

Corporate Governance in German Firms

– Are Supervisory Boards Becoming More International?

Abstract

International business literature has provided numerous evidence for a continuous internationalization of firms and their business activities. However, a relevant question that still remains to be answered is to what extent firms have also internationalized their top management teams. In recent years, some studies have addressed this issue. However, most of this research has looked at top management from an Anglo-Saxon and not from a continental European perspective. This paper examines the internationalization of German supervisory boards. Based on theoretical reasoning related to the roles of supervisory boards in German firms, we argue that highly international firms can benefit from international supervisory board members. We build on a comprehensive measure to investigate the changes in board member internationality among the German DAX30 firms between 2005 and 2008. Results show that the internationalization of shareholder's representatives increased slightly by 2008. We still observe striking disparities between firm internationalization and supervisory board internationalization.

Key Words

Corporate Governance, Supervisory Board, Top Management Team, Board Internationalization, Firm Internationalization, Internationalization Measures, Nationality Diversity, International Education, International Experience, International Mandates

1. Introduction

The business activities of many German firms go far beyond national borders (see, for example, Buch et al., 2005, p. 60; Wagner, 2004, pp. 453-454). Consequently, these firms have to cope with heterogeneous cultural, institutional and competitive environments. In order to manage international operations, specific knowledge, skills and experience are necessary at the top level of a firm (Carpenter et al., 2004; Heijltjes et al., 2003). In the German corporate governance system, the top level consists of two tiers: the management board ("Vorstand") which manages and represents the firm and the supervisory board ("Aufsichtsrat") which supervises the management's decisions and actions (Authors, 2004; Dufey et al., 1998, pp. 54-55; Grothe, 2006, pp. 123-127; Theisen, 2002, pp. 1058-1059; Weimer & Pape, 1999, p. 157). Due to the German system of co-determination, not all members of the supervisory board are delegates of the firm's owners. Depending on various factors, such as the size of the firm and the industrial sectors the firm is active in, up to 50% of the supervisory board's members can be delegates of the staff.

According to the Stock Corporations Act, the members of the supervisory board not only appoint the members of the management board, but also have the right to elect the chairman of the management board, who is similar to a CEO in the Anglo-Saxon model (Oesterle, 1999, p. 114). They decide upon removal of members of the management board and are responsible for taking legal action on behalf of the firm against the members of the management board in case of misconduct (Bellavite-Hörmann et al., 2005, pp. 24-47; Government Commission German Corporate Governance Code, 2009, pp. 8-9; Oetker, 2003, pp. 262-266; Potthoff & Trescher, 2003, pp. 89-168; Theisen, 2003, pp. 286-288). In addition, they supervise decisions, activities and strategies of the management board. Since specific types of decisions and transactions are subject to the supervisory board's approval, it has a considerable impact al-

though it is not actively involved in management (Lutter, 2009, p. 775). The members of the supervisory board also consult the management board in identifying opportunities and threats.

It can be assumed that in order to effectively fulfil these tasks in an international firm, an international background and international experience are a clear advantage for supervisory board members (Carpenter et al., 2000, p. 279; Gregersen et al., 1998, p. 23; Magnusson & Boggs, 2006, p. 112). In line with this assumption, a considerable amount of international firm activities lead to demand for an internationalization of supervisory boards (von Werder, 2006, p. 529) and supervisory board's duties (Lutter, 2009, pp. 776-777). For instance, the German Corporate Governance Code accounts for the increasingly international range of tasks and recommends that cross-border activities of a firm should be accompanied by an internationally oriented supervisory board (Bellavite-Hörmann et al., 2005, p. 69; Government Commission German Corporate Governance Code, 2009, p. 10; Ringleb et al., 2003, p. 194).

During the past 25 years, a large body of research on top management has been evolved (for an overview, see Carpenter et al., 2004; Finkelstein & Hambrick, 2009). Some studies have also focused on the international dimension of top management (for instance Athanassiou & Nigh, 2002; Carpenter & Fredrickson, 2001; Carpenter et al., 2003; Roth, 1995; Sambarya, 1996; Staples, 2008; Reuber & Fischer, 1997; Tihany et al., 2000; Wally & Becerra, 2001). However, most of this research is based on North American samples and focuses primarily on top manager's nationality as a characteristic factor of top management team internationalization (Becker, 2010, p. 117; Ruigrok et al., 2007, p. 545). For European firms, findings are rather limited: Becker (2010) focuses on the internationalization and cultural diversity of boards in six European and three Anglo American countries, Heijltjes et al. (2003) examine the multinational composition of top management teams in Sweden and the Netherlands. Nielsen (2010) analyzes Swiss top executives, while Ruigrok and Wagner (2003a, 2003b)

investigate German management boards. Hartmann (1999) investigates German management boards as well, but he concentrates on CEOs.

While the internationalization of German management boards has been analyzed to some extent, differentiated findings on the internationalization of supervisory board members are still limited in international corporate governance literature. It is the objective of our study to fill this gap. Therefore, after providing theoretical arguments concerning supervisory board internationalization, this paper builds upon our previous research and analyze the changes in internationalization of German supervisory boards between 2005 and 2008.

The contribution of this study to international business literature is two-fold: first, it helps to provide a more comprehensive and dynamic description of top management internationalization in German firms through the use of datasets that incorporate two distinct points of time (Carpenter et al., 2004, p. 772). Second, by employing multiple dimensions to describe supervisory board members' internationalization, it accounts for recent claims to overcome the limitations arising from single-proxy operationalization in upper echelons research (Carpenter & Reilly, 2006; Kor, 2003; Nielsen, 2010).

2. Theoretical Background and Hypotheses

In order to argue why internationalization of supervisory boards is relevant in the context of international firms, we have to identify the functions of supervisory boards within the German corporate governance system in more detail. Supervisory boards can play four important roles (Kreitmeier, 2001, p. 45): (1) the control role, (2) the support role, (3) the linking role and (4) the coordinating role.¹ The roles of supervisory boards are rooted in different theoretical concepts.

¹ Hillman et al., (2002) distinguish only three roles: the control role corresponds to the agency role, the support role matches the strategy role and the linking role equals the resource dependence role (Hillman et al., 2002, pp. 94-100).

(1) Based on agency theory (Eisenhardt, 1989; Jensen & Meckling, 1976), the control role of the supervisory board has often been discussed in corporate governance literature. The main function of supervisory board members is seen in monitoring the management board to protect the owners of the firm (Hillman et al., 2000, pp. 235-236; Hillman & Dalziel, 2003, pp. 384-385). The monitoring task involves questioning decisions and actions taken by the management board, evaluating strategies and controlling major investments (Hillman et al., 2002, p. 100). For supervisory board members relevant knowledge, skills and experience are indispensable for fulfilling these tasks (Neubürger, 2003, p. 189). If there is an international dimension to the management board's decisions and actions, an international background of the supervisory board members seems to be a prerequisite for the monitoring function.

(2) Know-how and experience are not only required for fulfilling the control role but also the support role (Kreitmeier, 2001, pp. 48-50) or strategy role (Hillman et al., 2002, pp. 97-99). This role is theoretically grounded in stewardship theory (Donaldson & Davis, 1991; Muth & Donaldson, 1998). From this perspective, the function of supervisory boards consists of advising the management board and influencing the strategies of the firm (Hillman et al., 2002, pp. 97-99). The supervisory board not only has the duty to engage in ex-post control but it is also expected to provide advice to the management board in advance (Bellavite-Hörmann et al., 2005, pp. 100-101). Consulting the management board in an international firm requires supervisory board members to identify and evaluate risks as well as opportunities in the international environment. It is questionable whether supervisory board members can provide the necessary advice to management boards when lacking an international background.

(3) Resource dependence theory (Pfeffer, 1972; Pfeffer & Salancik, 1978) explains a third function of supervisory boards: the linking role. Supervisory board members provide resources such as information, preferential access to organizations and advice to the firm (Hillman & Dalziel, 2003, pp. 385-386; Kreitmeier, 2001, p. 50). They act as "vehicles for co-

opting important external organizations” (Pfeffer & Salancik, 1978, p. 167). Particularly within supervisory boards of German firms this is a key aspect. Supervisory board members are, for instance, managers from other firms or from financial institutions, academics, politicians or experts. The linking role requests the ability to access know-how, to exert influence on institutions or on stakeholders on behalf of the firm and to grant a network of professional contacts (Hillman, 2005, pp. 466-468; Kreitmeier, 2001, p. 51). Thereby, it is not limited to the home country, but even more decisive in an international context. An international background of supervisory board members would secure a firm’s international network (Carpenter et al., 2001, p. 496; Edström & Galbraith, 1977, p. 258; Kiel & Nicholson, 2003, p. 195; Roth, 1995, p. 211).

(4) The supervisory board’s coordinating role is derived from stakeholder theory (Freeman & Reed, 1983; Hill & Jones, 1992; Wang & Dewhirst, 1992). Different stakeholder groups are represented within the supervisory board to enforce their legitimate claims (Kreitmeier, 2001, pp. 53-54). The two stakeholder groups required to be present in supervisory boards of large German stock corporations are representatives of the shareholders and representatives of the employees. As far as shareholders are concerned, we know that the proportion of foreign investors in many German firms has risen considerably over the last decades (Baums & Fraune, 1995, p. 97; Sünner, 2000, p. 493), in some firms like Adidas, Siemens and Deutsche Börse amounting to more than 50%. When it comes to employees, the same tendency emerges. In many German firms, we find more employees outside of Germany than within Germany (von Werder, 2005, p. 287). If these stakeholder groups are international, we assume that their representatives on the supervisory board should be international as well.

In summary, different theoretical concepts emphasize that internationalization of supervisory boards can be beneficial or even necessary for supervising firms. We conclude that within highly internationalized firms supervisory board members can better fulfil their roles as su-

pervisors, strategic supporters, providers of resources and coordinators, if they dispose of an international background themselves. Therefore, a similar degree of internationalization at supervisory board level and firm level seems desirable. This leads to our first hypothesis:

H1: The degree of internationalization of supervisory boards of German firms increases with the degree of internationalization of the firm in which they are active.

As was pointed out above, we postulate a relationship between firm internationalization and supervisory board internationalization. Although we expect such a relationship for the entire supervisory board, we assume to find an internal difference within supervisory boards between shareholders' and employees' representatives. This is mainly due to German legislation: while the shareholders elect their representatives at the general meeting, employees' representatives are not elected by all of the firm's employees but only by the German employees. Employees in foreign countries on the other hand have neither active nor passive voting rights (Schmidt, 2004, p. 895). Stakeholder theory (e.g. Hill & Jones, 1992) suggests that German employees will try to use their vote to name advocates for their particular concerns. They will, therefore, elect representatives who they believe will stand up for their rights and who will call attention to Germany as location and to the German employment conditions (Jürgens, 2001, p. 55). In order to gain such a reputation among the employees, commitment to a career in the work council or a labour union is often more important than an international background. For this reason we expect the employees' representatives to possess a relatively lower international background compared to the representatives of the shareholders.

H2: Shareholders' representatives on supervisory boards of German firms are more international than employees' representatives.

One of the supervisory board's tasks is to elect the members of the management board. Considering that management boards have executive powers, decide on strategy and undertake

operative actions (Theisen, 2002, p. 1058), the necessity for internationalization seems even more urgent for management boards than for supervisory boards. We assume that supervisory board members are aware that international managers can serve as a valuable resource for an international firm (see, for instance, Carpenter et al., 2001; Daily et al., 2000; Magnusson & Boggs, 2006, p. 112). An international background may help managers to perceive international opportunities, to formulate adequate internationalization strategies and to facilitate the successful implementation of those strategies (Athanasios & Nigh, 2002, p. 161; Nielsen, 2010, p. 199-200). Since the goal of the supervisory board is to ensure their firm's success, we expect supervisory board members of an international firm to select management board members with an international background. Considering the active role the management board plays compared to the supervisory board, we assume that management board members are more international than both employees' and shareholders' representatives on the supervisory board.

H3: Management board members in German firms are more international than employees' representatives on the supervisory board.

H4: Management board members in German firms are more international than shareholders' representatives on the supervisory board.

3. Methodology

3.1 Data Source

To assess internationalization of board members, specific information is required. Considering the tight timetables managers have, it does not seem very promising to rely on their willingness to provide detailed information about themselves (Staples, 2007, p. 315). However, since board members of large firms are rather prominent and influential individuals, there is a public interest in their backgrounds and certain facts are likely to be publicly available. As

pointed out by a number of researchers in this field (Hambrick & Mason, 1984, p. 203; Hartmann, 2002, p. 32; Thomas, 1993, p. 84), curricula vitae (CVs) or similar biographic documents provide adequate data on education and career. We share the opinion that CVs are the most appropriate source of information for our purpose and also rely on CV analysis. The CVs for our study stem from corporate websites, the respective investor relations departments, or were directly made available by the board members. In cases where we could not obtain information directly from the firms, we used biographical compendiums such as the Who is Who? (Beleke, 2004; Hübner, 2003; Hübner, 2008).

3.2 Board Member Internationalization

Internationalization of board members is a multi-faceted concept. Researchers draw on a range of variables to describe board (member) internationalization. The indicators used to measure these variables vary in degree of detail and focus. Most researchers select one or two dimensions of internationalization for their assessment, such as nationality or international assignment experience (Athanassiou & Nigh, 2002, pp. 166-167; Herrmann & Datta, 2002, p. 560; Nielsen, 2010, pp. 188-189; Oxelheim & Randøy, 2005, pp. 476-477; Palmer & Varner, 2007 p. 7; Reuber & Fischer, 1997, p. 816; Roth, 1995, p. 216; Sambarya, 1996, p. 743). We are convinced, however, that any single indicator only covers a certain aspect of the board members' international background. By combining several important dimensions within one index we aim at obtaining a more comprehensive picture of the internationalization of German supervisory board members. After reviewing indicators of internationalization applied in literature, we decided to integrate the dimensions (1) Nationality, (2) International Education, (3) International Work Experience, and (4) International Linkage in our index:

(1) Nationality: Germans and non-Germans are differentiated. Following Hambrick et al. nationality is determined as the country in which an individual spent his or her formative years

(Hambrick et al., 1998, p. 183). The degree of foreignness attached to Germans is 0 while foreigners are attributed a value of 1.

(2) International Education: time spent abroad during higher education is looked at. The minimum duration of international education to be considered is one year. The years spent abroad during higher education are counted and the resulting number is transformed to a value between 0 and 1 by using a logarithmic function. This is done for two reasons: First, index measures can be obtained which are standardized on the range from 0 to 1 and, thus, not unbounded. Second, a logarithmic function corresponds better to theories of intercultural learning than a linear function (Kealey, 1989, p. 401; Pausenberger & Noelle, 1977, p. 365). It has been found that even short stays abroad can have a large impact on intercultural sensitivity and awareness (Thomas et al., 2006) while after some years the learning curve flattens and additional time spent abroad only leads to limited additional effects (Pausenberger & Noelle, 1977, p. 365).

(3) International Work Experience: time spent abroad on foreign assignments is taken into account. International assignment experience is also only considered when it lasted at least one year. The years spent abroad on foreign assignments are summarized and the same logarithmic transformation is applied as for international education.

(4) International Linkage: board appointments in foreign countries are counted. These can be appointments to unrelated firms as well as to foreign subsidiaries of the focal firm. Since board appointments are often not reported in CVs and can change relatively frequently, the information for this dimension is taken from the firms' annual reports, where appointments of management and supervisory board members have to be published ("Handelsgesetzbuch" HGB Art. 285, Par. 10, Cl. 1). Again, the logarithmic transformation is applied.

By using these dimensions we encompass all important periods of an individual's life: nationality covers an individual's "formative years", i.e. the period until finishing school. Higher education and work experience account for the time from then onwards. Each of these periods represents a separate context for experiences with specific learning opportunities and specific requirements to be fulfilled. International linkage addresses an additional aspect of internationalization: it reflects a board member's ability to build and connect to a professional network outside his or her home country (Nielsen, 2010, pp. 188-189). The internationalization index of each board member is calculated as the average value an individual receives on the four dimensions (Figure 1). The four dimensions are not weighted differently since we assume that they represent different areas of experience and learning which are equally important. Internationalization at supervisory board level is calculated as the average internationalization of the individual board members.

<p>Logarithmic Internationalization Index INT_{log} =</p> $\frac{1}{4} \left(F_i + \left(1 - \frac{1}{E_{if} + 1} \right) + \left(1 - \frac{1}{W_{if} + 1} \right) + \left(1 - \frac{1}{A_{if} + 1} \right) \right)$ <div style="margin-top: 10px;"> <p>F_i - Foreignness of person i's home country, $F=0$ for Germany; $F=1$ for any foreign country</p> <p>E_{if} - Years of higher education abroad of person i</p> <p>W_{if} - Years of international work experience of person i (foreign assignments)</p> <p>A_{if} - Number of appointments to boards of companies abroad of person i</p> </div>	
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Figure 1. Logarithmic Internationalization Index

3.3 Individuals in the Analysis

Our goal was to examine the internationalization of supervisory board members in German firms. We concentrated on the firms represented in the German stock index DAX30², since these firms can be expected to be highly international in terms of their activities. In a first phase of data collection, internationalization of supervisory boards was measured as of December 31, 2005. The second phase was conducted as of December 31, 2008³. In total, the study in 2005 led to analyzable data of 164 management board members (equals 88% of the population), 249 shareholders' representatives on supervisory boards (89%) and 81 employees' representatives on supervisory boards (30%). The second phase of data collection in 2008 entailed data of 177 management board members (99%), 246 shareholders' representatives on supervisory boards (93%) and 96 employees' representatives on supervisory boards (39%). While the response rate for management board members and shareholders' representatives on supervisory boards slightly increased between 2005 and 2008, the response rate for employees' representatives remained relatively low. One reason for the sparse data on employees' representatives is the fact that for those individuals hardly any information is publicly available and their willingness to provide information is rather limited (Becker, 2010, p. 161).

² The DAX30 is the major German stock index. It reflects the performance of the 30 largest German firms in terms of their market capitalization and number of exchange transactions. For our empirical study, all firms listed in the DAX30 as of December 31, 2005 were included. The only special case is Fresenius Medical Care. Fresenius Medical Care is part of the DAX30 firms but is in fact a business division of Fresenius SE. We decided to include Fresenius SE in our sample instead of Fresenius Medical Care, since in all of the other cases the whole group (and not single units, such as business units) are considered.

³ The dataset of December 31, 2008 differs in some particular cases from the sample of 2005: (1) Schering, listed in the DAX30 as of December 31, 2005, was acquired by Bayer in 2006 and is therefore not included in the sample of 2008. (2) DaimlerChrysler, listed in the DAX30 as of December 31, 2005 was split into two separate legal entities in 2007. In 2008, only Daimler was listed in the DAX30 and therefore we considered Daimler in our sample of 2008. (3) Adidas-Salomon was separated in 2005 when Adidas sold Salomon to the Finnish Amer Sports Corporation. In 2008, only Adidas was listed in the DAX30 and therefore, we included Adidas in our sample of 2008. (4) Four firms were listed in the DAX30 as of December 31, 2005 but were not listed in the DAX30 as of December 31, 2008 (Altana, Continental, Hypo Real Estate and TUI). We assumed that – despite the de-listing – these firms were still highly international with regard to their activities and their supervisory boards. Consequently, we kept these firms in our dataset of 2008 to maximize the comparability of our sample.

4. Results

We hypothesized a relationship between the internationalization of supervisory boards and the internationalization of the firm they are active in. The results from both phases of data collection in 2005 and in 2008, however, show that there is no significant correlation between the internationalization indices of the supervisory boards and the internationalization of the activities of the firms represented in the DAX30. Irrespective of whether firm internationalization in terms of international sales or international employees is taken into account (on these measures see, for instance, Reuber & Fischer, 1997, pp. 813-814; Sullivan, 1994, p. 330), the resulting correlation coefficient is close to zero. Consequently, hypothesis 1 is rejected.

Hypotheses 2 to 4 compare the internationalization of the different individuals, i.e. supervisory board members including shareholders' and employees' representatives and management board members. Analysis of variance shows that there are highly significant differences in the internationalization of the three groups. To determine the exact nature of these differences we compare the groups pairwise. The results of the t-tests for both phases of data collection are summarized in Table 1.

2005						
Group	N	Mean	Standard Deviation	Standard Error Mean	Mean Difference	Significance (2-tailed)
ER	81	0.0492	0.1430	0.1589	0.2511	0.000
SR	249	0.3003	0.2947	0.1867		
ER	81	0.0492	0.1430	0.1589	0.2826	0.000
MB	164	0.3317	0.2528	0.1974		
SR	249	0.3003	0.2947	0.1867	0.0314	0.263
MB	164	0.3317	0.2528	0.1974		
2008						
Group	N	Mean	Standard Deviation	Standard Error Mean	Mean Difference	Significance (2-tailed)
ER	96	0.0290	0.1403	0.0143	0.3024	0.000
SR	246	0.3314	0.3098	0.0198		
ER	96	0.0290	0.1403	0.0143	0.3250	0.000
MB	177	0.3540	0.2942	0.0218		
SR	246	0.3314	0.3098	0.0198	0.0226	0.449
MB	177	0.3540	0.2942	0.0218		
ER – Employees’ Representatives in the Supervisory Board SR – Shareholders’ Representatives in the Supervisory Board MB – Management Board Members						

Table 1. Comparison of Means of the Internationalization Index of the Three Board Groups

Hypothesis 2 refers to the internationalization of the two stakeholder groups within the supervisory boards. When comparing the indices of the two groups we find a significant difference in terms of internationalization. In 2005, shareholders' representatives obtained an average internationalization index of 0.30 (in 2008: 0.33) and thereby reached a much higher value than did the employees' representatives with an average index of 0.05 (0.03). These results clearly support hypothesis 2.

Hypothesis 3 compares the internationalization of management board members with the internationalization of employees' representatives on the supervisory boards. Based on the re-

sults of our first phase of data collection in 2005, management board members receive an average internationalization index of 0.33; for the second phase of data collection in 2008 we reached a value of 0.35. This value is significantly higher than the average internationalization index of employees' representatives. The difference to shareholders' representatives, however, is not significant. While hypothesis 3 is supported, hypothesis 4 is rejected.

The clearly lower internationalization of employees' representatives compared to management board members and shareholders' representatives on the supervisory boards can also be observed on the single dimensions describing internationalization: the percentage of non-Germans is much higher in management boards (2005: nearly 18%; 2008: 23%) and on the shareholders' side of the supervisory boards (2005: more than 19%; 2008: nearly 22%) than in the group of the employees' representatives on the supervisory board (2005 and 2008: 5%). While the relative number of employees' representatives who spent time abroad during their education is much lower (8 individuals or 10%; 2008: 9 individuals or 9%) than the relative number of shareholders' representatives (100 individuals or 40%; 2008: 95 individuals or 39%) and management board members (53 individuals or 32%; 2008: 66 individuals or 37%), the individuals who did gain international experience during their education do not differ much in the amount of time spent abroad (2.3-3.9 years on average for both samples in 2005 and 2008). More than half of the analyzed management board members have worked some time abroad (2005: on average 8.8 years; 2008: 10.8 years) and approximately 50% of the shareholders' representatives have international work experience (2005: on average 14.9 years; 2008: 14.6 years) as opposed to less than 10% of the employees' representatives (2005: on average 13.8 years; 2008: 17.5 years)⁴. About two thirds of the analyzed management board members have at least one appointment in the board of a foreign firm (2005: on average

⁴ The high average time spent abroad in the employees' group is an artefact of the small sample size in 2005 and 2008. In both samples, only six of the analyzed employees' representatives gained experience in international assignments, but out of these six individuals one person spent 28 years abroad and another one 34 years.

3.2 board appointments; 2008: 3.1 appointments). This applies to approximately half of the shareholders' representatives on the supervisory boards (2005: on average 2.6 board appointments; 2008: 2.8 board appointments), but less than 4% of the employees' representatives serve as board members abroad (2005: on average 1.3 board appointments; 2008: 1.0 board appointment).

With our dataset, we are able to contrast the changes in firm internationalization and supervisory board internationalization in German firms over time (Table 2). The analysis shows that the majority of all firms in the sample intensified their international activities with regard to foreign sales and foreign employees. About 60% of the firms increased the ratio of foreign sales to total sales, whereas more than 80% of all firms increased the ratio of foreign employees to total employees. The examination of supervisory board internationality between 2005 and 2008 reveals notable differences between the two stakeholder groups. While around 62% of all firms increased the internationalization of the shareholders' representatives, about 14% of the firms raised the internationalization of their employees' representatives.

Changes in Internationalization at the Firm Level			
	Δ Foreign Employees/ Total Employees > 0	Δ Foreign Employees/ Total Employees ≤ 0	Σ
Δ Foreign Sales/ Total Sales > 0	52.17 %	8.70 %	60.87 %
Δ Foreign Sales/ Total Sales ≤ 0	30.43 %	8.70 %	39.13 %
Σ	82.60 %	17.40 %	100.00 %
Changes in Internationalization at the Board Level			
	Δ Internationalization MB > 0	Δ Internationalization MB ≤ 0	Σ
Δ Internationali- zation SR > 0	44.83 %	17.24 %	62.07 %
Δ Internationali- zation SR ≤ 0	10.34 %	27.59 %	37.93 %
Σ	55.17 %	44.83 %	100.00 %
	Δ Internationalization MB > 0	Δ Internationalization MB ≤ 0	Σ
Δ Internationali- zation ER > 0	13.79 %	0.00 %	13.79 %
Δ Internationali- zation ER ≤ 0	41.38 %	44.83 %	86.21 %
Σ	55.17 %	44.83 %	100.00 %
	Δ Internationalization SR > 0	Δ Internationalization SR ≤ 0	Σ
Δ Internationali- zation ER > 0	10.34 %	3.45 %	13.79 %
Δ Internationali- zation ER ≤ 0	51.73 %	34.48 %	86.21 %
Σ	62.07 %	37.93 %	100.00 %
ER – Employees' Representatives in the Supervisory Board SR – Shareholders' Representatives in the Supervisory Board MB – Management Board Members			

Table 2. Changes in Internationalization Between 2005 and 2008 at the Firm Level and at the Board Level

Despite the increased internationality among the shareholders' representatives in the supervisory boards, we observe a general misfit between firm internationalization and supervisory board internationalization. In our sample of 2005, the average firm internationalization reaches values of 68% (Foreign Sales/Total Sales) and 53% (Foreign Employees/Total Employees). By 2008, the average ratio of foreign sales decreased slightly to 64% while the percentage of foreign employees increased to 59%. For both samples, these results are considerably higher than the average values of internationalization among the shareholders' representatives in the supervisory board (30% in 2005 and 33% in 2008) or the employees' representatives in the supervisory board (5% in 2005 and 3% in 2008).

5. Discussion and Conclusions

5.1 Relationship between firm internationalization and supervisory board internationalization

Our research explored the internationalization of supervisory board members in German firms. Drawing on agency theory, stewardship theory, resource dependence theory and stakeholder theory, we argued that it can be beneficial or even necessary for highly internationalized firms to employ international supervisory board members. We also hypothesized that high (low) internationalization at the firm level corresponds with a high (low) internationalization of supervisory board members. The empirical results of this study do not confirm such a relationship. In addition to the small sample size of our study, there may be several further explanations why such a link could not be confirmed:

First of all, supervisory board members are selected according to various expectations of shareholders' and employees' representatives (Bellavite-Hörmann et al., 2005, pp. 13-23; Government Commission German Corporate Governance Code, 2009, pp. 9-10; Potthoff & Trescher, 2003, pp. 203-211). Thus, the international background is only one out of several criteria to be considered. It remains unclear what weight is assigned to an international back-

ground as compared to other criteria for the selection decision of supervisory board members and for the actual qualification of management board members. There is no benefit from having highly international supervisory board members if they fall short of other personal or professional qualifications and qualities. In other words: internationalization per se does not qualify for being a valuable member of any supervisory board.

Second, from an economic point of view, the missing relationship between firm and board member internationalization can be a sign of differing patterns of internationalization processes (Kutschker et al., 1997). Despite recent evidence for an increasingly flexible labour market for supervisory board members and management board members (see, for instance, Becker, 2010, pp. 227-228; Lutter, 2009, pp. 776-777) we argue that the career tracks of these individuals are still far from being global. In our research, we identified a slight increase in internationalization of shareholders' representatives and management board members and thereby confirm the findings of prior upper echelons research (Becker, 2010, p. 192; Staples, 2007, pp. 317-318). We assume that recent calls for more diversity and internationality among the upper echelons of a firm (see, for example, Government Commission German Corporate Governance Code, 2009, p. 9) may further elevate the internationalization among German firms. However, we also acknowledge that the rate of board internationalization still differs considerably from internationalization in terms of firm structure or business activities.

5.2 Differences between Board Members

Our results show a significant difference between the internationalization of employees' representatives and shareholders' representatives. The difference expected between employees' representatives and management board members was confirmed as well. Contradictory to our hypothesis, the internationalization of shareholders' representatives and management board members does not differ significantly. When looking for a reason for the similarity of the internationalization of these two groups, it may be argued that supervisory board members are

more likely to promote managers who are similar to themselves than to support “outsiders” (Kanter, 1977, pp. 47-49). This argument is supported by the similarity-attraction paradigm (Duck & Barnes, 1992). Individuals are attracted to people with similar values, attitudes and beliefs. Boards could therefore also tend to “reproduce” themselves in terms of their internationalization and refrain from electing managers who are more international than they are. In addition, international managers may still be hard to find (Carpenter et al., 2001, p. 495).

5.3 Low Internationalization of Employees’ Representatives

While we have to be careful making statements concerning the absolute level of internationalization of board members, there is no doubt that our results reveal an extremely limited international background of employees’ representatives. The fact that only German employees have the right to elect supervisory board members was discussed as a cause for this finding (Schmidt, 2004, p. 895). In the context of German corporate governance, such a result may have important consequences. Employees’ representatives are often criticized for concentrating on local or national interests instead of considering the world-wide situation of the firm. The legitimacy of enforcing employees’ rights at firm level becomes questionable in firms with a high percentage of employees abroad (Bertelsmann-Foundation & Hans-Böckler-Foundation, 1998, p. 26; Schmidt, 2004, p. 895). Thus, it is not surprising that demands for opening up the employees’ side of German supervisory boards for employees from foreign subsidiaries are frequently articulated (Hexel, 2003, p. 51; Lehner & Heinz 2003, p. 342; von Werder, 2004, p. 238).

6. Limitations and Avenues for Future Research

This study employs a complex method for examining board member internationalization. The index applied here was developed with the goal to provide a more comprehensive picture of board member internationalization than is usually the case in top management team research

(Authors, 2006). We admit, however, that several problematic issues remain: the selection of indicators as well as their combination to an index can be criticized. First, several additional aspects may be relevant for the internationalization of board members which have not been taken into account in our index, such as language proficiency (Athanassiou & Nigh, 2002) or responsibility in an international function in the home country. We are still convinced that the index is more complete than most measures that can be found in literature. To our best knowledge there is no other study of board member internationalization in which four different dimensions are combined. Second, the logarithmic function used to transform the absolute values may be questioned. However, while there can be doubts concerning the exact shape of such a function, we consider it important to incorporate findings on intercultural learning in the measurement of the internationalization of board members.

Our study covers only German firms. With the firms represented in the DAX30, it even focuses on a specific group of German firms. Based on our data we cannot generalize to other firms. We assume, however, that the results are illustrative for most large German firms being subject to co-determination. Additionally, it would be fruitful to extend our analyses to other countries. In doing so, it would be possible to investigate whether the degree of internationalization at supervisory board level found in this study is country-specific or not. As there are other countries where the top level consists of two tiers (such as Denmark; see Rose, 2005, p. 691), a direct comparison of the internationalization of supervisory board members could be drawn. Countries where employees' representatives also sit on the supervisory board (such as Austria; see Austrian Working Group on Corporate Governance, 2009, p. 34) can be examined in order to determine whether the extremely low internationalization of employees' representatives is a German particularity. In addition, for countries with one-tier systems, such as the United States and the U.K., the internationalization of non-executive directors could be assessed and compared to the internationalization of supervisory board members. Thereby,

the impact of the corporate governance system on board internationalization could be analyzed.

We are aware that our study mainly grasps the surface of board member internationalization while it does not capture the mentality which is highly relevant (Perlmutter, 1965; 1969). In our study, demographic variables are used as proxies for attitudes, beliefs and values of supervisory board members. Qualitative research such as in-depth case studies and interviews may provide more detailed information about the international orientation of a supervisory board member than does biographic data. Some individuals may be international in mentality despite lacking high scores on the four dimensions, while others may be far less internationally oriented even though they were raised or educated abroad.

While trying to assess the changes in supervisory board member internationalization, the present paper relies on two distinct points of time. Future research could investigate supervisory boards over a longer period of time in order to account for the potential delay between the internationalization of structure and business activities on the one hand and board internationalization on the other hand (Pettigrew, 1987, pp. 652-655).

In addition, further research is needed on the deeper structure of decision-making processes. While we are exploring the internationalization of board members, we refrain from shedding light into the black-box of their decision-making on internationalization (Lawrence, 1997; Priem et al., 1999). In this area more research is required, including, for instance, research on how supervisory board members influence decision-making processes on internationalization (Carpenter & Friedrichson, 2001; Caligiuri et al., 2004), on the character of these processes and on intended and unintended outcomes. Case study research could probably provide deeper insight into these aspects of the monitoring, advising, linking and coordinating role that supervisory board members fulfil.

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