 reference shareholders (non executives directors representing large shareholders), the
31 proportion of other non-independent directors and duality (see Table 4).
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42 One of the important practical implications of these results refers to the selection of
43 board members. In order to increase its effectiveness, the selection process must be guided by
44 the search of intangible, inimitable and unique resources, which the board can capitalize on in
45 order to differentiate its potential over competitors. Board potential derives from its
46 members' individual resources, thus combined to positively influence firm management. In
47 this respect it is true resources can be transferred from one board to another (member's
48 mobility or interlocks), but emphasis should be placed on board potential itself (group of
49 board resources).
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Conversely, our study focuses on the human capital variables. Therefore, bearing in mind (1) the ongoing globalization process in which large firms operate and (2) the increasing level of requirements regarding the composition of the governing bodies in the wake of the economic recession, we believe that similarities in the variables analyzed as precursors to the effectiveness of the board should be very high, regardless of the country in which the investigation is carried out. At any rate, we believe it is necessary and it would be very interesting to continue investigations in this field incorporating information on firms from other countries.

Insert Table 4 about here

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

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Table 1
Descriptive Statistics

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

Table 2

Zero-order Correlation

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

** p.01 (bilateral)

Number of observations: 45

Table 3:

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

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

Table 4

The Profile of Boardroom in Europe and Spain

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

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

Figure 1: Proposed Model

