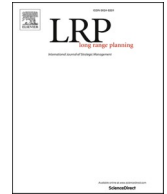




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## Walking on thin ice: CEOs' internationalization decisions in underperforming firms

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### ABSTRACT

We build on previous research on the behavioral theory of the firm to examine the relationship between performance shortfalls and internationalization. We start from existing literature in claiming that the interplay between the aspirations of restoring performance and survival concerns leads to an inverted U-shaped relationship between a firm's performance shortfalls and its new internationalization. Our main contribution is to show that CEO duality moderates this relationship. Dual CEOs have a high control of the board that reduces oversight and increases their job security. This allows them to impose their risk preferences, thus embracing survival over aspirations. Our empirical analysis using a sample of Spanish listed firms from 1986 to 2010 provides support for our hypotheses.

### Introduction

The behavioral theory of the firm states that firms set their aspirations to reflect their organizational goals, which serve as a benchmark for assessing actual performance (Cyert and March, 1963). When performance falls below these aspirations, firms trigger problemistic search to identify courses of action that can bring their performance back to the aspiration level (e.g., Audia and Greve, 2006; Choi et al., 2019; Desai, 2016; Gomez-Mejia et al., 2018; Iyer et al., 2019; Kolev and McNamara, 2020; Kuusela et al., 2017; Lim and Audia, 2020; Posen et al., 2018; Rudy and Johnson, 2016; and Zhong et al., 2022a, 2022b). Kotiloglu et al. (2021) offer a review of how performance feedback affects organizational responses. A more specific review of the problemistic search literature can be found in Posen et al. (2018).

As a way to increase performance, internationalization is one of the possible outcomes of problemistic search (Surdu et al., 2021). However, empirical studies so far do not offer conclusive support for a relationship between performance shortfalls and increased internationalization. While some scholars have found a positive linear relationship between both variables (e.g., Deng et al., 2022; Hui et al., 2021; Lin, 2014; Wennberg and Holmquist, 2008; Xie et al., 2019), others have found a negative one (e.g., Jiang and Holburn, 2018; Jung and Bansal, 2009; Shijaku et al., 2020). Recent research shows that firms adjust their internationalization efforts depending on the magnitude of their performance shortfalls. Ref and Shapira (2017) and Ref et al. (2021) demonstrate that the relationship between performance shortfalls and internationalization is shaped like an inverted U. This means that firms that are performing in the neighborhood of their aspirations will enter new foreign markets to restore performance. Nonetheless, as performance shortfalls increase, they will reduce their propensity to internationalize due to the potential negative financial consequences.

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internationalization on the firm's survival.

We adopt this inverted U-shaped relationship between performance shortfalls and internationalization as our baseline hypothesis and analyze the moderating role of CEO duality. We understand CEO duality as those instances where the same person holds both the CEO and board chairperson positions in the firm (Finkelstein and D'Aveni, 1994; for a review of the CEO duality literature, see Krause et al., 2014). CEO duality lowers the likelihood of CEO dismissal (Gentry et al., 2021). This, in turn, may influence the CEOs' reaction to performance shortfalls. In this regard, firm performance is one of the key parameters used to evaluate CEO performance (Finkelstein et al., 2009; Kesner and Seborá, 1994). CEOs are often praised when their firms succeed and they are equally blamed when they fail.

According to the *CEO Succession Practices: 2020 Edition* report<sup>1</sup>, better-performing firms in the S&P 500 had a succession rate of 11.3 percent in 2019, compared to the 20.2 percent CEO succession rate recorded for worse-performing firms. In the Russell 3000 index, the difference was even more acute, with 9.4 percent versus 19.4 percent for the CEO succession rates. It is relatively easy to find headlines linking CEO dismissal and unsatisfactory performance, even if the firms are not usually eager to announce that they have fired their CEOs or give specific reasons for their departure. It is not often that dismissed CEOs are as honest as Andrew Mason (ex-CEO and co-founder of Groupon), who stated the following in a leaked internal memo to employees: "After four and a half intense and wonderful years as CEO of Groupon, I've decided that I'd like to spend more time with my family. Just kidding—I was fired today. If you're wondering why ... you haven't been paying attention. From controversial metrics in our S1 to our material weakness to two quarters of missing our own expectations and a stock price that's hovering around one quarter of our listing price, the events of the last year and a half speak for themselves. As CEO, I am accountable."<sup>2</sup>

The above evidence points to the existence of a performance-induced turnover; that is, a turnover that would not have happened had the performance been "good" (Jenter and Lewellen, 2021). CEOs of underperforming firms are therefore pressured to restore firm performance to an acceptable level or, at least, to take action to demonstrate that they are trying to address the performance shortfalls. However, not all CEOs are under so much pressure. Dual CEOs have a high level of control of the content and location of the board meetings that reduces their probability of being dismissed due to a short-term decline in performance (Tuggle et al., 2010). Consequently, they feel less pressure to react to performance shortfalls. On the contrary, non-dual CEOs will be forced to concentrate on problemistic search, trying to correct the situation to secure their position when performance shortfalls occur.

Drawing on the behavioral theory of the firm (Cyert and March, 1963) and the interplay between aspirations and survival introduced by March and Shapira (1992), we argue that CEO duality moderates the inverted U-shaped relationship between performance shortfalls and increased internationalization. CEO duality lowers the effectiveness of the board's monitoring and, thus, the risk of CEO dismissal due to performance shortfalls. For this reason, dual CEOs feel less pressure to try to restore performance.

We test our hypotheses on a sample of 81 Spanish listed firms over the 25-year period from 1986 to 2010. We include different operationalizations of internationalization to present a more comprehensive test of our hypotheses. Specifically, we look at the intensity (number of new operations), scope (number of new countries), and dispersion (number of new cultural clusters) of a firm's internationalization. According to the gradual internationalization literature (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), we consider that increasing international intensity is the safest strategic move among the three of them, with the entry into a new cultural cluster being the riskiest. Our findings confirm the inverted-U shaped relationship between performance shortfalls and internationalization across the different measures used. They also show that CEO duality moderates this relationship, turning it into a negative monotonic relationship. This supports our argument that dual CEOs are less willing to introduce changes to their firm's international footprint when performance shortfalls occur.

Our paper makes two distinct contributions. First, we extend the behavioral theory of the firm by identifying the critical role that CEO duality plays in choosing new internationalization as a response to performance shortfalls. Supporting the notion that individuals play a crucial role in shaping problemistic search (Banerjee et al., 2019), former studies have examined other CEO characteristics such as ownership (Chittoor et al., 2019), pay disparities (Lim, 2019), advice networks (McDonald and Westphal, 2003), and performance satisfaction (Villagrasa et al., 2018). Our study adds to this problemistic search literature the role of CEOs' incentives due to their control of the board. Second, by adopting a microfoundational approach to explain internationalization decisions (Buckley et al., 2016), we also contribute to the international business literature. We show that CEO duality influences the entrepreneurial attitude of CEOs, acting as a buffer against short-term performance feedback. Although this lack of reaction may ensure a more consistent strategy in the long run, it can also delay necessary changes. This could be another shortcoming of CEO duality besides the traditional ones highlighted in the literature, such as poor monitoring of the top executives and an increased likelihood of entrenchment (Krause et al., 2014).

## Literature review

The behavioral theory of the firm establishes that decision-makers evaluate performance using their aspirations as a reference point (Cyert and March, 1963; March and Simon, 1958). According to this theory, firms set their aspirations based on their past performance (*historical aspirations*) as well as the performance of their peers (*social aspirations*). Following prior research by Cyert and March (1963), Greve (2003), Rudy and Johnson (2016), and Zhong et al. (2022b), we define the overall aspiration level of a firm as a combination of its historical and social aspirations.

The decision-makers of underperforming firms are encouraged to engage in problemistic search to seek solutions to restore

<sup>1</sup> Tonello, M. and Schloetzer, J. D. 2020. *CEO Succession Practices: 2020 Edition*. The Conference Board.

<sup>2</sup> Carlson, N. 2013. Groupon CEO Andrew Mason's Honest, Charming Goodbye Memo: 'I Was Fired Today'. *Business Insider*, 28 February.

performance (Gavetti et al., 2012; Posen et al., 2018), which often entails embracing changes (Lant et al., 1992) and taking more risks (Baum et al., 2005; Bromiley, 1991; Shinkle, 2012). They can choose to undertake different actions depending on their preferences and the conditions that they face (Eggers and Suh, 2019; Kacperczyk et al., 2015; Klingebiel, 2018). Among others, the literature suggests the following solutions to close performance shortfalls: increased innovation (Chen and Miller, 2007; Greve, 2003; Yu et al., 2019), bribery and corporate social irresponsibility (Xu et al., 2019; Zhong et al., 2022a, 2022b), lobbying (Eun and Lee, 2021), acquisitions (Iyer and Miller, 2008; Iyer et al., 2019; Kim et al., 2015), divestments (Shimizu, 2007; Vidal and Mitchell, 2015), and new product development (Chang, 1996; Eggers and Suh, 2019; Joseph and Gaba, 2015).

In this paper we focus on internationalization decisions, which have become quite popular among scholars interested in analyzing the behavior of underperforming firms. Supporting the problemistic search rationale, Deng et al. (2022), Wennberg and Holmquist (2008), and Xie et al. (2019) showed that performance shortfalls act as an internationalization driver. In a similar vein, Lin (2014) demonstrated that underperforming firms tend to adopt a more rapid internationalization, investing across a wider range of countries at an irregular rhythm. Hui et al. (2021) also contributed to this stream of research and found that foreign divestments are preferred to foreign investments when performance shortfalls occur. It is only when the focal firm's peers are actively expanding abroad that internationalization emerges as a near-term solution to performance shortfalls.

However, performance shortfalls have not always been associated with risk-seeking behavior in the international expansion. For instance, Jung and Bansal (2009) unveiled a negative linear relationship between performance relative to historical aspirations and internationalization. Jiang and Holburn (2018) also found that underperforming firms are less likely to expand abroad and the ones that do are more likely to favor cultural and geographic proximity when choosing the host country. Giving further support to the negative relationship between performance shortfalls and internationalization, Shijaku et al. (2020) observed that underperforming firms form fewer international alliances, although network centrality reduces this risk-averse behavior.

Some evidence has tried to reconcile the aforementioned positive and negative linear relationships by suggesting that the relationship between performance shortfalls and internationalization could be nonlinear. Ref and Shapira (2017) and Ref et al. (2021) specifically differentiated between underperforming in the neighborhood of aspirations and well below aspirations and found that there is an inverted U-shaped relationship between performance shortfalls and new geographic market entry. The essence of their argumentation is that internationalization can either help a firm return to its aspiration level or worsen its profitability depending on the size of the performance shortfall. This is because large performance shortfalls can be the consequence of a lack of critical resources that prevents the firm from succeeding in foreign markets.

#### *CEO characteristics and internationalization as a response to performance shortfalls*

CEOs play a key role in trying to respond to performance shortfalls via internationalization. According to Villagrasa et al. (2018), the CEOs' cognitive interpretation of performance influences their attitude towards internationalization and other intended strategic changes when firms perform below the industry average. Lim's findings (2019) support that performance shortfalls favor entry into new geographic markets, even if pay disparities between the CEO and other TMT members as well as among the TMT members weaken this positive relationship due to a potential loss of self-confidence and team conflicts. In this regard, CEOs can avoid changing the geographic scope of their firms under certain circumstances. McDonald and Westphal (2003) first discovered that CEOs whose firms are underperforming and seek advice from other managers in their network of contacts tend to stick to their current strategies, thus refraining from changing their international footprint. Chittoor et al. (2019) similarly found that owner CEOs do not seem to modify their internationalization decisions when performance shortfalls occur, even if firms in general are more prone to venture abroad to close them. They explain this result based on their higher job security compared to professional managers. Our paper departs from these studies by putting the attention on CEO duality. We argue that this CEO characteristic is key to explaining the responses to performance shortfalls. CEOs that also serve as chairpersons of the firm board can easily maneuver to lower the effectiveness of the board's monitoring, therefore reducing the likelihood of dismissal when performance shortfalls occur (Gentry et al., 2021; Krause et al., 2014). As a result, they may have fewer incentives than non-dual CEOs to improve performance back to the aspirational level. In the next section we elaborate on our hypotheses, which we have grounded in the behavioral theory of the firm and March and Shapira's (1992) aspirations and survival interplay.

### **Hypothesis development**

#### *Internationalization as a response to performance shortfalls*

Our baseline hypothesis is that there is an inverted U-shaped relationship between performance shortfalls and new internationalization. Based on the research of March and Shapira (1992), we propose that individuals may focus either on an aspirations reference point where performance shortfalls cease to exist or on a survival reference point where resources become exhausted. From an aspirational perspective, the larger the performance shortfalls, the higher the pressure on CEOs to introduce changes as an attempt to close them, even if it means taking more risks. It is in their best interest to close performance shortfalls because the CEOs of underperforming firms often face the consequences of poor performance in terms of reduced compensation, prestige, and job stability. According to the evidence collected by Easterwood et al. (2012), 34.9% of CEOs are replaced in the immediate year after performance shortfalls occur. Additional research by Gentry et al. (2021), Hilger et al. (2013), and Weber and Wiersema (2017) also recognized poor performance as a driving mechanism of CEO dismissal.

We argue that CEOs may buy time and create expectations of future benefits by carrying out strategic investments like foreign direct

investments (FDI). Internationalization offers several benefits for underperforming firms. First, exploiting the existing resources and capabilities in additional countries is bound to increase revenue thanks to the access to a wider customer base (Cuervo-Cazurra et al., 2015). Second, prior research has often linked internationalization to cost efficiency and higher returns via the achievement of economies of scale and scope (Caves, 2007; Lu and Beamish, 2004). Third, internationalization allows firms to access new resources and capabilities (Guillén and García-Canal, 2009; Kraemer and van Tulder, 2009; Makino et al., 2002) that can also help them improve their performance. Given these benefits of internationalization, it could be expected that CEOs try to compensate for performance shortfalls by increasing their commitment to international markets, especially to those previously untapped, which have a higher potential of closing them.

However, along with the benefits of internationalization come additional risks that lead to many foreign ventures failing (Benito and Welch, 1997; Bianchi and Ostale, 2006; Mata and Portugal, 2000). Firms usually expand abroad by gradually increasing the distance from home to host countries, so each new country entails higher risks than the previous ones (Johanson and Vahlne, 1977, 2009). In other words, firms face more obstacles when investing in distant locations (García-García et al., 2019) due to the liabilities of foreignness—a lack of knowledge of foreign markets (Zaheer, 1995)—and outsidership, specifically being an outsider to local networks in the host countries (Johanson and Vahlne, 2009).

The board of directors usually has a say in internationalization decisions (Barroso et al., 2011; Chittoor et al., 2019; Tihanyi et al., 2003). For this reason, CEOs need to convince the board members that new investments will help to close the performance shortfalls. In this regard, they may not agree with the CEO on the desired changes or have their own agenda (Desai, 2016). Specifically, as performance shortfalls increase, the board may be concerned by the chance of failure of the project, especially when a lack of valuable resources may be the reason behind it. Corporate expansion requires owning valuable resources that are able to be exploited and transferred to new markets (Barney, 1991; Peng, 2001; Peteraf, 1993). Therefore, a necessary condition for a firm to profit from increased internationalization is to possess valuable resources that give their products an edge over their local competitors (Collis, 1991) and/or the bargaining power to find a good local partner (Hitt et al., 2000).

New internationalization may not be considered as an adequate problemistic search response when firms lack valuable resources to be exploited in foreign markets or to attract partners that can help them overcome the liabilities of foreignness and outsidership. Board members may then adopt a survival reference point, thus preventing CEOs from undertaking risky investments as performance shortfalls increase. Severe performance shortfalls may raise doubts about whether additional foreign investments could compromise the survival of the firm. These doubts grow stronger as performance shortfalls rise. The financing options may become restricted, and the chances of international success may decrease due to a mismatch between the firm's resources and its markets (Ref and Shapira, 2017).

In sum, we expect a positive relationship between small performance shortfalls and new firm internationalization because aspirations prevail over survival. Meanwhile, large performance shortfalls trigger survival concerns and the relationship becomes negative because they outweigh aspirations. Based on these arguments, we establish the following baseline hypothesis:

**Hypothesis 1.** There is an inverted U-shaped relationship between performance shortfalls and new firm internationalization.

#### *The moderating effect of CEO duality*

The structure and composition of the boards condition the effectiveness of their monitoring functions (Adams et al., 2010; Haynes and Hillman, 2010; Tuggle et al., 2010) and, in turn, both the aforementioned aspiration and survival perspectives. CEO duality is a defining feature that affects a board's monitoring ability. Dual CEOs have higher control of the board and/or the agenda of the meetings that negatively affects board oversight (Daily and Dalton, 1995; Finkelstein and D'Aveni, 1994; Finkelstein et al., 2009; Fredrickson et al., 1988; Tuggle et al., 2010) and makes their decisions less likely to be contested (Hayward and Hambrick, 1997; Li and Tang, 2010). As a result, they are bound to have a more significant influence over their potential dismissal when performance shortfalls occur (Gentry et al., 2021; Krause et al., 2014). For this reason, dual CEOs have a lower pressure to introduce risky changes as a consequence of performance shortfalls. In addition, their control of the board allows them to have the international expansion of their firm already adjusted to their risk preferences (Boustanifar et al., 2022), so new internationalization does not become a priority for them.

The above logic implies that the aspiration perspective will have a much weaker impact on the dual CEOs' choice of new internationalization as a form of problemistic search, even if this lack of reaction may be damaging for the firm (Daily and Dalton, 1994a, 1994b). It is only under effective monitoring that the CEOs of underperforming firms run a higher risk of being dismissed (Goyal and Park, 2002; Ocasio, 1994) or replaced by other board members (Zhang, 2006). Troubled firms tend to separate the roles of chairperson and CEO to improve monitoring (Harrison et al., 1988; Krause and Semadeni, 2013). Actually, firms that separate the CEO and board chair positions when operational performance is poor are more likely to avoid failure (Krause et al., 2022).

Whereas CEO duality may even counteract the aspiration perspective, we expect the survival one to remain unaffected, even if for a different reason than in the case of non-dual CEOs. Generally speaking, dual CEOs are considered risk averse. Firms with dual CEOs are less willing to undertake risks than those with non-dual CEOs (Akbar et al., 2017; Krause et al., 2014; Pathan, 2009). In fact, evidence suggests that they are even more cautious in their international expansion than non-dual CEOs (Ellstrand et al., 2002). For this reason, dual CEOs' will embrace the survival perspective even despite their boards' lower attention to monitoring. On this basis, we predict that:

**Hypothesis 2.** CEO duality moderates the inverted U-shaped relationship between performance shortfalls and new firm internationalization in such a way that the positive association between small performance shortfalls and new firm internationalization is

mitigated.

Figure 1 summarizes the arguments that we have outlined in our hypothesis development. The aspirations and survival effects are triggered when firms underperform. However, the size of the performance shortfalls conditions their relative strength. Small performance shortfalls lead to an increase in internationalization. Aspirations dominate over survival because relatively small performance shortfalls in the current markets do not neglect the possibility of profiting from further internationalization. However, larger performance shortfalls lead to a drop in new internationalization, because they raise concerns related to the lack of valuable resources that brings into question the profitability of an increased international footprint. Therefore, survival prevails over aspirations. CEO duality mitigates the aspirations effect because the lack of effective monitoring and the risk aversion of dual CEOs discourage them from investing in internationalization as a problemistic search solution.

**Data and methodology**

*Sample*

Our sample consists of all Spanish firms listed on the Madrid Stock Exchange in 1990 over the 25-year period from 1986 to 2010. The final sample contains some non-systematic missing observations due to a lack of data. In addition, some firms were delisted or merged during the period of analysis. This ultimately resulted in the unbalanced panel of 852 observations from 81 firms used to run the regressions.

The firms included in the analysis span several industries. Specifically, energy and water; transportation and telecommunications; construction; other soft services; other hard services; food and drink; iron and steel; machinery and equipment; building materials; chemical products and medical equipment; and stationery and office supplies. For the purposes of this study, we defined soft services as those where production and consumption happen simultaneously, thus the firm and the customer base need to be co-located (Guillén and García-Canal, 2010). In contrast, in hard services, production can be separated from consumption meaning that they can be exported at arm’s length (Erramili, 1990). We shall also note that because our paper revolves around performance and banking and financial services normally have specific accounting standards (Lemmon and Lins, 2003), we excluded firms operating in this industry from our analysis. Table 1 summarizes the number of firms and observations in our sample pertaining to each of these industries. We have added the SIC codes next to each of them for replicability.

The chosen research setting and timeframe are appropriate to test our hypotheses. Joint CEO/chairperson appointments are frequent among Spanish listed firms. Despite the recommended codes of best practice that urge companies not to concentrate too much power in the hands of the CEOs by awarding them dual appointments, many Spanish companies are still reticent to separate both positions. Indeed, they have higher levels of CEO duality than other European boards (Barroso-Castro et al., 2022). Another advantage of the Spanish case is that our database covers the bulk of foreign direct investments made by these firms given that their international expansion is a quite recent phenomenon (Guillén, 2005; Guillén and García-Canal, 2010).

Spain became a member of the European Economic Community (currently known as the European Union) in 1986. From that point on, Spanish FDI surged at an unprecedented rate. Internationalization has been the main driver of the growth of Spanish firms since the 1980s (Guillén, 2001, 2005; Guillén and García-Canal, 2010). Therefore, establishing 1986 as the starting year of the analysis allows us to consider the bulk of Spanish FDI and avoid potential left-censoring issues.

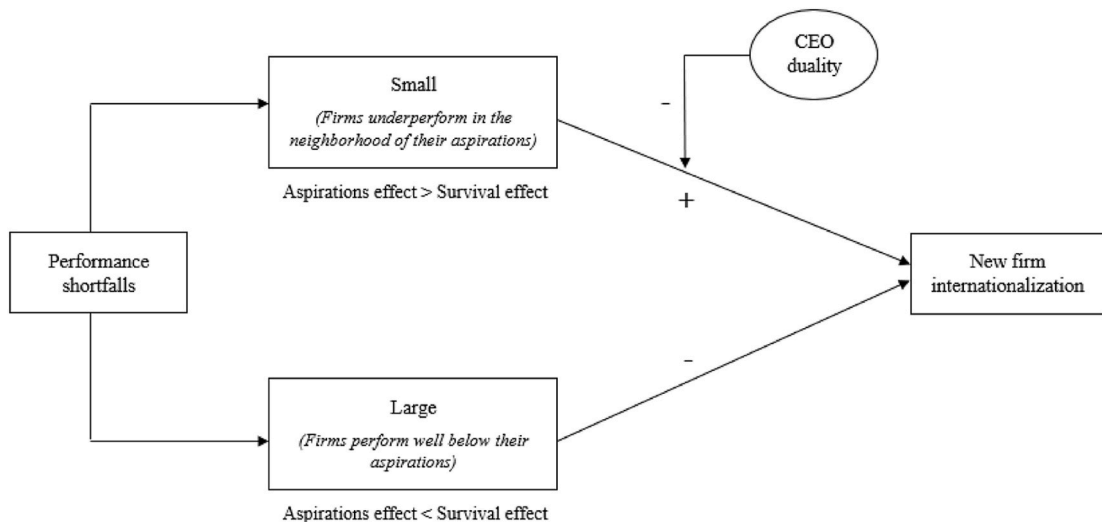


Figure 1. Performance shortfalls, CEO duality, and new firm internationalization.



**Table 1**  
Distribution of firms and observations by industry

Industry name	SIC codes	Number of firms	Number of observations
Energy and water	13, 17, 49	12	147
Transportation and telecommunications	16, 40, 44, 48	2	42
Construction	15	6	68
Other soft services	50, 51, 65, 73, 75	10	71
Other hard services	73, 89	8	88
Food and drink	20, 21	9	96
Iron and steel	33, 34	6	75
Machinery and equipment	35, 36, 37	5	62
Building materials	24, 32	9	69
Chemical products and medical equipment	28, 36, 38	8	84
Stationery and office supplies	26, 28	6	50

### Dependent variable

Our dependent variable is firm internationalization. We focus our analysis on internationalization through FDI and therefore account for any investment in a foreign subsidiary where at least 10% of the equity is controlled by the investing firm, which is also actively involved in its management (U.S. Bureau of Economic Analysis, 2004). We obtained the FDI data from the Systematic Database on International Operations of Spanish Companies developed under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007).

Internationalization is a multifaceted concept that IB scholars have defined in multiple ways in the extant literature (Sullivan, 1994; Verbeke and Forootan, 2012; Wiersema and Bowen, 2011). For this reason, researchers should try to look at this variable from different angles to offer a more comprehensive view of the internationalization phenomenon. We follow the distinction made by Miller et al. (2016), who suggested that there are three key dimensions that underpin the internationalization construct: intensity, diversity, and distance. Hence, we differentiate between the firms' international intensity, scope, and dispersion across cultural clusters. As already mentioned in the Introduction, these three dimensions allow us to better capture the different degrees of risk-taking in the strategic choices made to address performance shortfalls.

*International intensity* captures the depth of the firm's international footprint. Because we are interested in studying increased international intensity, we defined this variable as the number of new foreign operations (Elia et al., 2021; Lu and Beamish, 2004). Meanwhile, the *international scope* of the firm relates to the breadth of its foreign operations. For the purposes of this paper, we measured it as the number of new foreign countries where the firm locates its operations (Allen and Pantzalis, 1996; Keig et al., 2019). Finally, *international dispersion* refers to the cultural differences between the focal firm's home country and the foreign locations of its subsidiaries. Again, as we are studying increased international dispersion, we defined this variable as the number of new cultural clusters entered. We followed Ronen and Shenkar's classification (2013) to create this measure. Consequently, we relied on the 11 global clusters that appear in their study (i.e., Arab, Near East, Latin America, East Europe, Latin Europe, Nordic, Germanic, African, Anglo, Confucian, and the Far East). This measure has been previously used by papers studying cross-national differences, such as García-García et al. (2019) and Li et al. (2021). Table 2 contains a list of the host countries included in our analysis, together with the number of operations that the firms from our sample carried out in them.

### Independent variable

Performance can be a powerful independent variable when explaining firm behavior via the concept of performance feedback (Guérard et al., 2013). Consistent with previous studies analyzing the effect of performance feedback on strategic decisions (e.g., Audia and Greve, 2006; Chittoor et al., 2019; Iyer and Miller, 2008; Villagrasa et al., 2018), we measured performance using the firm's return on assets (ROA). We gathered the data to calculate the ROA from Compustat, Datastream, the Spanish Securities Market Commission, and the firms' websites. We then followed Cyert and March (1963) and Greve (2003) to compute the aspiration level (A). This is a combination of the firm's social aspiration level (SA) and historical aspiration level (HA) where SA equals the performance of all firms in the focal firm's industry excluding the focal firm, HA is a weighted average of the focal firm's prior-year historical aspiration level and its performance in the previous year, and subscripts  $t$  and  $i(j)$  refer to time and firm, respectively.

$$A_{t,i} = \alpha_1 SA_{t,i} + (1 - \alpha_1) HA_{t,i}$$

$$SA_{t,i} = \frac{(\sum_{j \neq i} P_{t,j})}{(N - 1)}$$

$$HA_{t,i} = \alpha_2 HA_{t-1,i} + (1 - \alpha_2) P_{t-1,i}$$

Next, we estimated the weights of  $\alpha_1$  and  $\alpha_2$  by seeking the combination giving the best model fit (Greve, 2003). To do so, we employed the quasi-likelihood under the independence model criterion (QIC), which establishes that the smallest QIC value provides the best fitting to the data (Cui, 2007). We searched the parameter values in the [0, 1] interval by increments of 0.25 for both  $\alpha_1$  and  $\alpha_2$ .

**Table 2**  
Foreign operations by host country

Country	No.	Country	No.	Country	No.
Angola	6	Equatorial Guinea	6	Norway	11
Albania	2	Greece	27	New Zealand	1
Andorra	3	Guatemala	11	Oman	3
United Arab Emirates	5	Hong Kong	1	Panama	18
Argentina	136	Honduras	9	Peru	42
Australia	18	Hungary	9	Philippines	19
Austria	20	Indonesia	9	Poland	42
Azerbaijan	1	India	13	Puerto Rico	11
Belgium	14	Ireland	14	Portugal	178
Burkina Faso	1	Iran	6	Paraguay	8
Bangladesh	1	Iraq	3	Palestine	1
Bulgaria	7	Israel	6	Qatar	4
Bosnia and Herzegovina	1	Italy	99	Romania	30
Bolivia	18	Jamaica	1	Russia	27
Brazil	150	Japan	2	Saudi Arabia	3
Barbados	1	Kazakhstan	2	Senegal	1
Central African Republic	2	Kenya	9	Singapore	4
Canada	35	Cambodia	1	Sierra Leone	1
Switzerland	9	Republic of Korea	5	El Salvador	4
Chile	109	Kuwait	1	Slovak Republic	10
China	52	Liberia	1	Slovenia	3
Ivory Coast	3	Libya	9	Sweden	5
Cameroon	5	Liechtenstein	1	Syria	1
Colombia	71	Lithuania	2	Thailand	6
Costa Rica	11	Luxembourg	1	Trinidad and Tobago	5
Cuba	13	Latvia	2	Tunisia	15
Czech Republic	24	Morocco	54	Turkey	9
Germany	49	Moldova	2	Uganda	6
Denmark	3	Mexico	171	Ukraine	3
Dominican Republic	33	Mali	1	Uruguay	20
Algeria	49	Malta	3	United States	162
Ecuador	26	Mozambique	4	Venezuela	58
Egypt	25	Mauritania	1	Vietnam	5
Estonia	1	Malaysia	10	Yemen	2
Ethiopia	3	Namibia	2	Serbia and Montenegro	3
Finland	7	Niger	2	South Africa	8
France	104	Nigeria	3	Zambia	2
United Kingdom	86	Nicaragua	4	Zimbabwe	1
Guinea-Bissau	1	Netherlands	18		

We examined all possible combinations and obtained different optimal fittings depending on the dimension of internationalization used as the dependent variable. In the international intensity and scope models, the best fitting estimates yielded values of 0.5 for  $\alpha_1$  and 0.75 for  $\alpha_2$ . Finally, in the international dispersion models, the alpha values equaled 0 ( $\alpha_1$ ) and 0.5 ( $\alpha_2$ ). According to the values found for  $\alpha_1$ , social and historical aspirations seem to be equally important when making new foreign investments or entering new countries. However, historical aspirations play a more decisive role when increasing the dispersion of the firm's international footprint since social aspirations are discarded from the models. The values obtained for  $\alpha_2$  illustrate the importance of actual performance versus historical aspirations in the previous period. The weights suggest that historical aspirations prevail over actual performance when carrying out new international operations or venturing into new countries. Both historical aspirations and actual performance are balanced in the case of increased cultural dispersion.

As a final step, we calculated *performance shortfalls* by implementing a spline function of the discrepancy between the actual performance of the firm and its aspirations (Greve, 2003). As a result, the variable labeled *Performance shortfalls* equals the absolute value of the difference between firm performance and aspiration levels when there is a negative performance-aspiration gap and 0 otherwise. We include this variable in its linear and quadratic forms to test for the hypothesized nonlinearities.

#### Moderating variable

We included *CEO duality* as the moderating variable of the study to test our second hypothesis. Following prior works (e.g., Boyd, 1995; Sirén et al., 2018; Tuggle et al., 2010), this dummy variable takes the value of 1 if the CEO of the firm is also the chairperson of the board. We retrieved these data from the DICODI, DUNS, and The Maxwell Espinosa Shareholders Directory databases. We tried to complete any missing information by running a wider online search of news databases and corporate reports.

### Control variables

We added several variables to control for alternative explanations of our findings. First, we controlled for *firm size* (proxied by total sales) because it may affect risk-taking (Audia and Greve, 2006). Former studies have also found that *proprietary technology* influences internationalization (García-García et al., 2017; Tseng et al., 2007; Zahra et al., 2003). Accordingly, we introduced a variable measuring the number of accumulated patents obtained by a firm since its inception. Organizational slack may also impact the firms' ability to venture abroad. Based on the seminal work of Bourgeois (1981), we introduced controls for the firms' *unabsorbed slack* (current ratio) and *potential slack* (debt-to-equity ratio<sup>3</sup>). Although Bourgeois (1981) acknowledged the existence of a third type of slack (i.e., absorbed slack), we only included the unabsorbed and potential slacks because they are more directly relevant to strategic moves (Iyer and Miller, 2008). We also controlled for the *operating margin* of the firms (EBIT/Sales), their *age*, and the *accumulated number of domestic mergers* signed with other firms from our sample.

Because ownership also affects risk-taking (Jensen and Meckling, 1976), we controlled for *family ownership* (percentage of stock held by the founder and/or their family), *state ownership* (percentage of stock owned by the Spanish government), and *board ownership* (percentage of stock owned by the firm's board). Additionally, we controlled for other board and CEO characteristics including *board size* (total number of board members), *CEO nationality* (coded as 1 if the CEO is a foreigner, and 0 otherwise), *CEO age*, *CEO external appointment* (coded as 1 if the CEO was hired externally, and 0 otherwise), and *CEO tenure* (number of years that the CEO has held this position within the firm). The size of the board of directors affects the quality of the firm's decision-making (Chammanur and Fedaseyeu, 2018) and is linked to internationalization (Sanders and Carpenter, 1998). CEO characteristics may also affect the decision to increase the international activity of the firm. Prior works have pointed out that internationalized TMTs signal a readiness to expand abroad, prompting firm-level internationalization (Greve et al., 2015; Pisani et al., 2018). Therefore, foreign CEOs might be more likely to pursue international operations. In contrast, long-tenured CEOs and older CEOs may be less willing or adept at following risky investment strategies (Child, 1974; Hsu et al., 2013; Patel and Cooper, 2014). External CEO appointments may also affect the likelihood of foreign expansion as firms tend to hire externally when they require fresh perspectives, skills, or knowledge (Zhang and Rajagopalan, 2010).

Internationalization-related variables are also bound to affect further internationalization efforts. For this reason, we controlled for the company being a *multinational* (dummy variable that takes the value of 1 if the company has a foreign presence and 0 otherwise), *international experience* (number of years that a firm has been operating abroad), *global mimetic behavior* (percentage of firms that are internationalized within an industry in a certain year), and *internationalization below peers* (dummy variable that takes the value of 1 if the firm's level of internationalization falls below that of the firms operating in the same industry and 0 otherwise). Finally, we included dummies to account for the focal firm's primary industry of operation and the year of the observation.

We consulted a myriad of sources to create the above-mentioned control variables. Financial data come from Compustat, Datastream, the Spanish Securities Market Commission, and the websites of our sampled firms. We retrieved the patent data from ESPACENET, which contains patent documents from all over the world.<sup>4</sup> We found the information on the age of the firm and domestic mergers in corporate reports and news databases. We obtained the ownership, board, and CEO data from several databases (DICODI, DUNS, and The Maxwell Espinosa Shareholders Directory), the papers of Vergés (1999, 2010) on Spanish privatizations, the Spanish Securities Market Commission, and the press. We also tried to find any missing data through a wider Internet search. Finally, we searched the data used to create the internationalization-related control variables in the Systematic Database on International Operations of Spanish Companies. Table 3 presents the definitions and data sources of each of our variables.

### Analytical technique

Our dependent variables capturing the three main dimensions of the internationalization of the firm (i.e., intensity, scope, and dispersion) are non-negative and integer valued. Therefore, we could use either a Poisson or a negative binomial model specification. Following the recommendations of prior works such as the study by Cameron and Trivedi (2013), we ran overdispersion tests to help us choose between both. Since the tests rejected the null hypothesis of no overdispersion, we favored the negative binomial specification. We specifically used generalized estimating equation (GEE) population-averaged negative binomial models with an exchangeable correlation structure and robust standard errors clustered by firm. Random effects specifications fail to account for the unobserved heterogeneity among firms. Fixed effects specifications solve this issue. However, they do so at the expense of dropping a third of the observations in our sample—those that have not made any foreign investments during the timeframe of the study. We thus chose the GEE negative binomial specification because it is both efficient and considers unobserved heterogeneity (Fernández-Méndez et al., 2018; Krishnan and Kozhikode, 2015).

### Descriptive statistics

Table 4 contains the descriptive statistics of the main variables included in our regressions. We also calculated the variance inflation factors (VIF) to confirm that multicollinearity is not an issue in our study. The highest individual VIF equals 8.94, lower than the commonly accepted threshold of 10 (Kutner et al., 2004). We lagged all independent, moderating, and control variables by one year to

<sup>3</sup> Please note that the debt-to-equity ratio is an inverse indicator of the potential slack.

<sup>4</sup> ESPACENET can be accessed at <https://worldwide.espacenet.com/> (Last accessed 2 July 2022).



**Table 3**  
Definitions and data sources for our variables

Variable	Definition	Data source
<b>Dependent variables</b>		
International intensity	Number of new foreign operations made	Systematic Database on International Operations of Spanish Companies
International scope	Number of new foreign countries entered	Systematic Database on International Operations of Spanish Companies
International dispersion	Number of new cultural clusters entered	Systematic Database on International Operations of Spanish Companies
<b>Independent variable</b>		
Performance shortfalls	Negative discrepancy (taken in absolute terms) between the actual performance of the firm and its aspirations (defined based on <a href="#">Greve, 2003</a> )	Compustat; Datastream; Spanish Securities Market Commission; firms' websites
<b>Moderating variable</b>		
CEO duality	Joint CEO/chairperson appointment (1 = yes; 0 = no)	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
<b>Control variables</b>		
Firm size	Total sales	Compustat; Datastream; Spanish Securities Market Commission; firms' websites
Proprietary technology	Number of patents accumulated by the focal firm since inception	ESPACENET
Unabsorbed slack	Current ratio	Compustat; Datastream; Spanish Securities Market Commission; firms' websites
Potential slack	Debt-to-equity ratio	Compustat; Datastream; Spanish Securities Market Commission; firms' websites
Operating margin	EBIT/Sales	Compustat; Datastream; Spanish Securities Market Commission; firms' websites
Firm age	Chronological age of the focal firm at $t$	Corporate reports and news databases
Domestic mergers	Accumulated number of domestic mergers signed by the focal firm with other firms from our sample	Corporate reports and news databases
Family ownership	Stock held by the founder and/or their family (%)	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
State ownership	Stock held by the Spanish government (%)	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports; <a href="#">Vergés (1999, 2010)</a>
Board ownership	Stock held by the focal firm's board (%)	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
Board size	Total number of board members	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
CEO nationality	If CEO is a foreigner, CEO nationality = 1, otherwise = 0	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
CEO age	Chronological age of the focal firm's CEO at $t$	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
CEO external appointment	If CEO was hired externally = 1, otherwise = 0	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
CEO tenure	Number of years that the CEO has held this position within the focal firm	DICODI, DUNS, Maxwell Espinosa Shareholders Directory database; news databases; corporate reports
Multinational	If the focal firm is a multinational = 1, otherwise = 0	Systematic Database on International Operations of Spanish Companies
International experience	Number of years that the focal firm has had a foreign presence	Systematic Database on International Operations of Spanish Companies
Global mimetic behavior	Multinational firms within the focal firm's industry (%)	Systematic Database on International Operations of Spanish Companies
Internationalization below peers	If firm internationalization falls below peers = 1, otherwise = 0	Systematic Database on International Operations of Spanish Companies

reduce the potential reverse causality concerns and to better grasp the effect of performance shortfalls on internationalization ([Wan and Hoskisson, 2003](#)). Following established practice, we also mean-centered the relevant continuous variables of *performance shortfalls* before calculating the interactions to avoid potentially high correlations between the interaction terms and the main effects ([Jaccard and Turrisi, 2003](#)).

## Results

[Table 5](#) presents the results of our main empirical findings. In Models I to III, the dependent variable of internationalization is defined as new investments in foreign countries. Model I includes the control variables as well as the linear term of performance shortfalls and our moderating variable of CEO duality. Model II adds the quadratic term of performance shortfalls. Model III also includes the interaction effects. We replicate this structure in Models IV to VI and VII to IX, in which internationalization is measured as the number of new foreign countries and new cultural clusters that are entered by the firm, respectively.

In line with [Hypothesis 1](#) (our baseline hypothesis), models III, VI, and IX in [Table 5](#) display a robust inverted U-shaped relationship

**Table 4**  
Descriptive statistics and correlations.

		Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9
1	International intensity	2.10	4.14	0.00	37.00	1.00								
2	International scope	0.58	1.04	0.00	7.00	0.64	1.00							
3	International dispersion	0.18	0.45	0.00	4.00	0.19	0.55	1.00						
4	Performance shortfalls (international intensity and scope weights)	-0.00	3.84	-1.88	31.44	-0.10	-0.09	-0.06	1.00					
5	Performance shortfalls (international dispersion weight)	-0.00	3.88	-1.80	31.68	-0.10	-0.11	-0.04	0.80	1.00				
6	CEO duality	0.36	0.48	0.00	1.00	-0.02	-0.03	0.02	0.03	0.05	1.00			
7	Firm size	2.94	7.36	0.00	59.63	0.53	0.19	0.02	-0.09	-0.06	-0.01	1.00		
8	Proprietary technology	36.89	74.05	0.00	461.00	0.22	0.08	0.02	0.06	0.03	0.07	0.50	1.00	
9	Unabsorbed slack	0.54	0.19	0.06	2.43	0.16	0.08	-0.02	0.14	-0.03	-0.02	0.08	0.03	1.00
10	Potential slack	0.32	2.39	0.00	68.50	-0.03	-0.04	-0.02	-0.03	-0.02	-0.01	-0.02	-0.03	0.03
11	Operating margin	15.10	36.70	-112.55	760.85	-0.00	-0.01	0.01	-0.26	-0.21	-0.02	-0.00	-0.07	-0.05
12	Firm age	67.61	35.95	16.00	194.00	0.16	0.10	-0.00	-0.04	-0.11	-0.03	0.13	0.13	0.03
13	Accumulated number of mergers	0.29	0.60	0.00	3.00	0.24	0.14	0.03	-0.04	-0.08	0.04	0.11	-0.09	0.16
14	Family ownership	8.25	17.54	0.00	90.00	0.08	0.03	-0.01	-0.06	0.02	0.01	-0.07	-0.13	0.10
15	State ownership	2.80	12.49	0.00	100.00	0.04	0.16	0.07	-0.00	-0.03	0.06	0.03	0.01	-0.01
16	Board ownership	16.30	22.73	0.00	89.38	-0.07	-0.03	-0.00	-0.01	-0.06	-0.04	-0.17	-0.06	0.10
17	Board size	10.74	5.38	1.00	29.00	0.39	0.31	0.10	-0.15	-0.16	-0.08	0.36	0.18	0.06
18	Foreign CEO	0.04	0.19	0.00	1.00	-0.03	-0.02	-0.05	0.05	0.01	-0.02	-0.01	0.01	-0.04
19	CEO age	54.54	9.14	27.00	81.00	0.08	0.04	-0.01	-0.09	-0.10	0.26	0.09	-0.09	-0.08
20	External appointment	0.40	0.49	0.00	1.00	-0.03	-0.05	-0.00	0.07	0.05	-0.05	-0.03	0.22	-0.09
21	CEO tenure	6.64	7.68	0.00	54.00	-0.03	-0.02	0.01	0.01	0.01	0.18	-0.09	-0.09	0.12
22	Multinational	0.79	0.41	0.00	1.00	0.25	0.24	0.08	-0.05	-0.06	-0.00	0.19	0.21	0.22
23	International experience	11.55	10.69	0.00	48.00	0.34	0.21	0.03	-0.06	-0.07	0.02	0.38	0.18	0.26
24	Global mimetic behavior	0.70	0.26	0.22	1.00	0.30	0.22	0.08	-0.06	-0.13	-0.02	0.27	0.19	0.25
25	Internationalization below peers	0.96	0.19	0.00	1.00	0.03	0.03	0.06	0.06	0.04	0.07	-0.00	0.04	-0.06

		10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
10	Potential slack	1.00															
11	Operating margin	0.53	1.00														
12	Firm age	-0.05	-0.05	1.00													
13	Accumulated number of mergers	-0.03	-0.06	0.29	1.00												
14	Family ownership	-0.01	-0.06	-0.21	0.05	1.00											
15	State ownership	-0.02	0.00	-0.02	-0.03	-0.11	1.00										
16	Board ownership	-0.03	-0.04	-0.01	0.03	0.22	0.08	1.00									
17	Board size	-0.03	0.05	0.23	0.28	-0.08	0.09	-0.04	1.00								
18	Foreign CEO	0.16	0.05	0.05	-0.02	-0.08	0.15	-0.09	-0.04	1.00							
19	CEO age	-0.07	-0.02	0.12	0.03	-0.05	-0.03	-0.06	0.12	-0.24	1.00						
20	External appointment	-0.02	0.09	0.13	-0.04	-0.11	0.03	-0.04	-0.04	-0.03	-0.19	1.00					
21	CEO tenure	-0.01	-0.07	-0.11	-0.05	0.07	-0.04	-0.01	-0.09	-0.10	0.25	-0.10	1.00				
22	Multinational	-0.12	-0.16	0.13	0.21	0.06	0.04	-0.05	0.25	0.04	-0.04	0.03	0.05	1.00			
23	International experience	-0.06	-0.16	0.11	0.10	0.04	-0.05	0.02	0.20	0.15	0.07	-0.22	0.11	0.56	1.00		
24	Global mimetic behavior	0.00	-0.11	0.36	0.28	-0.09	-0.10	-0.03	0.30	-0.00	0.12	-0.04	-0.03	0.48	0.47	1.00	
25	Internationalization below peers	0.01	0.04	-0.01	-0.02	-0.04	-0.04	-0.03	0.02	0.01	0.05	-0.07	0.04	-0.09	-0.05	-0.05	1.00

**Table 5**  
GEE negative binomial regressions predicting internationalization

	International intensity			International scope			International dispersion		
	Model I	Model II	Model III	Model IV	Model V	Model VI	Model VII	Model VIII	Model IX
Performance shortfalls	-0.017 (0.386)	0.083** (0.012)	0.134*** (0.001)	-0.015 (0.508)	0.089* (0.073)	0.160** (0.025)	-0.010 (0.713)	0.091 (0.196)	0.200** (0.037)
Performance shortfalls <sup>2</sup>		-0.008*** (0.002)	-0.010*** (0.000)		-0.010** (0.019)	-0.014* (0.076)		-0.007** (0.049)	-0.010** (0.024)
CEO duality	0.067 (0.666)	0.066 (0.677)	0.210 (0.229)	0.086 (0.633)	0.089 (0.639)	0.266 (0.157)	0.355 (0.116)	0.354 (0.134)	0.580** (0.039)
Performance shortfalls x CEO duality			-0.146** (0.023)			-0.197** (0.049)			-0.268** (0.040)
Performance shortfalls <sup>2</sup> x CEO duality			0.006* (0.071)			0.012 (0.157)			0.008 (0.173)
Firm size	0.009 (0.504)	0.008 (0.540)	0.008 (0.530)	-0.018 (0.273)	-0.019 (0.256)	-0.019 (0.255)	-0.027 (0.106)	-0.024 (0.144)	-0.024 (0.161)
Proprietary technology	-0.001 (0.791)	-0.000 (0.938)	-0.000 (0.965)	0.001 (0.665)	0.001 (0.568)	0.001 (0.501)	-0.000 (0.889)	-0.000 (0.785)	-0.000 (0.926)
Unabsorbed slack	-1.702*** (0.000)	-1.759*** (0.000)	-1.880*** (0.000)	-1.300** (0.023)	-1.406** (0.017)	-1.552*** (0.008)	-1.157** (0.032)	-1.008* (0.071)	-0.961* (0.077)
Potential slack	-0.697** (0.020)	-0.691** (0.017)	-0.691** (0.017)	-0.608* (0.055)	-0.597* (0.060)	-0.606* (0.056)	-0.237 (0.272)	-0.262 (0.258)	-0.307 (0.203)
Operating margin	-0.001 (0.738)	-0.003 (0.701)	-0.003 (0.699)	0.000 (0.966)	-0.001 (0.922)	-0.000 (0.967)	0.004** (0.013)	0.004** (0.013)	0.004*** (0.005)
Firm age	-0.003 (0.312)	-0.004 (0.202)	-0.004 (0.211)	-0.005 (0.127)	-0.005 (0.110)	-0.005 (0.113)	-0.005* (0.095)	-0.005 (0.129)	-0.005 (0.130)
Accumulated number of mergers	0.161 (0.209)	0.172 (0.180)	0.171 (0.178)	0.000 (0.999)	0.012 (0.942)	0.012 (0.945)	-0.144 (0.260)	-0.132 (0.318)	-0.136 (0.335)
Family ownership	0.000 (0.994)	0.000 (0.986)	-0.000 (0.997)	-0.000 (0.970)	-0.000 (0.973)	-0.001 (0.943)	0.004 (0.513)	0.003 (0.648)	0.003 (0.705)
State ownership	0.009* (0.064)	0.008 (0.105)	0.007 (0.143)	0.008* (0.075)	0.008 (0.115)	0.006 (0.185)	0.009** (0.047)	0.008* (0.052)	0.008** (0.045)
Board ownership	-0.000 (0.936)	-0.001 (0.841)	-0.001 (0.819)	0.002 (0.656)	0.002 (0.724)	0.002 (0.748)	0.002 (0.610)	0.003 (0.495)	0.003 (0.470)
Board size	0.036 (0.216)	0.036 (0.198)	0.037 (0.177)	0.061** (0.027)	0.059** (0.026)	0.059** (0.026)	0.048* (0.053)	0.051** (0.045)	0.055** (0.032)
Foreign CEO	-0.735 (0.115)	-0.719 (0.119)	-0.766* (0.084)	-0.988*** (0.004)	-0.949*** (0.006)	-1.012*** (0.003)	-1.412*** (0.005)	-1.478*** (0.005)	-1.405*** (0.006)
CEO age	-0.010 (0.125)	-0.010 (0.146)	-0.011* (0.097)	-0.004 (0.635)	-0.003 (0.712)	-0.004 (0.643)	-0.035*** (0.004)	-0.033** (0.011)	-0.029** (0.019)
External appointment	0.016 (0.950)	0.030 (0.903)	0.021 (0.933)	-0.053 (0.735)	-0.047 (0.762)	-0.052 (0.738)	-0.169 (0.348)	-0.163 (0.371)	-0.217 (0.229)
CEO tenure	0.001 (0.867)	-0.000 (0.963)	0.001 (0.880)	-0.007 (0.578)	-0.008 (0.472)	-0.006 (0.642)	0.003 (0.747)	0.001 (0.957)	0.001 (0.904)
Multinational	0.659** (0.048)	0.657** (0.048)	0.666** (0.043)	0.834** (0.033)	0.836** (0.031)	0.851** (0.028)	0.574 (0.153)	0.531 (0.190)	0.577 (0.140)
International experience	0.029*** (0.001)	0.031*** (0.001)	0.030*** (0.001)	0.019 (0.105)	0.020* (0.097)	0.021* (0.090)	-0.002 (0.877)	-0.000 (0.988)	-0.003 (0.807)
Global mimetic behavior	0.267 (0.576)	0.072 (0.878)	0.068 (0.887)	1.030* (0.051)	0.861 (0.106)	0.828 (0.131)	0.902 (0.208)	0.918 (0.197)	0.921 (0.199)
Internationalization below peers	0.247 (0.338)	0.216 (0.387)	0.201 (0.422)	0.261 (0.511)	0.245 (0.531)	0.225 (0.567)	1.652** (0.027)	1.675** (0.035)	1.738** (0.045)
Constant	-1.613 (0.162)	-1.350 (0.217)	-1.321 (0.209)	-1.872 (0.125)	-4.287*** (0.000)	-4.255*** (0.000)	-3.234*** (0.005)	-5.835*** (0.000)	-4.154*** (0.002)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included	Included
Year dummies	Included	Included	Included	Included	Included	Included	Included	Included	Included
Observations	852	852	852	852	852	852	852	852	852
Number of firms	81	81	81	81	81	81	81	81	81
Wald $\chi^2$	2278.56*** (0.000)	3011.01*** (0.000)	3869.01*** (0.000)	1047.91*** (0.000)	1307.86*** (0.000)	1417.23*** (0.000)	1305.19*** (0.000)	1681.04*** (0.000)	1994.16*** (0.000)

pval in parentheses.

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

<sup>a</sup>For formatting purposes and to facilitate the interpretation of the findings, we have decided to label our performance feedback variable as *Performance shortfalls* in all models. However, please note that the weights of  $\alpha_1$  and  $\alpha_2$  differ depending on the dependent variable used to run the regression.

between performance shortfalls and new internationalization via new foreign investments ( $\beta_1 = 0.134$ , p-value < 0.01;  $\beta_2 = -0.010$ , p-value < 0.01), entry into new countries ( $\beta_1 = 0.160$ , p-value < 0.05;  $\beta_2 = -0.014$ , p-value < 0.1), and entry into new cultural clusters ( $\beta_1 = 0.200$ , p-value < 0.05;  $\beta_2 = -0.010$ , p-value < 0.05), respectively. The positive slope suggests that CEOs who understand their position in the firm may be at risk due to performance shortfalls engage in internationalization to try to revert the situation. However, as performance shortfalls widen, they reach a point where they reduce their internationalization efforts. This turning point appears when the performance shortfalls equal 8.59% (international intensity), 7.61% (international scope), and 11.81% (international dispersion).

Figure 2 illustrates these findings and how the risk-seeking behavior of non-dual CEOs changes depending on the magnitude of the performance shortfalls (the X axis covers the range of values in our data). On the Y axis, values over 1 represent a magnifying effect and values below 1 indicate a lowering effect. The lines do not depart from 1 because we are depicting the uncentered variables to facilitate interpretability and consequently had to add the mean to the centered variables included in our regressions. The figure shows that, at first, non-dual CEOs favor increased international dispersion over a broader scope or higher intensity. In other words, they try to close the gap between their actual performance and their aspirations by selecting riskier international strategies that could eventually lead to higher returns. However, this dynamic changes as performance shortfalls widen since they decrease internationalization efforts and all options seem to converge.

In practical terms, increasing the performance shortfalls by a quarter standard deviation below the mean is associated with a 12.68% increase in international intensity, a 15.10% increase in international scope, and a 20.25% increase in international dispersion. On the contrary, decreasing the performance shortfalls by a quarter standard deviation above the mean is associated with a 12.87% decrease in international intensity, a 15.33% decrease in international scope, and an 18.39% decrease in international dispersion. We shall note that we favored a quarter standard deviation over one standard deviation to perform these calculations to remain within the range of our (uncentered) performance shortfalls variable (i.e., [0, 33]). If we were to calculate the mean minus one standard deviation, the result would be negative, which falls outside the variable's range. Using the mean minus a quarter standard deviation allows us to stay within the defined range.

CEO duality is not significant when explaining the internationalization decision of firms. However, as predicted in Hypothesis 2, this variable moderates the inverted U-shaped relationship between performance shortfalls and new firm internationalization. The coefficients of the interactions suggest that firms controlled by dual CEOs tend to take a more conservative stance than those run by non-dual CEOs when performance shortfalls occur. Consistent with Hypothesis 2, the findings presented in Table 5 (models III, VI, and IX) suggest that CEO duality flattens the inverted-U relationship between performance shortfalls and new firm internationalization. More specifically, it turns it into a negative monotonic one across international intensity ( $\beta_1 = -0.146$ , p-value < 0.05;  $\beta_2 = 0.006$ , p-value < 0.1), international scope ( $\beta_1 = -0.197$ , p-value < 0.05;  $\beta_2 = 0.012$ , p-value > 0.1), and international dispersion ( $\beta_1 = -0.268$ , p-value < 0.05;  $\beta_2 = 0.008$ , p-value > 0.1).

Figure 3 shows that the firms led by dual CEOs fail to increase internationalization as a consequence of performance shortfalls. Interestingly, firms with dual CEOs particularly penalize entry into new cultural clusters (the most radical change in the internationalization pattern), which was the type of new internationalization that showed the highest positive reaction to small performance shortfalls in the case of non-dual CEOs. In Figure 3, the X axis also covers the range of values in our data and the interpretation of the values under and over 1 replicates that of Figure 2. An analysis of the magnitude of the effects shows that increasing the performance shortfalls a quarter standard deviation below the mean is associated with a 1.51% decrease in international intensity, a 3.67% decrease in international scope, and a 6.55% decrease in international dispersion. Conversely, a decrease in the performance shortfalls by a quarter standard deviation above the mean is associated with a 0.79% increase in international intensity, a 3.42% increase in international scope, and a 6.61% increase in international dispersion. Figures 2 and 3 also show that the shape of the relationship is consistent across the internationalization measures that we have examined, which confirms the robustness of our results. Nonetheless, we have run additional tests to further prove the robustness of our findings. We include them in the following section.

### Robustness tests and supplemental analyses

We conducted several additional analyses to ensure the robustness of our results and to shed more light on the relationship between performance shortfalls and CEO turnover.<sup>5</sup> First, we tested the strength of the quadratic relationship (Haans et al., 2016). We added a cubic term to our regressions to determine whether the relationship between performance shortfalls and the internationalization decisions of non-dual CEOs could be S-shaped rather than inverted U-shaped. We found no evidence of an S-shaped relationship for any of our internationalization measures. We also assessed the significance of the inverted U-shaped relationship (Lind and Mehlun, 2010). Accordingly, we performed Sasabuchi's (1980) test to evaluate the joint significance of the linear and quadratic terms of the performance shortfalls. The significant values that we obtained indicate the existence of an inverted U-shaped relationship between performance shortfalls and internationalization in the case of non-dual CEOs. In addition, the estimated extreme points fall within the 95% Fieller interval for extreme points (Fieller, 1954). Taken together, our evidence offers strong support for our first hypothesis.

Second, we tested for reverse causality to mitigate potential endogeneity concerns (Granger, 1969) using STATA's *pvargranger* command (for more information, see Abrigo and Love, 2016). We argue in this paper that performance shortfalls may influence firm internationalization. However, increased internationalization may also harm performance (e.g., Collins, 1990; García-García et al.,

<sup>5</sup> We have not included the results of these analyses due to space restrictions but they are available upon request.

2019). The null hypothesis is that new internationalization does not Granger-cause performance shortfalls. The nonsignificant coefficients of new operations, countries, and cultural clusters on performance shortfalls rule out reverse causation between performance shortfalls and new internationalization. Therefore, our results seem to be robust to potential reverse causality issues.

We further checked the robustness of our results by adding *performance above aspirations*—measured with the same procedure that we used to calculate the performance shortfalls—as a control variable. The coefficients were not significant and our results held. This seems to imply that firms that perform well have no clear inclination to alter their internationalization patterns as a result of slack search. In addition, we removed non-multinational companies from our sample. Our findings remained consistent. This suggests that both domestic and multinational companies consider increased internationalization as a solution to performance shortfalls.

Finally, we tried to shed more light on CEO turnover by running two additional analyses. First, we tested whether CEO turnover is affected by duality in underperforming firms. Consistent with prior research linking CEO duality to a lower likelihood of dismissal (e.g., Goyal and Park, 2002; Ocasio, 1994), we found that non-dual CEOs experience a higher turnover when their firms are underperforming. In the second analysis, we examined whether internationalization truly avoids the replacement of CEOs when performance shortfalls occur. Interestingly, our results suggest that increasing the international dispersion of the firm—the most radical change in the internationalization pattern—is the only alternative that reduces the likelihood of CEO turnover. This seems to imply that raising profit expectations, even at the expense of increased risk-taking, is indeed valuable when it comes to generating expectations of performance improvements.

## Discussion and conclusions

This study analyzes increased internationalization as a response to performance shortfalls. Our premise is that CEOs see increased internationalization through FDI as an appropriate response to low and moderate levels of performance shortfalls but only when they do not have control of the board of directors. We found robust support for our hypotheses using Spanish listed firms as the research setting and several internationalization measures. As predicted in our first (baseline) hypothesis, the overall pattern of results validates the existence of an inverted U-shaped relationship between performance shortfalls and increased internationalization. This is in line with the studies of Ref and Shapira (2017) and Ref et al. (2021). Consistent with our second hypothesis, CEO duality moderates this relationship by turning the inverted-U relationship into a negative monotonic relationship. Dual CEOs seem to display a consistent risk-averse behavior when performance shortfalls occur, thus refraining from expanding abroad. Taken as a whole, our results show that only non-dual CEOs see increased internationalization as a response to (small and moderate) performance shortfalls. In contrast, dual CEOs do not see increased internationalization as a problematic search response.

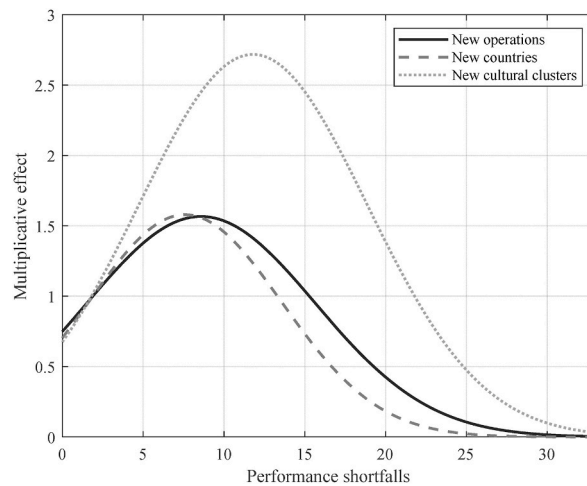
The results of our estimations confirm that dual and non-dual CEOs have a different approach to risk taking. At one extreme, non-dual CEOs are willing to promote new internationalization as a solution to problematic search, being more likely to enter into new cultural clusters; that is, the riskiest form of internationalization among the three studied. They perhaps do so in the hopes that assuming a higher risk will be accompanied by higher returns associated with opening the firm to a new set of markets. At the other extreme, dual CEOs display the highest risk aversion to internationalization when it comes to entering into new cultural clusters. The relationship between performance shortfalls and new internationalization is negative for both types of CEOs when performance shortfalls are large. However, the reasons behind this differ. In the case of non-dual CEOs, it is caused by the difficulty of generating expectations of profitability and the board's survival concerns. As for dual CEOs, the negative relationship stems from their risk aversion.

Overall, our findings suggest that while non-dual CEOs tend to act promptly when their firms underperform, dual CEOs are more likely to underreact. Determining whether responsiveness or inaction is better from a shareholder's point of view in this context goes beyond the scope of this paper. Nonetheless, it seems that CEO duality is bound to slow down the internationalization process of the firm when performance shortfalls occur. This is especially important if we take into account that pursuing an accelerated internationalization can be a driver of success (Guillén and García-Canal, 2012).

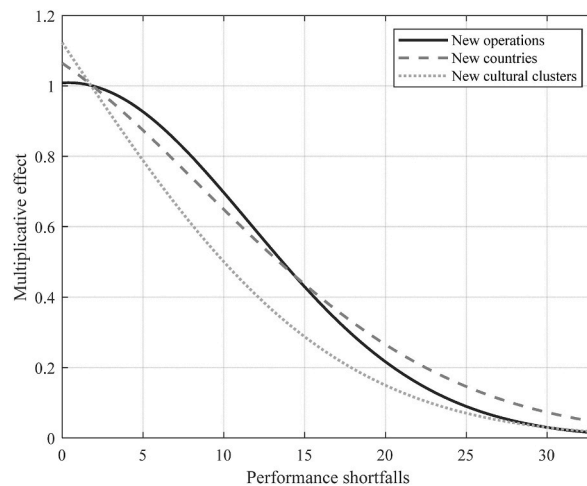
Our study contributes to the problematic search literature by focusing on joint CEO/chairperson appointments and how they can affect strategic decision-making in the IB context. We offer a supplementary view of risk-taking in large corporations that is consistent with recent research on the role of CEOs' job (in)security on strategic decision-making (e.g., Connelly et al., 2020; Wang et al., 2017; Zorn et al., 2020). Our findings suggest that non-dual CEOs, who have more job insecurity than dual CEOs, will try to revert low to moderate performance shortfalls through FDI in an attempt to preserve their jobs. Non-dual CEOs are expected to take immediate action when they notice performance shortfalls because that is when they start "walking on thin ice" (as the title of our paper suggests) and are more likely to be dismissed. Conversely, dual CEOs will be less concerned about being challenged by the board. Therefore, they will be less eager to react to performance shortfalls by venturing abroad. Taken together, this supports the notion that job insecurity will increase risk-taking by employees willing to prove their value to the firm (García-Canal and Guillén, 2008; Huang et al., 2013). Obviously, this risk-seeking behavior may also be damaging for the firm. Non-dual CEOs tend to seek the riskiest type of internationalization, which can fail to work out as initially expected. At any rate, our results highlight the importance of the role of the board in finding the right balance between the aspiration and survival perspectives.

This evidence also contributes to the IB literature by taking a microfoundational approach to explain internationalization choices (Buckley et al., 2016; Chittoor et al., 2019). In doing so, we respond to Boustanifar et al.'s (2022) call to consider the possible individual-level characteristics that may affect the internationalization decisions of CEOs. We specifically add to this stream of research by showing that CEO duality affects the attitude of CEOs towards internationalization when performance shortfalls occur. In this regard, CEOs will adjust their risk-taking to prevent personal wealth losses. They will become risk-seekers when trying to avoid potential wealth losses and risk-averse if they perceive that their wealth is secure (Benischke et al., 2020; Larraza-Kintana et al., 2007;





**Figure 2.** Impact of performance shortfalls on internationalization (CEO duality = 0).



**Figure 3.** Impact of performance shortfalls on internationalization (CEO duality = 1).

Wiseman and Gomez-Mejia, 1998). Once again, the role of the board of directors is critical in preventing these biases.

Our research establishes an important managerial implication relating to corporate governance as CEO duality may delay some of the necessary changes to improve performance or slow down the internationalization process unnecessarily. Based on our findings, firms could choose to separate the CEO and chairperson positions to improve the monitoring of top executives and reduce the likelihood of entrenchment, especially when firms are underperforming. As an individual Caterpillar investor wrote, “the separation provides some oversight. Otherwise, the CEO is his own boss.”<sup>6</sup> The emergence of shareholder activists and the passage of laws such as the Sarbanes-Oxley Act of 2002 in the US means that a growing number of companies are choosing to split both positions. The French food and beverage multinational Danone is one of the latest examples. Activist shareholder group Bluebell Capital Partners sent a letter to the firm’s board in late 2020 asking for the separation of the CEO and chairperson roles as well as the replacement of Emmanuel Farber (Danone’s then leader) due to “a combination of poor operational record and questionable capital allocation choices” that led to “the underperformance of Danone’s share price.”<sup>7</sup> The board conceded, and in March 2021 they ousted Emmanuel Farber after having split the CEO and chairperson positions.<sup>8</sup>

Our study is not without limitations. Our evidence emerges from a single-country research setting. Although adopting a multi-country setting could have improved the generalizability of our results, our focus on the Spanish context has the benefit of eliminating home-country variation as a confounding factor (Darandeli and Hill, 2016). Besides this, the bulk of Spanish foreign investments took place within the timeframe of the study, removing left-censoring issues. In addition, even though CEO duality is a widely used indicator

<sup>6</sup> Sun, M. 2019. More U.S. Companies Separating Chief Executive and Chairman Roles. *The Wall Street Journal*, 23 January.

<sup>7</sup> Lozada, C. 2021. Activist fund Bluebell acquires stake in Danone. *S&P Global Market Intelligence*, 19 January.

<sup>8</sup> White, S. and Barzic, G. 2021. Danone board ousts boss Faber after activist pressure. *Reuters*, 14 March.

of the CEO's degree of control of the board (Krause et al., 2014), data restrictions prevented us from using a more fine-grained measure of this variable (e.g., Lewellyn and Fainshmidt, 2017) or investigating how it interacts with other CEO characteristics that may affect the inner workings of the board. The structure of our sample also precluded us from testing whether firms tend to close ranks or increase the heterogeneity of their top management teams when facing difficulties (Boone et al., 2004) or from examining the inner functioning of the board of directors. Finally, we analyzed just one of the possible solutions to performance shortfalls (i.e., internationalization) without comparing it to others that CEOs could opt for, such as divestments (Shimizu, 2007; Vidal and Mitchell, 2015), product diversification (Chang, 1996; Ref and Shapira, 2017), or increased R&D (Chen and Miller, 2007; Greve, 2003; Yu et al., 2019), among others. Data on the performance of the specific international investments undertaken by the firms in our sample could also have allowed us to examine in greater detail potential endogeneity issues and the adequacy of internationalization as a problemistic search solution.

These limitations establish interesting avenues for future research. For instance, expanding the range of countries included in the empirical study would allow us to analyze whether some institutional environments increase or reduce the risk of behavioral biases. It would also be interesting to study in more depth the internationalization responses to performance shortfalls, such as the entry modes, divestments, changes to the top management team's composition, and additional processes that firms could adopt to try to close them. Assessing the long-term performance impact of speeding up the internationalization process could also help elucidate whether shareholders value more positively non-dual CEOs' prompt actions or dual CEOs' lack of action when performance shortfalls occur. Additionally, new studies that consider several solutions to performance shortfalls simultaneously could shed light on how firms choose from among the solutions available. Future research could also analyze duality in conjunction with other CEO characteristics that may influence board oversight. Using primary data could also help explain how problemistic search decisions are made inside the organization with the interplay between the aspirations and survival effects. This would in turn provide further insights from an upper echelons perspective (Hambrick and Mason, 1984), which recent research has used to explain how managers make strategic decisions (e.g., Choi et al., 2019; Elia et al., 2021; Marquis and Qiao, 2020; Mount and Baer, 2021). Finally, an important extension of this study would be to examine how CEO incentives as well as power and control interact to determine strategic priorities and investment behavior in the context of underperforming firms.

#### Author Statement

**Raquel García-García:** Conceptualization; Investigation; Data Curation; Methodology; Formal analysis; Writing - Original Draft; Writing - Review & Editing; Visualization. **Esteban García-Canal:** Conceptualization; Investigation; Methodology; Writing - Original Draft; Writing - Review & Editing; Funding acquisition. **Mauro F. Guillén:** Conceptualization; Investigation; Writing - Review & Editing; Resources.

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