

2010-01-01

A Three Essay Dissertation On: Do Strategic Committees Matter?

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A THREE ESSAY DISSERTATION ON: DO STRATEGIC COMMITTEES MATTER?

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2010

A THREE ESSAY DISSERTATION ON: DO STRATEGIC COMMITTEES MATTER?

By

JASON PATRICK MCNICOL, B.B.A, M.B.A

DISSERTATION

Presented to the Faculty of the Graduate School of
The University of Texas at El Paso
in Partial Fulfillment
of the Requirements
for the Degree of

DOCTOR OF PHILOSOPHY

College of Business Administration
THE UNIVERSITY OF TEXAS AT EL PASO
December 2010

ACKNOWLEDGEMENTS/DEDICATION

I would like to thank my doctoral committee members for their support and guidance along this journey – Lance E. Brouthers, Ph.D., John Hadjimarcou, Ph.D., and Stephen B. Salter, Ph.D. If not for your help, I would not be here today. I also gratefully acknowledge the support and motivation from Patricia Eason, Ph.D.; she did everything possible to help Ph.D. students survive and push through the hard times. In addition, I thank the Dean's Office, the Department of Marketing and Management, and other members of the College of Business Administration at the University of Texas at El Paso.

I thank my close friends and family as well. To my friends, you know who you are, thank you for your words of encouragement when I needed it most. To my grandparents, uncles, aunts, and in-laws, thank you for your love and support during these five years. To my sister, words cannot describe my thanks to you. Lastly, to my parents, thank you for everything. This degree is not only my accomplishment, but yours as well as it reflects the values and work ethic you have instilled in me.

Most importantly, I am forever indebted to my loving wife. You yourself went through this process, so thank you for your understanding, your patience, and your constant support.

ABSTRACT

In response to recently increased environmental dynamism and uncertainty, organizations have tried to become more flexible by changing traditional organizational forms and creating new ones. The new forms in turn create new areas of research to emerge. The purpose of this dissertation is to examine one such new organizational form, the formation of strategic committees (SCs) within companies. Extending liabilities of newness and upper echelons theories, I examine three primary questions in three essays: (1) is it possible to accurately predict which firms have SCs and do these firms outperform firms without SCs; (2) in what type of industries are SCs beneficial to firm performance; and (3) what SC characteristics lead to better firm performance? Analyses of a comprehensive set of data on international firms with SCs show that environmental factors can be used to identify firms with SCs, SCs are beneficial to firm performance in mature, non-hypercompetitive and flat experience industries, and SCs with greater tenure and educational heterogeneity will have better performance and performance stability, respectively. I conclude with a discussion of the implications of my study for strategy research on liabilities of newness and upper echelons.

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SUMMARY OF RESEARCH

The global business environment has become more competitive in recent years as more businesses venture into the international marketplace. Due to the increasing number of competitors and the changing environment, organizations have begun to change traditional organizational forms and/or creating new ones (Schilling and Steensma, 2001). These new organizational forms in turn create new opportunities for research (Balogun and Johnson, 2004). The purpose of this three paper dissertation is to look at one such organizational form, strategic committees.

Little research on strategic committees exists. Prior studies have focused on audit committees, technology committees, or top management teams, but no research studies have examined the strategic committee. This is unfortunate because the number of strategic committees has grown drastically within the past decade; since 2003, the number of firms with strategic committees has grown from around 300 to well over 900. Thus, strategic committees appear to be a topic worth exploring.

To begin I ask a simple question: what is a strategic committee? A cursory examination of the literature suggests that a strategic committee is typically a subcommittee of the board of directors. Composition of the committee varies by country and appears to be in part dependent on home country regulations. In some countries, like the United States, strategic committees are comprised of independent, or external, directors. In other countries, like India, strategic committees are comprised of internal and non-executives members in addition to external directors. Strategic

committees appear to be subcommittees of the board of directors with independent directors, upper level management, and/or lower level organizational employees as members.

To examine strategic committees, two theories will be used: liabilities of newness and upper echelons theory. The first theoretical lens, liabilities of newness, proposes “newer” firms are more likely to fail as they lack experience, resources, and legitimacy. This theory began with Stinchcombe’s (1965) seminal piece entitled “Social Structures and Organizations.” He proposed that failure was greater in newer firms because 1) the high costs associated with learning new roles and tasks; 2) inefficiencies stemming from imperfect resources and routines; 3) inefficient operations as a result of informal communication systems; and 4) weak ties with customers and suppliers. These theorized components were later supported through theoretical and empirical findings (Bruderl and Schussler, 1990; Goldberg, Cohen, and Giegenbaum, 2003; Shepherd *et al.*, 2000; Hannan and Freeman, 1984; Freeman *et al.*, 1983). While there may be large, experienced firms with strategic committees, we predict that the typical firm with a strategic committee is smaller and less experienced.

The second theoretical prism is the upper echelons perspective first developed by Hambrick and Mason (1984) in their seminal piece entitled “Upper Echelons: The Organization as a Reflection of its Top Managers.” Upper echelons theory postulates that top management team (TMT) characteristics influence organizational outcomes. Prior research has empirically supported this theory by showing that TMT member age (Datta and Rajagopalan, 1998; Tihanyi *et al.*, 2000), tenure (Bergh, 2001; Herrmann and

Datta, 2005), education (Jensen and Zajac, 2004), and heterogeneity (Lee and Park, 2006) influence the strategic posture of firms (Patzelt, zu Knyphausen-Aufse, and Nikil, 2008).

In addition, using upper echelons to focus on executive groups tends to explain organization outcomes better than by solely focusing on CEOs or individual leaders (Hambrick, 2007). As Daft and Lewin (1993) note, researchers can have a greater impact by focusing on midrange phenomena. Moreover, according to Hambrick (2007) research may benefit by focusing on ‘subteams’; one such group or “subteam” may be strategic committees.

In this dissertation three research papers examine currently unexamined issues related to strategic committees. First, there appears to be no systematic research examining why strategic committees exist despite the growing number of strategic committees being formed by international companies. It is not known why these committees are being formed. Is it related to an increase in external pressures to improve transparency (*i.e.*, Sarbanes Oxley Act of 2002) or stakeholder pressure to improve long-term viability of the company? Moreover, why have some firms created strategic committees while others have not?

Second, people are familiar with the more common committees of the board of directors, like the audit, nomination, and acquisition committees (Andriole, 2009). Since these committees are more common, more information is readily available allowing scholars to do empirical research. However, because these committees are relatively new, they are not well known and therefore unexplored.

Third, I wonder, if strategic committees are being formed to aid firm strategy making and structure, are they actually beneficial? Overtime, as firms age, they alter structures to meet strategic changes (Harris and Ruefli, 2000) formalizing approaches to planning and resource allocation to coordinate the increased number of firm actions (Hart and Banburry, 1994). Do strategic committees help or hinder this process?

To address the above identified problems, this dissertation seeks to answer three research questions regarding strategic committees. First, is it possible to accurately predict which firms have strategic committees (SCs) and do these firms outperform firms without strategic committees? Second, in what type of industries are strategic committees beneficial to firm performance? Lastly, what strategic committee characteristics lead to better firm performance?

The dissertation is broken into three separate essays. Paper one seeks to predict which firms are more likely to have a strategic committee based on internal and external environmental factors (H1 – H5). In addition, I propose firms that are predicted to have strategic committees will on average perform better than firms without strategic committees (H6). Essay two explores industry characteristics in which the use of a strategic committee will be most beneficial to firm performance (H7-H9). Lastly, paper three examines strategic committee member characteristics and firm performance (H10-H12).

ESSAY 1 – PREDICTING STRATEGIC COMMITTEES VIA INTERNAL AND EXTERNAL ENVIRONMENTAL FACTORS

INTRODUCTION

Literature has extensively studied the relationship between organizational structure and the environment (Lawrence and Lorsch, 1967; Sine, Mitsuhashi, and Kirsch, 2006). For instance, more intense competition stemming from the development of new domestic markets as well as the growth in international business has resulted in some firms experimenting with new organizational structures (Lee, MacDermid, and Buck, 2000). In addition, government regulations like the Sarbanes Oxley Act have also influenced how organizations structure themselves (Ogneva, Subramanyam, and Raghunandan, 2007).

This paper focuses on one new organizational structure, the strategic committee. While there is some anecdotal evidence concerning strategic committees, there appears to be no systematic research examining them. This is of particular interest because strategic committees are a fairly recent, yet international occurrence; *e.g.* the number of international firms with a strategic committee (SC) has grown from around 300 in 2003 to over 900 in 2008 (the average SC age is about 4 years). Thus, the number almost tripled in only five years. Why is this occurring?

Let's begin by asking what exactly is a strategic committee? A cursory empirical examination suggests that the SC is a subcommittee of the board of directors. However, due to different governmental regulations on board composition requirements strategic committee composition varies by country. For example, in the United States the

Securities and Exchange Commission requires the majority of board members to be independent directors, or *external* members with no affiliation to the organization. Conversely, companies listed on the *Bombay Stock Exchange* have only one-third independent directors with the remaining comprised of executive and non-executive directors. Even though the strategic committee is a subcommittee of the board of directors, it is comprised of independent directors, upper level management, and/or lower level organizational employees.

Why are these strategic committees being formed? The answer is not apparent; it may vary by country as well as changes in business environments. For instance with respect to the USA, based on the average age of the SC, the committees could be a response to the Sarbanes Oxley Act of 2002. For example, the U.S. company GeoEye states in the Strategy and Risk Committee Charter that was adopted in 2007 (p1):

"The Strategy Committee (the "Committee") shall assist the Board in ensuring that corporate leadership has a vision beyond the past quarter and the coming quarter and is actively aware of opportunities and risks to future share holders' value"

Second, outside of the USA, based on proxy and annual reports, SCs may be formed to examine overall firm strategies aimed at improving the long-term viability of the company. For example, in the 2007 annual report for Shanghai Forte Land Co., Ltd., they state (p45):

"The Strategy Committee will timely discuss the strategic planning for the development of the Company in the medium and long term."

Thus, SCs may have come into existence in response to pressures for organization transparency and/or to improve the chances for long term firm viability. However, only some firms have created these committees while others have not. Why might this be the case? In this paper an attempt is made to answer this question.

The purpose of this paper is to combine a “liabilities of newness” perspective with an industry stability perspective to predict which firms are most likely to have a strategic committee. Using a liability of newness perspective I hypothesize that “newer” firms (those with less experience, fewer resources, and legitimacy [*i.e.*, transparency]) are more likely to have created a SC because it aids firm legitimacy allowing a greater resource and experience base to be created. I also hypothesize using an industry stability perspective that firms in more stable industries are more likely to have a SC because in such industries growth opportunities approach a zero sum game (Day and Montgomery, 1999; Hanssens and Johansson, 1991); thus long term firm viability depends upon more efficient and effective uses of firm resources than in high growth industries (which tend to be more innovation driven (Davis, Eisenhardt, and Bingham, 2009; Nerkar and Roberts, 2004). Third, integrating both perspectives, I hypothesize that the probability of a firm having a SC increases with firms having less experience and fewer resources in more stable industries. Finally, I hypothesize that the three prior hypotheses are normative as well as descriptive; such firms having a SC will on average perform better than firms that do not have SCs. These hypotheses are tested on a sample of 652 international firms.

LITERATURE REVIEW

Liabilities of Newness

The liabilities of newness literature began with Stinchcombe's seminal piece in 1965. Stinchcombe proposed that young firms are more prone for failure because they lack the necessary experience, resources, and legitimacy needed for survival. More specifically he hypothesized that new firms are more likely to fail compared to older firms because of: 1) costs associated with learning new roles and tasks; 2) limited resources and routines to operate efficiently; 3) inefficiencies created from a lack of informal communication structures; and 4) few formal connections with customers and suppliers (Knott, 2005; Stinchcombe, 1965). His hypotheses were supported by later efforts that found for young firms failure is often associated with internal factors of small size, inefficient structure, and lack of experience and external factors linked to a limited network and market resources (Carayannopoulos, 2009; Freeman, Carroll, and Hannan, 1983).

A common challenge facing any organization is that firms are limited in the resources they possess (Lin, Yang, and Demirkan, 2007; Park, Chen, and Gallagher, 2002). Large firms tend to have more resources which typically lead to advantages in economies of scale, experience, brand name recognition, and market power (Chen and Hambrick, 1995; Hambrick, MacMillan, and Day, 1982).

Conversely, the typical small firm has resources that are insufficient to address the demands of the environment (Sapienza *et al.*, 2006; Brüderl and Schüssler, 1990). Moreover, young firms typically lack the experience and routines needed to establish

efficient and effective operations hindering the firm from seeking needed resources to improve overall efficiencies and effectiveness (Aldrich and Auster, 1986; Carayannopoulos, 2009). As a result, young firms may lack the necessary knowledge to determine what they are capable of doing or should do with current resources to properly execute firm strategies.

Another hindrance commonly associated with young firms is a lack of legitimacy. Legitimacy can be described as environmental acceptance of the organization based on the perception that the organization is meaningful, predictable, and trustworthy (Hannan and Freeman, 1976; Meyer and Rowan, 1977; Suchman, 1995). A young firm may not have had a chance to establish itself within a market limiting its exposure and ability to convey information to the environment (Stuart, Hoang, and Hybels, 1999). Second, young firms have not had ample time to develop proper decision-making guidelines, routines, and sequences to be applied on a consistent basis (Choi and Shepherd, 2005). Thus, young firms may lack legitimacy because there is limited information available and organizational processes may be unreliable due to newness of the firm.

Literature Review and Hypotheses

When do firms create strategic committees: when they are experienced or inexperienced; when they have/lack abundant resources; or when they operate in a stable/high velocity industry? Previous literature suggests that firms may have greater need of strategic co-ordination when they are less experienced, have fewer resources

and operate in more mature (stable) industries (Chrisman, Bauerschmidt and Hofer, 1998; Lechner and Leyronas, 2009).

Experienced vs. Inexperienced firms

It is important for firms to identify factors within their competitive space that influence firm performance (Caves and Porter, 1977; Mascarenhas and Aaker, 1989; Olusoga, Mokwa, and Noble, 1995). Young firms are often at a disadvantage in this regard because management needs time to develop firm-specific knowledge, skills, and abilities (Thornhill and Amit, 2003). Put simply, young firms lack the necessary experience to identify and exploit key factors within the competitive environment that could benefit firm performance. By creating a strategic committee, the firm can rely on the experiences of the committee members to compensate for the organization's lack of knowledge and operations due to young firm age.

In addition, young firms often lack legitimacy within their environments. Strategies to achieve legitimacy tend to be selected based on interpretations of and relative position to competitors (White, 2001). However, young firms have attempted to gain legitimacy quicker by adopting structures and practices that have been previously implemented by competitors (Dobrev, 2007), but often lack true legitimacy because there is not sufficient information to assess the firm's predictability and reliability (Carayannopoulos, 2009; Suchman, 1995).

Less experienced firms may have greater need of a SC than more experienced firms because they lack the necessary knowledge and legitimacy to compete effectively within their environment. Establishing a SC allows organizations to pool experiences of

its committee members to create a larger knowledge base. Proper strategies can then be developed to exploit firm resources so the firm may compete more effectively. In addition, the strategy making process becomes more visible aiding firm legitimacy within the environment; creating a SC distributes more information to the external environment aiding the assessment of a firm's predictability and reliability. Thus, I hypothesize:

Hypothesis 1: Less experienced firms are more likely to have strategic committees.

Resource abundant vs. Less resource abundant firms

Firm size has been used as an indicator for a firm's resource constraints (Lin *et al.*, 2007). Greater firm size acts as a shield to enhance viability among competitive pressures and environmental shocks (Barron, West, and Hannan, 1994; Makadok and Walker, 1996), but does not necessarily increase firm competitiveness (Barnett, 1997; Madsen and Walker, 2007).

Large firms are positioned more strategically though as they are able to produce a degree of resource certainty to ensure sustained feasibility (Hannan, Pólos, and Carroll, 2003; Lin *et al.*, 2007). Large organizations have less resource constraints because of a greater resource base created through firm legitimacy; large size equals past success (Baum and Oliver, 1991), more visible actions (Chen and Hambrick, 1995), and readily available information (Stuart, Hoang, and Hybels, 1999). By creating legitimacy, firms are able to create a larger resource base (Audia, Freeman, and Reynolds, 2006).

Small firms, however, face greater resource constraints. While large firms may be able to endure environmental shocks, small firms have limited resources and lower margins for error (Hannan *et al.*, 2003; Hannan and Freeman, 1977). This simply means that the viability of small firms is threatened because improper use of resources could mean organizational failure. It becomes increasingly important then for small firms to obtain additional resources, but competition intensifies as firms position themselves strategically for finite amount resources (Hannan and Freeman, 1977). Thus it becomes necessary for small firms to develop some legitimacy within the environment to grow the organization's resource base.

Small firms lack a proven track record, are not easily visible, and information is limited creating legitimacy problems (Stuart *et al.*, 1999). In order to overcome this problem, a firm may decide to form a SC. First, the experience of SC members acts as a track record for the organization. Second, the committee becomes visible to potential stakeholders. Lastly, the SC increases the amount of information on firm decision making processes. Therefore for a smaller firm, establishing a SC has the potential to increase firm legitimacy and/or increase resources. Thus, I hypothesize:

Hypothesis 2: Less resource abundant firms are more likely to have strategic committees.

Stable vs. High velocity industries

A key influence on the decision making processes of the firm is the degree of industry stability (Duncan, 1972; Fredrickson and Mitchell, 1984). Stable, less dynamic industries are typically associated as having little change in customer preferences, technologies, and competitive technologies (Henderson, Miller, and Hambrick, 2006).

Customer demand remains relatively the same allowing the organization to produce goods or services with little modifications or alterations (Cui, Griffith, and Cavusgil, 2005); greater demand certainty allows firms within these environments to process information and devise strategic plans accordingly (Grewal and Tansuhaj, 2001). Sustainable competitive advantage in such industries tends to be created primarily through differentiation strategies in which resources are strongly linked to active systems (Bingham and Eisenhardt, 2008).

Firms in stable markets begin to be perceived as producing commodities driving down the rate of return for organizations (Cui *et al.*, 2005). However, as competition intensifies firms are more likely to find themselves in zero-sum relationships (Barnett, 1997). In stable markets it becomes vital for organizations to create strategies to differentiate themselves from the competitors. Establishing a SC is one method firms use to help develop firm strategies to aid the firm in stable markets.

Hypothesis 3: Firms operating in stable environments are more likely to have strategic committees.

Strategic committees, firm experience, and industry stability

Some literature has identified management as a source of competitive advantage (Coff, 1997; Thornhill and Amit, 2003). However, in young firms typically management is learning how to manage and have not had enough time to develop skills that may lead to a competitive advantage (Ireland, Hitt and Sirmon, 2003). In addition, young firms lack a proven track record in their environment and managers make decisions under conditions of extreme uncertainty (John, Poudar, and Cannon, 2003).

While management may be making decisions under extreme uncertainty, stable markets create some clarity and may help inexperienced firms focus (Nickerson and Zenger, 2002; Wright, Westhead, and Sohl, 1998). Forming a strategic committee may allow a young firm in a stable market to better create more effective strategies by pooling the experiences of a specially chosen subset of their board of directors. Put simply, the experiences of the strategic committee can be used in stable markets to increase the competitiveness of the firm. Hence, I hypothesize:

Hypothesis 4: Strategic committees are more likely to be present in less experienced firms operating in stable markets.

Strategic committees, firm resources, and industry stability

Firms are constrained by organizational characteristics and the external environment (Lin *et al.*, 2007). First, young firms typically have fewer resources and for that reason are more susceptible to environmental shocks. Second, industry competition can restrict the resources available and reduce young firm survivability (Romanelli, 1989). Moreover, as young firms redirect scarce resources to training employees and establishing routines toward efficiencies, survivability diminishes (Henderson, 1999).

In order to improve survivability it is important for young firms to properly align their limited organizational resources with the external environment. A strategic committee comprised of selected board members may be the best option for younger firms in stable markets to develop strategies that most effectively use their limited organizational resources. I hypothesize:

Hypothesis 5: Strategic committees are more likely to be present in less resource abundant firms operating in stable markets.

Strategic committees and performance

The above hypotheses are descriptive in nature but are they normative as well? I hypothesize that firms that are less experienced, less resource abundant and operating in stable markets and that also have SCs will on average have higher levels of performance than firms that do not have SCs with similar internal and external environmental characteristics. Thus, we do not hypothesize that creating an SC will lead to improved performance for all firms, just firms that are less experienced, less resource abundant and operating in stable markets. Our logic is as follows.

Less experienced firms tend to be disadvantaged when their top management team lacks experience (Thornhill and Amit, 2003). One way to remedy this shortcoming is to create an experienced SC that can develop and implement effective strategies and as a result, improve firm performance. Less experienced firms also tend to lack legitimacy (Choi and Shepherd, 2005; Stinchcombe, 1965) which may have an impact on their ability to obtain critical resources. An experienced SC can convey legitimacy making it easier for the firm to obtain such resources, thereby improving firm performance.

Lastly, stable markets tend to have greater competitive pressures making it harder for firms to perform well (Bingham and Eisenhardt, 2008; Cui *et al.*, 2005). In particular, less experienced firms are at risk in such markets because they are competing against experienced firms with proven strategies. Once again an experienced

SC can have a positive effect on the bottom line by developing effective differentiation strategies and focusing on proper organizational controls. Thus, based on the above discussion we hypothesize:

Hypothesis 6: Based on the prior hypotheses, firms with a strategic committee will on average outperform firms without a strategic committee.

METHODOLOGY

Sample

For the current study, I created a sample obtained from Capital IQ, a division of Standard & Poor's, comprised of international firms with and without strategic committees. To be included in the sample, firms needed to be listed publically in any world stock exchange. In addition, I followed Porter (1979) to create two groups of firms, "industry leaders" and firms with strategic committees, "followers". Simple t-tests showed that firms with a SC were significantly smaller in terms of size and revenues when compared to a random sample of the industry population. I first summed the industry sales of firms with a SC, which totaled 35% of industry sales. I then summed the sales of successively industry leaders until industry sales equaled 35% (Porter, 1979).

The time frame is 2004-2008 and was chosen because it is the most current time frame available. Using these three criteria to select my sample but removing cases with missing data resulted in a final sample of 652 international firms across ten industries.

Dependent Variables

In this study, I use two dependent variables. The first dependent variable is coded as '1' if a firm had a strategic committee and '0' otherwise. The firms' 10-K, 8-K, Proxy Statements, and Annual Glossy Reports from the Capital IQ database were used to determine if a firm had a strategic committee for the years 2004-08. A search for the terms "strategy committee", "strategic committee", "business development committee", and/or "strategy" was done. A firm was coded as having a strategic committee if I identified it in the 2004-08 time period.

The second dependent variable is firm performance. Following prior literature, *Return on Assets* (ROA) (Kalyta, 2009; McDonald and Westphal, 2010) was used for firm profitability. ROA was calculated as net income divided by total assets. Consistent with prior literature (Rutherford, Buchholtz, and Brown, 2007), five-year averages of ROA (2004-2008) were used to smooth annual fluctuations in accounting data.

Explanatory Variables

Market volatility

Market volatility is conceptually defined as the variance in industry performance (Luo, 2007). The corresponding measure was defined as the instability of sales in each industry to evaluate levels of environmental uncertainty from a continuous variable (Bergh, 1998). Following Keats and Hitt (1988), industry sales were regressed against time and the standard error of the slope coefficient was divided by average industry sales (Bergh and Lawless, 1998; Krishnan, Martin, and Noorderhaven, 2006). Larger values represent greater market volatility.

Firm resources

The amount of resources a firm has impacts strategic choice. Larger firms often have greater resources allowing them to pursue more aggressive strategies. Small firms on the other hand typically have fewer resources and have to be more careful with how critical resources are utilized. Prior research has examined firm resources as the number of employees (Audretsch, Lehmann, and Plummer, 2009; Tzabbar, 2009) or firm total assets (Berrone and Gomez-Mejia, 2009; Yoo *et al.*, 2009). This study measures *firm resources* as the number of firm employees instead of total assets to avoid multicollinearity problems with the dependent variable *ROA*; the denominator in the equation is total assets. Due to the high level of skewness in the total number of firm employees, the variable *firm resources* was transformed by natural logarithm (Newbert, 2008). Higher values represent greater resources.

Firm experience

Firm age represents an organization's level of experience. As a firm ages it gains knowledge and experience in establishing routines to improve efficiencies. Following Greve (2009), *firm experience* is calculated as the year 2008 minus firm inception. Lower values represent less experience.

Strategic committee

The last predictor variable examines the relationship between firms with and without a strategic committee and firm performance. After identifying firms with a strategic committee, they were coded as '1' for having a committee present, all else '0'.

Control Variables

The control variables for this study look at geographic region influences. In a given industry, a number of country factors may influence performance; the level of industry competition may vary by home country characteristics. In addition, the firm's home market may be significantly larger than others. These factors might influence the competitiveness of the firm and create unobserved home market heterogeneity (Rangan and Sengul, 2009). A summary analysis of the data revealed that firms with strategic committees were concentrated in five geographic regions. To account for these home country specific factors in a regional setting (unobserved heterogeneity), I included five geographic region dummies in the regression analyses.

ANALYSIS

I used two different analyses to examine the relationships among the predictor and dependent variables, logistic regression and hierarchical OLS regression, respectively. Prior to running the two analyses I examined the correlations between variables. Table 1.1 shows substantial variability in the variables. Bivariate correlations among control variables (Asia, Europe, and North America geographic dummy) were high, which is expected since they measure the same construct, geographic location. Further analysis using variance inflation factors (VIF) finds that VIF scores in the second analysis ranged from a minimum of 1.68 to 16.65, indicating multicollinearity problems (VIF scores exceeding 10). To remedy this problem of multicollinearity among dummy coded variables, following Faugère and Van Erbach (2009), the constant

was omitted from the equation and found that the VIF values ranged from 1.0 to 1.95, well below the recommended cutoff of 10 (Hair *et al.*, 1998).

Table 1.1. Means, standard deviations, and bivariate correlations for all study variables

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Committee Present	0.4900	0.5000	1									
2. Average ROA	0.0267	0.1399	-0.141 ***	1								
3. Firm Resources	58771.6900	113963.1770	-0.157 ***	0.005	1							
4. Firm Experience	63.3700	48.1800	-0.383 ***	0.142 ***	0.039	1						
5. Industry Stability	1.2333	0.8397	-0.173 ***	-0.004	-0.012	0.093 *	1					
6. Africa Dummy	0.0107	0.1031	0.046	0.015	0.060	0.028	0.003	1				
7. Asia Dummy	0.2665	0.4425	-0.087 *	0.080 *	-0.011	-0.142 ***	0.071	-0.063	1			
8. Europe Dummy	0.2680	0.4433	-0.028	0.080 *	-0.013	0.172 ***	-0.012	-0.063	-0.365 ***	1		
9. North America Dummy	0.4395	0.4967	0.086 *	-0.154 ***	0.001	-0.030	-0.046	-0.092	-0.534 ***	-0.536 ***	1	

N = 652

*** p < .001; * p < .05

The relationship between environmental factors and strategic committee presence was estimated using logistic regression analysis. This analysis is appropriate for binary dependent variables because logistic regression assumes a categorical dependent variable uses a binomial distribution. Since the dependent variable is whether a strategic committee is present or not (“1” or “0”), a logistic regression analysis is appropriate (Matta and Beamish, 2008).

Table 1.2. Logistic regression analysis: committee presence ^a

	Model (1)		Model (2)		Model (3)		Model (4)		Model (5)	
	β	S.E.	β	S.E.	β	S.E.	β	S.E.	β	S.E.
Africa Dummy	0.916	0.837	3.623 ***	1.038	3.601 ***	1.034	3.608 ***	1.204	3.596 ***	1.043
Asia Dummy	-0.325 *	0.154	1.520 ***	0.383	1.525 ***	0.383	1.536 ***	0.742	1.539 ***	0.386
Europe Dummy	-0.138	0.152	2.199 ***	0.406	2.197 ***	0.407	2.206 ***	0.740	2.206 ***	0.409
North America Dummy	0.161	0.118	2.279 ***	0.390	2.279 ***	0.390	2.291 ***	0.730	2.291 ***	0.393
Firm Experience			-0.020 ***	0.002	-0.020 ***	0.002	-0.020 ***	0.002	-0.020 ***	0.002
Firm Resources			-0.052	0.034	-0.052	0.034	-0.056	0.000	-0.056	0.034
Industry Stability			-0.342 **	0.111	-0.336 **	0.111	-0.333 **	0.121	-0.330 **	0.114
Firm Experience * Industry Stability					-0.005 *	0.002			0.014	0.002
Firm Resources * Industry Stability							0.025	0.032	-0.005 *	0.032
-2 Log-likelihood	895.337		772.105		764.826		771.517		764.642	
Model χ^2	8.527		131.759***		139.038***		132.346***		139.222***	
Change in model χ^2			123.232***		7.278**		0.587		7.463*	
Nagelkerke R Square	0.017		0.244		0.256		0.245		0.256	
Percent correctly classified	55.2		68.9		70.1		69.9		70.4	

N = 652

*** p < .001; ** p < .01; * p < .05

^a β , unstandardized regression coefficients; S.E., standard error of the coefficients

Table 1.2 displays five sets of hierarchical logistic regression models used to examine the impact of internal and external environmental factors on committee presence. Model 1 is the base model and is not significant. Model 2 includes the main effect variables and significantly improved the model ($p < .001$) indicating *firm size*, *firm experience*, and *industry stability* improved the analysis of the dependent variable. Model 3 included the interaction term of *firm size* and *industry stability* and did not significantly improve the main effects model. However, Model 4 included the interaction term of *firm experience* and *industry stability* and significantly improved the main effects model ($p < .01$). Lastly, Model 5 is the full model and is highly significant ($p < .001$) and

improved the analysis of the dependent variable over the main effects model ($p < .01$). The Nagelkerke R Square for the respective model is 0.256.

Results for hypotheses 1 and 2 can be found in Model 2 in Table 2. Hypotheses 1 and 2 posit a negative relationship between firm experience/resources and the probability of strategic committee being present. In Model 2 firm experience was negative and significant ($\beta = -0.020, p < .001$) supporting H1, but firm resources was negative and insignificant, not supporting H2. This means that less experienced firms are more likely to have SCs. Lastly, hypothesis 3 posits a positive relationship between industry stability and the probability of a strategic committee. Industry stability was negative and significant (Model 2: $\beta = -0.342, p < .01$). This means that firms in stable industries are more likely to have SCs; thus, hypothesis 3 is supported.

Model 3 and 4 examines hypotheses 4 and 5, which stipulate a positive relationship between the interaction term firm experience/resources and industry stability and the probability of strategic committee presence; less experienced/less resource abundant firms in more stable industries are more likely to have SCs. Prior to running the interaction analysis, interactive variables were mean centered to enhance the interpretation of the coefficients (Aiken and West, 1991). The interaction effect of firm resources and industry stability is not significant; H5 is not supported. However, the interaction effect of firm experience and industry stability is negative and significant (Model 4: $\beta = -0.006, p < .01$). This means less experienced firms in more stable industries are more likely to have SCs.

To interpret the significant interaction, I created an interaction plot. Following Tiwana (2008), ± 2 S.D. was used to make the visual interpretation of the interaction more pronounced. High experience firms were defined as having a resource value two standard deviations above the mean. Similarly, two standard deviations above or below the mean was applied to high stability and low stability industries. To make the interaction plot more intuitive, industry stability was rewritten as industry instability since higher values for the industry stability measure represent greater industry instability.

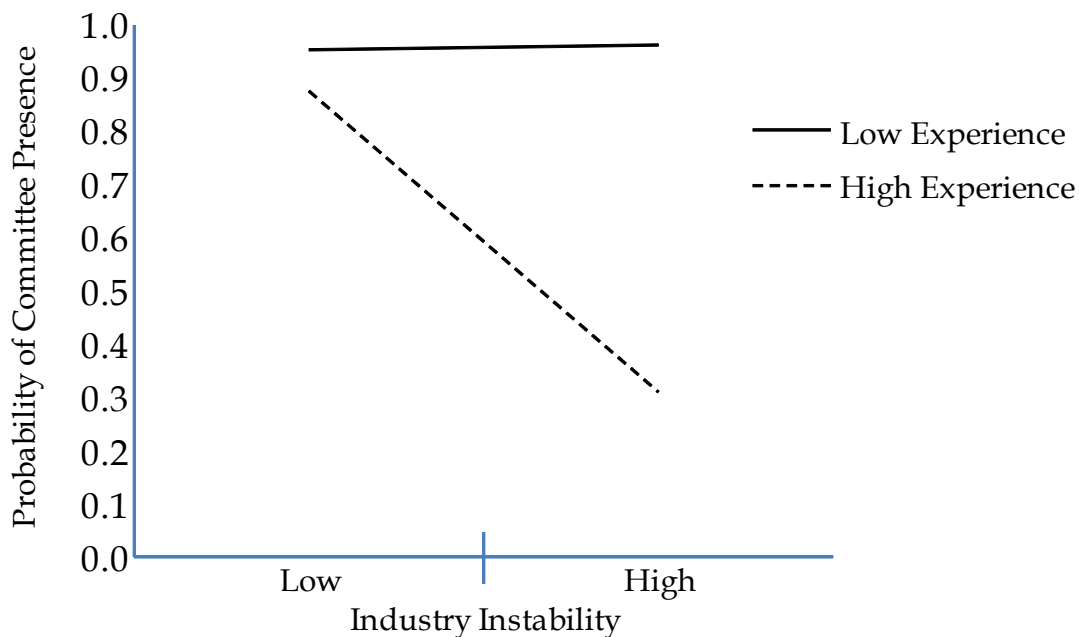


Figure 1.1. Interaction of firm experience and industry instability

Figure 1.2 shows the nature of the firm experience/industry stability interaction on the probability of committee presence. The plot shows that as industry instability increases, probability differences between high and low experienced firms grow. It

appears less experienced firms in more stable industries are more likely to have SCs.

Hence, H4 is supported.

Table 1.3. Results of hierarchical OLS regression analysis ^a

	Model (1)		Model (2)	
	β	S.E.	β	S.E.
Africa Dummy	0.047	0.052	0.070	0.053
Asia Dummy	0.045 ***	0.011	0.059 ***	0.011
Europe Dummy	0.045 ***	0.010	0.061 ***	0.012
North America Dummy	0.002	0.008	0.020 *	0.010
Committee Present			-0.033 **	0.011
R^2	0.055		0.069	
Adjusted R^2	0.049		0.062	
Change in R^2			0.014**	
F	9.445***		9.563***	

N = 653

*** $p < .001$; ** $p < .01$; * $p < .05$

^aNon-standardized, estimated coefficient with standard error below in parentheses.

Lastly, Table 1.3 shows the hierarchical OLS regression analysis for H6 which proposed a positive relationship between firms with strategic committees based on the aforementioned factors and performance. Model 1 is the base model with Model 2 being the main effects model. The change in R-squared is significant ($p < .001$) indicating the predictor variable *committee present* enhances the analysis of the dependent variable in Model 2 ($F = 9.563, p < .001$).

However, because the R-squared and adjusted R-squared in Model 2 were small, following Shah (2000), I conducted mean difference tests. I compared the means of

ROA between firms with and without a strategic committee. The results show that the ROA of firms with a strategic committee ($\bar{X} = .007$) is statistically and significantly lower than firms without a strategic committee ($\bar{X} = .046$) at the $p < .001$ level; H6 is not supported.

CONCLUSION

This study represents an initial attempt to identify which firms may be using a SC and explain relative firm performance for firms with and without SCs. Using a liabilities of newness perspective that states inexperienced firms usually lack resources and legitimacy, I hypothesized that: (1) strategic committees are more likely to be present in firms lacking experience and resources; (2) strategic committees are more likely to be present in firms operating in stable industries; (3) firms with less experience operating in stable markets are more likely to have a strategic committee; and (4) based on the aforementioned factors, firms with strategic committees on average have greater performance than firms without strategic committees. Thus, it appears that the creation of SCs appears to be linked to the newness of firms.

Based on the empirical results, I draw four conclusions. First, it appears that firms with less experience are more likely to have a SC present within the organization. Second, greater market stability increases the probability of a firm having a SC. Third, as a firm gains more experience and the industry in which they operate becomes more unstable, the probability of a firm having a SC decreases substantially. Lastly, firms with less experience and resources operating in more stable markets will have better performance compared to firms without committees.

I draw four managerial implications from the study. First, it appears an inexperienced firm may be able to provide legitimacy to external stakeholders because the committee is visible and the name 'strategic committee' signals long-term orientation of the company. Second, organizations operating in stable markets may improve organizational effectiveness by creating a strategic committee to facilitate the development of new organizational routines that focus specifically on efficiencies. Third, a strategic committee could aid inexperienced firms establish formal structures and processes to be more efficient in stable industries; inexperienced firms typically lack organization and structure which creates operational inefficiencies. Lastly, it is important for organizations to examine firm experience, resources and current market stability to increase firm performance through the use of a strategic committee. Thus, it appears that strategic committees are a new phenomenon to compensate for an organizations lack of experience, resources, and/or legitimacy.

Limitations and Future Research

This study has several limitations. First, my sample only included publicly traded companies. Future research may wish to extend these research questions by examining non-publicly traded or private international firms. Second, I used simple constructs to measure profits (ROA), firm resources (number of employees), and firm experience (firm age). Future research may wish to develop and test other measures of firm performance and firm characteristics. Third, this research only examined environmental factors to predict which firms may have strategic committees and did not look at the possible reasons why firms form such committees.

Finally, this paper raises additional research questions. For instance, why do firms form strategic committees? What specific role do strategic committees play in large organizations? Looking at firms with strategic committees only, what external environmental factors influence performance the most? What committee characteristics are most beneficial to performance? Since this is an international study, how does culture influence these findings? Thus, this paper is research opening, raising as many questions as it answers. Future efforts, by addressing these and other questions, will be able to better explain the role of the strategic committee and provide better guidance to firm managers who attempt to implement strategic committees.

ESSAY 2 – STRATEGIC COMMITTEES AND INDUSTRY CHARACTERISTICS: WHEN IS IT BENEFICIAL TO FIRM PERFORMANCE?

INTRODUCTION

Organizational strategy is responsible for selecting and interpreting environmental factors to properly align the organization with its environment (Gordon *et al.*, 2000; Keats and Hitt, 1988; Zajac and Kraatz, 1993). For instance, in extremely dynamic, uncertain, or unpredictable environments, organizations tend to exhibit flexible structures to be able to adjust quickly and survive (D'Aveni, 1994). Mature, stable environments, on the other hand, typically influence organizations to develop more rigid structures focusing on efficiencies and routines (Hambrick, MacMillan, and Day, 1982).

Recently, environmental dynamism has increased due to the rising number of international competitors. As a consequence, organizations, both domestic and international, are developing new organizational forms. One such organizational change is the formation of the strategic committee (SC) within the board of directors.

Close examination of SC charters demonstrates organization concerns with the changing environment and strategy making. For example, the 2007-2008 annual report for Coastal Greenland states:

“The Strategic Planning Committee’s principal roles are to review and evaluate the Company’s strategy with respect to the operating environment and the Company’s financial and other operating resources and make recommendations to the Board when necessary and appropriate.”

People are typically familiar with the traditional committees of the board of directors (*i.e.*, audit, nomination, and acquisition committees to name a few) (Andriole, 2009). As such, research has primarily focused on these types of committees. For example, accounting

researchers have focused on audit committee effectiveness post Sarbanes Oxely (Abbott *et al.*, 2007; Akarak and Ussahawanitchakit, 2010). In addition, Harjoto and Hoje (2008) found a positive relationship between nomination committees and firm performance. Lastly, studies have examined the impact of these committees on overall corporate governance (Nowland, 2008; Surroca and Tribó, 2008) and firm performance (Bozec, 2005; Henry, 2008). However, with the newness of the SC as a new organizational form, it is not well known and therefore unexplored.

The purpose of this paper is to use the liabilities of newness theory to predict which industries would best be served by the use of a strategic committee. More specifically, I hypothesize: 1) there is a positive relationship between SC firms operating in mature industries and firm performance; 2) there is a negative relationship between SC firms operating in hypercompetitive industries and firm performance; and 3) there is a positive relationship between SC firms operating in flat experience curve industries and firm performance. These hypotheses are tested on a sample of 333 international firms with strategic committees.

LITERATURE REVIEW

Liabilities of Newness

The liabilities of newness theoretical perspective argues younger firms are more vulnerable because they lack legitimacy, resources, and capabilities of older, more established organizations (Stinchcombe, 1965). Research has found that these factors have contributed to the disproportionately high rates of failure among younger firms (Brüderl and Schüssler, 1990; Hannan and Freeman, 1984). Moreover, four factors have been directly linked to the liabilities of newness: 1) the need to establish organizational structures; 2) difficulty in establishing new

relationships; 3) limited resource endowment and social network; and 4) lack of financial capital (Carayannopoulos, 2009; Goldberg, Cohen, and Fiegenbaum, 2003; Shepherd, Douglas, and Shanley, 2000; Stinchcombe, 1965).

The first underlying component of liabilities of newness comes from the organization's lack of well established tasks and routines (Beekman and Robinson, 2004; Nelson and Winter, 1982; Shepherd *et al.*, 2000). Developing organizational routines and coordinating organizational tasks requires high costs in time, anxiety, conflict, and short-term inefficiency (Hinings and Greenwood, 1988; Stinchcombe, 1965). Compared to older firms, younger firms are at an operational disadvantage as they must incur costs to develop these tasks and procedures in-house or through some form of outsourcing (Morse, Fowler, and Lawrence, 2007; Nelson and Winter, 1982; Schoonhoven, Eisenhardt, and Lyman, 1990). As a result, young firms are of greater likelihood to fail because high costs are incurred as critical resources must be reallocated from operations to train employees and develop set routines (Freeman, Carroll, and Hannan, 1983).

The second component describes the difficulty in establishing trust relationships with a young firm. New firms must rely heavily on trusting strangers (Goldberg *et al.*, 2003) allowing themselves to be susceptible to opportunistic behavior (Gambetta, 1988; Lewis and Weigert, 1985). The reliance on "strangers" stems from the fact that young firms have limited market exposure and connections (Aldrich and Auster, 1986). Since young firms have limited contacts and networks, they are prevented from connecting with other beneficial organizations and networks (Hite and Hesterly, 2001; Uzzi, 1997). Young firms lack legitimacy (information that is made available) with consumers making it difficult to establish trust relationships (Morse *et al.*, 2007).

Third, young firms typically lack resources and social capital needed for survival. Social capital is an element of social structure and means for assisting action within a structure (Coleman, 1990; Nahapiet and Ghoshal, 1998). However, young firms are unable to exploit social capital as market experience is underdeveloped (Van de Ven *et al.*, 1989). Regarding resources, young firms are at a disadvantage as they are typically smaller compared to older firms. Large organizations have a greater amount of resources and therefore better able to cope with environmental fluctuations (Brüderl and Schüssler, 1990). Young firm survival is impeded by lack of social capital and limited resources.

Lastly, young firm survival is challenged by the lack of financial resources. Traditionally, young firm finances are pooled from family, friends, and other strong relationships willing to invest (Aldrich and Auster, 1986; Hite and Hesterly, 2001). Older, more established firms, however, have developed financial reserves allowing for greater financial stability and investment flexibility (Pfeffer and Salancik, 1978; Starr and MacMillan, 1990). Young firms are at a financial disadvantage as they are limited in how finances may be invested and are more susceptible to economic downswings.

The prior underlying components of the liabilities of newness describe the situations in which younger firms are at higher risks for failure (Brüderl and Schüssler, 1990; Freeman *et al.*, 1983; Henderson, 1999; Singh, Tucker, and House, 1986). These linkages were theorized and tested empirically further enhancing the liabilities of newness perspective. The remainder of this paper seeks to build on this research by exploring the relationships between SCs, industry characteristics, and firm performance.

Literature Review and Hypotheses

In which industries do strategic committees aid or hinder firm performance; mature industries, hypercompetitive industries and/or steep experience curve industries are each examined.

Strategic committees and market maturity

Mature industries are characterized as being large with stable or slowly growing demand, dominant product designs, process technologies, and clear strategies for success (Hambrick, MacMillan, and Day, 1982). In addition, there is less change in competition, products, and technology (Anderson and Zeithaml, 1984; Eisenhardt and Schoonhoven, 1990).

New firms in mature industries may become profitable, but are not likely to become large or industry leaders (Romanelli, 1987). Mature industries contain established competitors which have greater advantages over smaller firms (Eisenhardt and Schoonhoven, 1990); established firms have greater economies of scale, market knowledge, and experience. Hence, young firms have limited growth opportunities because of intense competition from established competitors (Eisenhardt and Schoonhoven, 1990).

Competition varies within mature and non-mature industries. While large profits may be obtainable in emerging industries, profits tend to deteriorate as industries mature because competition intensifies; profits attract new entrants and barriers to entry fail to work as more industry information becomes available as the industry matures (Lambkin and Day, 1989). Increasing competition in more mature

markets then causes firms to focus more on basic product design needs and standardization (Katz, 2008).

As such, young firms in such industries need to rely on upper management to guide the firm in improving competitiveness and further stages of development (Kazanjian, 1988). Information in mature industries is readily available, but experience is not; young firms lack experience creating difficulty in establishing routines, processes, and strategies to be competitive. Moreover, competition intensity within mature industries continually threatens firm survival. The purpose of a SC then is to aid young firm development by using SC member experience to compensate for the lack of organizational experience; the characteristics of industry maturity (*i.e.*, stable demand, dominant product designs, and clear strategies for success) allow SC experience to transfer to the organization and be beneficial. I hypothesize:

H7: There is a positive relationship between young firms with strategic committees in more mature industries and firm performance

Strategic committees and hypercompetitiveness

Hypercompetition is the result of extreme conditions of industry dynamism (D'Aveni, 1994). Typically, hypercompetition is associated with new technologies and new industries as firms try to exploit new value in industries with great uncertainty and volatility. In addition, consumers are unfamiliar with company product/service offerings creating low demand (Anderson and Zeithaml, 1984). Within hypercompetitive industries, all forms of competitive advantage are often short-lived (D'Aveni, 1994) as new innovations are continuously created. Waves of innovation

stimulate the birth of emergent markets (Eisenhardt and Schoonhoven, 1990) but give way to market maturity and stability as innovation weakens (Anderson and Zeithaml, 1984).

Young firms, however, typically are constrained by limited resources, skills and physical plant limiting the firm's ability to ride out the emergent and/or growth period (Eisenhardt and Schoonhoven, 1990). Younger firms face liabilities of newness as older firms have perfected the routines, structures, and infrastructure that are needed for continuous innovation (Sørensen and Stuart, 2000). Routines allow an organization to obtain knowledge and develop efficiencies to be more productive and enhance survivability, but it is dependent on external environmental stability (Bercovitz and Mitchell, 2007); hypercompetitive markets create ongoing change limiting the ability of the young firms to develop routines and enhance the firm's knowledge pool.

Established firms have accumulated more knowledge over time creating greater internal efficiencies (Levinthal, 1991; Klepper, 1996). As Cohen and Levinthal (1990) note, an established knowledge base is crucial to the innovative process as it helps assimilate new ideas more efficiently. Hence, firms with a well established knowledge base are able to create ideas more efficiently allowing the firm to pursue innovative opportunities that continue to add knowledge (Cohen and Levinthal, 1990).

In order to achieve high performance in dynamic or stable markets, organizations need efficiency and flexibility (Davis, Eisenhardt, and Bingham, 2009; Bercovitz and Mitchell, 2007). In hypercompetitive environments, it becomes increasingly difficult to continually align the organization with the external environment; firm

competencies that create efficiencies are short-lived as the environment changes forcing the organization to continually develop new competencies and new efficiencies (Sørensen and Stuart, 2000). Flexible business models are needed in industries of rapid technological change (*i.e.*, hypercompetitive industries) to maintain high levels of performance (Andries and Debackere, 2007). Young firms may have advantages of flexibility in highly dynamic environments (Lumpkin and Dess, 2001; Wiklund and Shepherd, 2005), but they often lack key organizational efficiencies. As a result, new firms never really pursue a growth strategy or any stunning level of profitability as they are unable to exploit any given idea to its full potential because they are limited by their inability to scale-up effectively and efficiently (Steffens, Davidsson, and Fitzsimmons, 2009).

The use of a strategic committee may seem beneficial in industries of high volatility, but it may be counterproductive. While new environments play a crucial role in the opportunities for new firms (Carroll and Delacroix, 1982), it often takes a large firm to establish some industry standards (Eisenhardt and Bourgeois, 1988) because of their acquired knowledge base and operational effectiveness and efficiency. I have argued in the first paper of this dissertation that young firms form a strategic committee to have access to a greater knowledge base to improve organizational effectiveness and efficiency. However, the degree of uncertainty and volatility in hypercompetitive markets is so great that it cannot simply be overcome by pooling the knowledge of experienced board members. Operational effectiveness and efficiency has to be institutionalized in organization operations to create a knowledge base for the firm to

continually exploit new ideas and opportunities. This cannot be simply transferred from SC members to the organization, it has to be acquired for the firm to be a good performer. As such, I hypothesize:

H8: Young firms with strategic committees in hypercompetitive industries will underperform compared to firms with strategic committees in other industries

Strategic committees and experience curve effects

Older organizations have become more effective with age (Levinthal, 1991; Nelson and Winter, 1982) because they have accumulated production experience, possess stronger relationships with vendors and customers, and have a more experienced workforce (Hannan and Freeman, 1984; Stinchcombe, 1965). Moreover, experience with set routines improves reliability in which routines are implemented (March, 1991) allowing firms to accumulate knowledge to further innovation (Cohen and Levinthal, 1990). Older firms are able to move down the experience curve because they have accumulated ‘foundational knowledge’ improving organizational competence (Sørensen and Stuart, 2000).

Young firms, on the other hand, have a high degree of the liability of newness because they start at the beginning of the learning curve (Pennings, Barkema, and Douma, 1994). These firms face significant disadvantages because they typically lack managerial expertise, access to capital, and bargaining power with suppliers and buyers (Forbes and Milliken, 1999; Walske and Zacharakis, 2009); newer firms may have lower quality and higher costs because they lack firm-specific resources and know-how that older firms possess (Geroski and Walters, 1995).

Company age is thought to be associated with higher performance due to these experience curve effects (Schlevogt, 2001; Stinchcombe, 1965). Argote, Beckman and Epple (1990) found that learning is acquired through experience in production, but does not persist over a long period of time as knowledge quickly depreciates. Put differently, in order to maintain high levels of performance in steep experience curve industries, the firm needs to learn continually.

When discussing the implication of SCs, a distinction needs to be made between learning by doing and learning from the experiences of others. Within steep experience curve industries, tacit knowledge is created and embedded within the organization (Nonaka, 1994) as it is developed through on-the-job learning and training (Simon, 2005; Williamson, 1979). Within flat experience curve industries, firms may benefit from the experience of others as late entry still provides opportunities to learn (Lévesque, Minniti, and Shepherd 2009). The key distinction is the exploitation of tacit knowledge: tacit knowledge is not easily transferable and firms in steep experience industries rely on this tacit knowledge to reduce costs and improve quality (Simon, 2005).

Therefore, tacit knowledge is not easily transferable and the use of a strategic committee in a steep experience curve industry may have negative consequences. Learning is well organized and systematic in established companies as they are further down the experience curve (Andries and Debackere, 2007; Morris, Altman, and Pitt, 1999); firms will always require some cognitive effort toward strategic initiatives, but routines and experience help guide the firm automatically (March and Simon, 1958;

Barkema and Schijven, 2008). Simply stated, experienced firms consider fewer strategies as current routines dictate which strategies will be most effective (Barkema and Schijven, 2008; Levinthal and March, 1981). Learning theorists argue that firm advantages increase as a firm accumulates more experience, so steep experience curves require more experience to improve performance. A SC is not adding to the experience of the firm as steep experience curves require established processes and routines over time; the experience possessed by SC members is not necessarily tacit knowledge specific to that organization and lessens the impact of SC member involvement on firm performance. Based on the above reasoning, I hypothesize:

H9: There is a positive relationship between young firms with strategic committees operating in flat experience curve industries and performance.

METHODOLOGY

Sample

Data for this study came from Capital IQ, a division of Standard & Poor's; it comprised a sample of international firms with strategic committees. To be included in the sample, firms needed to be listed publically in any world stock exchange and currently have a strategic committee. A firm's 10-K, 8-K, Proxy Statements, and Annual Glossy Reports from the Capital IQ database (2004-2008) were used to identify if a firm had a strategic committee by searching for the terms "strategy committee", "strategic committee", "business development committee", and/or "strategy". Firms were coded as having a strategic committee if they had an established strategic committee in the

time frame provided, 2004-2008, the most recent time frame available. A final sample consisted of 333 international firms across ten industries.

Dependent Variables

The dependent variable for the current study is firm performance. Following prior literature, *Return on Assets* (ROA) (Kalyta, 2009; McDonald and Westphal, 2010) was used for firm profitability. ROA was calculated as net income divided by total assets. Consistent with prior literature (Harris and Ruefli, 2000; Rutherford, Buchholtz, and Brown, 2007), five-year averages of ROA (2004-2008) were used to smooth annual fluctuations in accounting data.

Explanatory Variables

Three predictor variables are used in this study. First, a *firm maturity* dummy variable was used to measure industry maturity; a value of '1' for mature industries and a value of '0' otherwise. Firm maturity was calculated as the average change in ROA for years (-5 to -4), (-4 to -3), (-3 to -2), (-2 to -1), and (-1 to 0). If the average change is negative then the firm was coded '1' for mature, else '0' for non-mature firms indicated by a positive average change in ROA (Grullon and Michaely, 2004; Liao and Chen, 2009).

Second, *hypercompetitiveness* is measured as the research and development (R&D) intensity of firms (Nadkarni and Barr, 2008), calculated as R&D expenditures divided by sales. R&D intensity is an indication of a firm's innovation level and continuous search for new ideas (Rajagopalan and Datfa, 1996). Higher levels of *R&D intensity* indicate greater levels of hypercompetition.

Third, experience curve effects were measured by the *capital intensity* of firms (Spanos, Zaralis, and Lioukas, 2004), calculated as capital expenditures divided by sales. Steep experience curve industries reap the benefits of economies of scale from long-term asset investment, which leads to continuous resource deployments and competitive performance (Dess and Beard, 1984; Nadkarni and Narayanan, 2007). Greater levels in *capital intensity* represent steeper experience curves.

Control Variables

Six control variables were selected that may influence the decision to establish a strategic committee. The first five controls look at geographic region influences and firm performance. In a given industry, a number of country factors may influence performance; the level of industry competition may vary by home country characteristics. In addition, the firm's home market may be significantly larger than others. These factors might influence the competitiveness of the firm and create unobserved home market heterogeneity (Rangan and Sengul, 2009). A summary analysis of the data revealed that firms with strategic committees were concentrated in five geographic regions. To account for these home country specific factors in a regional setting (unobserved heterogeneity), five geographic region dummies in the regression analyses were included.

Second, *firm size* is an important control variable because firm behaviors may depend on resource availability (Hambrick, Cho, and Chen, 1996; Smith *et al.*, 1991). To measure *firm size*, the log of number of firm employees was used (Barkema and Shvyrkov, 2007; West and Noel, 2009).

ANALYSIS

To examine the relationships among the predictor and dependent variables a hierarchical OLS regression was used. Prior to running the analyses I examined the correlations between variables. Table 2.1 shows substantial variability in the variables. In addition to the correlation table, skewness and kurtosis analyses were done for each measurement item; results indicate that average *ROA*, *R&D intensity*, and *capital intensity* variables had high values at the third and fourth moments around the mean (skewness and kurtosis, respectively). To correct left skewed, or negative, average *ROA* data, data were first subtracted from the highest value plus one, then inversed. For *R&D* and *capital intensity*, data were transformed by calculating the square root of the measurement variable (Cohen *et al.*, 2003). After completing the transformations, the normality assumption of regression was restored.

Table 2.1. Means, standard deviations, and bivariate correlations for all study variables.

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. AROA	0.0081	0.1860	1								
2. Firm Maturity	0.5900	0.4920	-0.033	1							
3. R&D Intensity	0.3827	1.8951	-0.535 ***	-0.047	1						
4. Capital Intensity	0.1366	0.5717	-0.212 ***	0.007	0.340 ***	1					
5. Africa Dummy	0.0150	0.1218	0.028	0.001	-0.005	-0.014	1				
6. Asia Dummy	0.2222	0.4164	0.131 *	0.015	-0.082	-0.007	-0.066	1			
7. Europe Dummy	0.2673	0.4432	0.092	-0.068	-0.080	-0.005	-0.075	-0.323 ***	1		
8. LA Dummy	0.0180	0.1332	0.032	0.066	-0.012	-0.009	-0.017	-0.072	-0.082	1	
9. Firm Size	27479.6800	129062.7820	0.063	0.057	-0.065	-0.024	-0.024	0.000	0.048	0.014	1

*** $p < .001$; * $p < .05$

Table 2.2 displays five sets of hierarchical OLS regression models used to examine the impact of industry level variables and the performance of firms with strategic committees. Model 1 is the base model and is significant ($F = 11.598, p < .001$). Model 2 includes the main effect variable *firm maturity*. While the model is significant ($F = 9.757, p < .001$), it did not significantly improve the analysis of the dependent variable (change in R squared was not significant). Model 3 includes the main effect variable *R&D intensity* and significantly improved the analysis of the dependent variable ($F = 21.575, p < .001$; R square change = 0.307, $p < .001$). Model 4 includes the main effect variable *capital intensity* and similarly to Model 3 significantly improved the analysis of the dependent variable ($F = 12.689, p < .001$; R square change = 0.039, $p < .001$). Model 5 is the full model and significantly improved the analysis of the dependent variable ($F = 16.358, p < .001$; R square change = 0.313, $p < .001$).

Table 2.2. Hierarchical OLS regression analysis: firm performance ^a

	Model (1)		Model (2)		Model (3)		Model (4)		Model (5)	
	β	S.E.	β	S.E.	β	S.E.	β	S.E.	β	S.E.
<i>Control Variables</i>										
Africa Dummy	0.035	0.029	0.035	0.029	-0.022	0.057	0.034	0.028	-0.017	0.058
Asia Dummy	0.027	0.009 **	0.027	0.009 **	0.008	0.013	0.030 ***	0.009	0.009	0.013
Europe Dummy	0.008	0.009	0.007	0.009	0.001	0.011	0.011	0.009	0.001	0.012
LA Dummy	0.010	0.027	0.011	0.027	0.043	0.058	0.013	0.026	0.048	0.058
Firm Size	0.010	0.002 ***	0.010	0.002 ***	0.006 **	0.002	0.009 ***	0.002	0.006 **	0.002
<i>Independent Variables</i>										
Firm Maturity			-0.006	0.007					-0.012	0.009
R&D Intensity					-0.081 ***	0.010			-0.083 ***	0.011
Capital Intensity							-0.054 ***	0.014	0.006	0.026
R ²	0.151		0.152		0.458		0.190		0.464	
Adjusted R ²	0.138		0.137		0.437		0.175		0.436	
Change in R ²			0.001		.307***		0.039***		.313***	
F	11.598***		9.757***		21.575***		12.689***		16.358***	
N	333		333		160		332		160	

*** p < .001; ** p < .01

^a β , unstandardized regression coefficients; S.E., standard error of the coe

Results for the hypotheses can be found in Table 2.2. Hypothesis 7 predicts a positive relationship between industry maturity and average firm performance. In Model 2, *firm maturity* was not significant, not supporting H1. Hypothesis 8 posits a negative relationship between industry hypercompetitiveness and firm performance. In Model 3, *R&D intensity* was negative and significant ($\beta = -0.081$, $p < .001$), supporting H2; this indicates that as R&D intensity increases within firms with strategic committees, performance on average will decrease. Hypothesis 9 posits a positive relationship between flat experience curve industries and firm performance. Model 4

shows that *capital intensity* is negative and significant ($\beta = -0.054, p < .001$) indicating performance will decrease in firms with strategic committees as capital intensity increases; thus H9 is supported.

DISCUSSION AND CONCLUSION

This study represents an initial attempt to examine the relationship between industry factors and performance of firms using strategic committees. Using a liability of newness perspective that suggests young firms face greater difficulties because they lack resources, experience, and legitimacy. I proposed that young firms could use a SC to reduce these liabilities and improve firm performance in three types of industries: mature, non-hypercompetitive, and flat experience curve. I hypothesized that: (1) there is a positive relationship between young firms with strategic committees in more mature industries and performance; (2) there is a negative relationship between young firms with strategic committees in hypercompetitive industries and performance; and (3) a positive relationship between young firms with strategic committees in flat experience curve industries and performance.

Three conclusions can be drawn based on the empirical results. First, the results do not indicate a positive or negative relationship between firms with SCs and industry maturity; these results do not indicate if it is beneficial to have a SC in more mature industries. Secondly, it appears that firms with a SC in more hypercompetitive industries will have lower performance. Lastly, firms with a SC in steep experience curve industries will also have lower performance. Thus I conclude that, based on my finding that having a SC in hypercompetitive and steep experience curve industries has

an inverse relationship with performance; a SC is non-beneficial in certain industries and reduces performance levels with increased hypercompetition and experience curves.

Two managerial implications are derived from the study. First, hypercompetitive industries require more information processing to continually innovate, but constant innovation comes from established routines and processes. In order to reap the benefits of a strategic committee, it would be more prudent to establish a SC in industries with less dynamism, or non-hypercompetitive industries. Second, flat experience curve industries tend to be more stable with intense competition. It is speculated here that the strategic committee is more beneficial in these circumstances because markets are saturated and new strategies need to be continually created to maintain firm competitiveness.

Limitations and Future Research

This study has several limitations. First, the sample only included publicly traded companies. Future research may wish to extend these research questions by examining non-publicly traded or private international firms. Second, relatively simple constructs measured profits (*ROA*), firm maturity (average change in *ROA*), hypercompetitiveness (*R&D intensity*) and experience curve effects (*capital intensity*). Future research may wish to develop and test other measures of firm performance and firm characteristics. Third, firm maturity was not significant, so future research may wish to explore other measurements of firm maturity and industry maturity to examine their impact on the relationship between strategic committees and performance.

Finally, this paper raises additional research questions. For instance, in what contexts will strategic committees be beneficial in hypercompetitive industries? What are the performance differences between small and large firms within non-hypercompetitive and flat experience curve industries? Are there firms that benefit from the use of a strategic committee in hypercompetitive or steep experience curve industries? Thus, this paper is research opening, raising as many questions as it answers. Future efforts, by addressing these and other questions, will be able to better explain the role of the strategic committee and provide better guidance to firm managers who attempt to implement strategic committees.

ESSAY 3 – STRATEGIC COMMITTEE MEMBER CHARACTERISTICS AND FIRM PERFORMANCE

INTRODUCTION

One of the primary goals of strategic management is to improve organizational performance (Schendel and Hofer, 1979; Venkatraman and Ramanujam, 1986; Lumpkin and Dess, 1995). The field of strategic management is comprised of four key components and their interactions: environmental factors influencing decision making; strategic content of the decision itself; the who and how of the decision-making process; and the outcomes/performance of those decisions (Blair and Boal, 1991). Focusing on the who and how of decision making, the upper echelons perspective put forth by Hambrick and Mason (1984) offers a research base to examine top managers and their impact on organizational outcomes (Thomas, Litschert, and Ramaswamy, 1991). Traditionally, strategy has been used to align organization resources with the external environment to better meet goals and objectives (Andrews, 1971). However, in today's dynamic environment, it is becoming increasingly difficult to continually align the organization with the ever changing environment (Child and McGrath, 2001).

Large organizations in particular tend to have more difficulty with this realignment. As a firm grows, more employees are hired increasing the gap between top managers and organizational members. To fill the gap, additional management levels are created causing the strategy making process to decentralize and change; as the needs of strategy changes, it causes the organizational structure to change as well (Harris and Ruefli, 2000). Formalized approaches to planning and resource allocation

are frequently created in order to coordinate the increased number of firm actions (Hart and Banbury, 1994). Hence, strategic committees may be formed to coordinate these actions.

Strategic committees may offer additional explanation of organizational outcomes. Using upper echelons to focus on executive groups tends to explain organization outcomes better than by solely focusing on CEOs or individual leaders (Hambrick, 2007). As Daft and Lewin (1993) note, researchers can have a greater impact by focusing on midrange phenomena. Moreover, research may benefit by focusing on 'subteams' (Hambrick, 2007), one such group may be strategic committees.

The research question asked here is: What are the moderating variables of strategic committees that may improve organizational performance? More specifically, will strategic committees with greater tenure heterogeneity outperform other firms with strategic committees? Will the amount of education heterogeneity have a greater impact on performance than less education heterogeneity? And lastly, will longer committee tenure (i.e., how long the organization has had a committee) have a positive impact on performance? Using Hambrick and Mason's (1984) upper echelons theory as my theoretical prism, I attempt to answer these questions drawing upon a sample of 208 large international firms with strategic committees.

LITERATURE REVIEW

The upper echelons perspective put forth by Hambrick and Mason (1984) postulates that top management team (TMT) demographic characteristics influence TMT's cognitive structure and thereby influences organizational outcomes. Empirical

research has supported this claim by demonstrating that TMT member age (Datta and Rajagopalan, 1998; Tihany *et al.*, 2000), tenure (Bergh, 2001; Herrmann and Datta, 2005), education (Jensen and Zajac, 2004), and heterogeneity (Lee and Park, 2006) influence the strategic posture of firms (Patzelt, zu Knyphausen-Aufse, and Nikil, 2008).

Strategic decision making may be influenced by the age of the TMT member (Hambrick and Mason, 1984). Younger managers are more likely to search for additional information when making decisions, evaluate information more precisely (Hambrick and Mason, 1984; Taylor, 1975), seek participative management structures (Hitt and Tyler, 1991), and have better tools for decision making (Bantel and Jackson, 1989). Older managers tend to exhibit lower physical and mental stamina (Child, 1974), less ability to seize new ideas and learn new behaviors (Chown, 1960), and a loss in cognitive ability (Burke and Light, 1981; Greening and Johnson, 1996). Moreover, research has found that with increased age comes a decrease in flexibility and increased rigidity (Wiersema and Bantel, 1992). It appears then strategic decisions may be more flexible and innovative from younger team members and more rigid and static with older team members.

Research has also examined how a team member's tenure influences strategic decisions. Longer tenure allows for the development of information sources, relationships, and problem-solving routines (Katz, 1982); it also contributes to an executive's knowledge base, perspective, and insights of the organization (Finkelstein and Hambrick, 1990; Haspeslagh and Jemison, 1991). Longer tenure results in greater TMT organization experience and understanding of a shared language created from

how organizational members interpret, understand, and respond to information (Allen and Cohen, 1969; Wiersema and Bird, 1993).

Conversely, longer tenure also has been found to be positively related to a reliance on standard procedures and customs (Katz, 1982) creating common standards and expectations of current organizational practices (Salancik, 1977); long tenured executives become satisfied with the status quo (Hambrick, Geletkanycz, and Fredrickson, 1993). This is likely to create a restricted perspective and a limited knowledge base, among long tenured executives, in which to examine the best strategic options (Cyert and March, 1963), potentially resulting in a type of organizational rigidity.

Strategic decisions may also be influenced by an executive's educational background. Education represents a manager's knowledge and skill base. Hambrick and Mason (1984) argued that the formal education level acquired by an executive was positively related to innovation. It was hypothesized that managers with greater education are prone to select more innovative strategies. Furthermore, increased education levels cause the experiences and mindset of the manager to become more complete and well rounded (Johnson, Hoskisson, and Hitt, 1993). Cognitive models are therefore influenced by an executive's education level which in turn may influence strategic decisions (Hitt and Tyler, 1991).

Lastly, heterogeneity is usually a combination of the observable characteristics of age, tenure, and education that represent executive psychological attributes that influence strategic choices and firm performance (Hambrick and Mason, 1984;

Zimmerman, 2008). Research has found a positive relationship between heterogeneous groups and firm performance (Kilduff, Angelmar, and Mehra, 2000); heterogeneity provides groups with a wide range in perspectives, experience, and knowledge creating improved strategies and performance.

The literature stated above shows some of the key components between committee characteristics and firm performance. These linkages were theorized and tested empirically further enhancing the upper echelons theoretical base. The remainder of this paper seeks to build upon upper echelons theory as well by examining SC member characteristics influence on firm performance.

THEORY DEVELOPMENT AND HYPOTHESES

Strategic Committee Tenure Heterogeneity

Tenure (*i.e.*, time spent within the organization) is typically a gauge for a manager's capacity to collect and analyze information (Miller, 1991). Longer tenured executives are more likely to be committed to established policies, procedures and history (Katz, 1982), prior strategies (Hambrick *et al.*, 1993), and strategic persistence (Bergh, 2001; Finkelstein and Hambrick, 1990). Shorter tenured executives typically experiment more (Hambrick and Fukutomi, 1991), have better sources of information (Chaganti and Sambharya, 1987), more willing to change organization strategies and configurations (Wiersema and Bantel, 1992), and pursue more innovative strategies (Bantel and Jackson, 1989; Bergh, 2001); less tenured executives are new to company policies, norms, and values and are thus less restricted (Finkelstein and Hambrick, 1996).

A top management team with greater tenure homogeneity (members with same levels of organization experience) may become entrenched and less open to change while greater tenure heterogeneity (members with varying levels of organization experience, both new and old) leads to increased communication difficulty, but wider range of information knowledge and perspectives (Wiersema and Bantel, 1992).

Homogeneity among top management team members' tenure creates a common vocabulary (Rhodes, 1983), a similar interpretation of events (Allen and Cohen, 1969), and enhanced communication among group members (Zenger and Lawrence, 1989) producing consistent and customized communication channels enhancing team cohesiveness and integration (Katz, 1982; O'Reilly, Caldwell, and Barnett, 1989; Wiersema and Bird, 1993). More tenured organizational members have greater experience and share similarities in how members infer, recognize, and react to information (Wiersema and Bird, 1993). Organizational members with comparable tenures typically share past decision-making and experiences causing entrenchment to occur.

Tenure heterogeneity, however, implies team members have different experience levels and cognitive perspectives within the organization (Wiersema and Bird, 1993). While greater tenure heterogeneity often leads to difficulties in communication (McCain, O'Reilly, and Pfeffer, 1983) and discrepancies in attitudes, values, and beliefs (Pfeffer, 1983), diversity leads to less entrenchment and more effective strategic decisions as a wide range in tenure leads to more scrutiny, criticism, and questioning of underlying assumptions of strategies (Greening and Johnson, 1996).

Based on the empirical results of prior theoretical findings, I suggest that strategic committees with greater tenure heterogeneity are more effective. Increased organizational tenure causes executives to develop set habits, establish routine information sources and rely more on past experience (Finkelstein and Hambrick, 1996); greater tenure leads to firm and industry experience that builds a firm's knowledge and practice (Penrose, 1959). However, generation and evaluation of information becomes narrower as tenure increases (Herrmann and Datta, 2005). Therefore, strategic committees need tenure heterogeneity to avoid entrenchment and low information processing, but continue to use acquired information through tenure. Thus:

H10: Large firms with greater strategic committee tenure heterogeneity outperform large firms with less strategic committee tenure heterogeneity.

Strategic Committee Education Heterogeneity

Executive decisions are affected by the knowledge and skill base acquired through executive educational background (Johnson *et al.*, 1993). Education provides individuals with the opportunity to improve one's understanding of what they know, better predict outcomes, manage time and resources better, and monitor results more effectively (Smith, Collins, and Clark, 2005). In addition, higher education may also indicate a broader educational base as an executive may have a Bachelors of Science degree in engineering and a Masters in Business (Johnson *et al.*, 1993). The benefit of higher education allows managers to process more complex information and detect patterns in information leading to quicker strategic decisions (Patzelt, zu Knyphausen-Aufse, and Nikol, 2008; Wally and Baum, 1994).

Strategic decisions and cognitive models are also affected by the knowledge base created from education (Hambrick and Mason, 1984; Hitt and Tyler, 1991). It has been proposed that as one's education level increases, cognitive models and strategic decisions become more complete (Hitt and Tyler, 1991).

Moreover, education has been linked to a team's information-processing capacity (Bantel and Jackson, 1989). According to Bantel (1993), teams with greater educational heterogeneity (*e.g.*, variety of education held by members, not quantity) will have a wider viewpoint towards decisions. Moreover, greater heterogeneity leads to more competitive responses and action (Hambrick, Cho, and Chen, 1996), strategic clarity (Bantel, 1993), strategic adaptation (Wiersema and Bantel, 1992) and firm performance in established firms (Hambrick *et al.*, 1996; Smith *et al.*, 1994; Zimmerman, 2008). An organization may be better prepared to analyze a wider variety of problems with greater education heterogeneity (Tihany *et al.*, 2000; Zimmerman 2008).

Higher levels of education are correlated with a team's ability to create and institutionalize innovative solutions to difficult problems (Bantel and Jackson, 1989; Kimberly and Evanisko, 1981). Educational heterogeneity creates diversity in team perspectives aiding problem-solving activities through new and innovative ideas (Bantel and Jackson, 1989). Specifically, educational backgrounds affect a person's cognitive model (Fiss and Zajac, 2004; Hambrick and Mason, 1984); a manager with a degree in engineering will access and process information differently than a manager with a degree in law frequently leading to different strategic choices and decisions.

Therefore, large firms may stabilize firm performance through greater educational heterogeneity in strategic committees. First, a wider knowledge base creates a bigger cognitive perspective in which to base strategic decisions on. Second, greater heterogeneity leads to faster information processing of complex problems allowing the strategic committee to formulate strategic responses. Third, strategic committees with greater heterogeneity may be better prepared for a wider variety of problems. Lastly, SC heterogeneity ensures innovative ideas are continuously brought forward as varying backgrounds create different perspectives and solutions. As such, I hypothesize:

Hypothesis 11: Strategic committees in large firms with greater educational heterogeneity will on average have greater performance stability than strategic committees with less educational heterogeneity.

Strategic Committee Age and Large Firm Performance

Prior upper echelons literature has primarily focused on the top management team, top executives, and/or board of directors (Carpenter, 2000; Higgins and Gulati, 2006; Kor and Misangyi, 2008), but research appears to be limited on committee or team tenure (*e.g.*, age of the committee, not its members). In the accounting literature, studies have examined voluntary audit committee formation (Sharma, Naiker, and Lee, 2009; Willekens, Vander, and Gaeremynck, 2004) along with other forms of corporate governance committees (Klein, 2003; Talha, Salim, and Masoud, 2009). Management research has found that team cohesiveness is improved with longer team tenure leading to better performance and group performance (Eisenhardt and Schoonhoven, 1990; Finkelstein and Hambrick, 1990). However, research on the team title and longevity

appears to have been overlooked. Building on the upper echelons perspective, how does the same logic used for the prior two hypotheses apply to the age of the strategic committee? Or stated simply, how does the length of time a firm has had a strategic committee affect firm performance?

Zellmer-Bruhn and Gibson (2006) suggest: 1) older teams may be more committed to current routines and therefore less likely to change; or 2) have developed specific routines over time resulting in greater effectiveness.

Longer tenure and negative performance

Hambrick and Mason (1984) hypothesized a negative relationship between the average age of the upper echelon and firm growth due to conservatism and biasness in older executives trying to maintain the status quo. Older executives succumb to the inertia that is created as team experience mounts (Hambrick and Fukutomi, 1991; Miller, 1991); longer tenure equals greater commitment to established policies, procedures, and history (Katz, 1982), prior strategies (Hambrick *et al.*, 1993), and strategic persistence (Finkelstein and Hambrick, 1990).

Longer tenure may be associated with decreased firm awareness and persistence in current strategies that lead to organizational problems (Greening and Johnson, 1996). Longer tenure leads to entrenchment in the status quo (Wiersema and Bantel, 1992) and difficulty in creating alternative strategies as long-term acculturation generates a universal, internally-shared perspective (Pfeffer, 1983). Katz (1982) suggests that longer-tenure in a firm increases rigidity and commitment to standardized practices. Thus, as the strategic committee ages, it becomes a standardized process that becomes

entrenched within the organization increasing firm rigidity and decreasing firm performance. I hypothesize:

H12a: The tenure of strategic committees is negatively related to firm performance

Longer tenure and positive performance

Conversely, as mentioned earlier prior research has also positively linked team tenure to organizational performance (Hambrick and D'Aveni, 1992; Michel and Hambrick, 1992). Theoretically, Pfeffer (1993) posited that performance will be greater as team members learn organizational practices and procedures. Moreover, Katz (1982) suggests team tenure leads to increased team stability and goal alignment further enhancing team dynamics and reducing bureaucratic barriers (Eisenhardt, 1989). As such, team decision making becomes readily accessible and predictable allowing management to distribute strategies more quickly.

Longer tenure may be associated with increased team dynamics and cohesiveness leading to improved firm performance. Longer tenure represents familiarity with organizational operations allowing for consistency in decision-making. Moreover, organizational members can infer what strategic decisions will be selected allowing for quicker implementation of strategies. Hence, as the strategic committee ages, it becomes part of the organizational strategic process creating stability and enhancing goal achievement. Thus:

H12b: The tenure of strategic committees is positively related to firm performance

METHODOLOGY

Sample

Data for this study came from Capital IQ, a division of Standard & Poor's; it comprised a sample of large international firms with strategic committees. To be included in the sample, firms needed to be listed publically in any world stock exchange and currently have a strategic committee. A firm's 10-K, 8-K, Proxy Statements, and Annual Glossy Reports from the Capital IQ database (2004-2008) were used to identify if a firm had a strategic committee by searching for the terms "strategy committee", "strategic committee", "business development committee", and/or "strategy". Firms were coded as having a strategic committee if they had an established strategic committee in the time frame provided, 2004-2008, the most recent time frame available. Lastly, firms were considered to be large if they had 1000 or more employees (Bartels *et al.*, 1998; Cornelius, Wallace, and Tassabehji, 2007). A final sample consisted of 208 large international firms across ten industries.

Dependent Variables

Firm profitability and profit stability variables are used to create two sets of dependent variables. Following prior top management team research, *Return on Assets* (ROA) (Hambrick and Cannella, 2004; Marcel, 2009) was used to measure firm profitability, calculated as net income divided by total assets. Consistent with prior literature (Rutherford, Buchholtz, and Brown, 2007), five-year averages of ROA (2004-2008) were used to smooth annual fluctuations in accounting data.

The second set of dependent variables used in this study attempt to capture profit stability. Following Palich, Carini, and Seaman (2000), the standard deviation of

ROA from 2004-2008 was used to measure profit stability; firms with higher standard deviations for ROA have less stable profits than firms with lower standard deviations.

Explanatory Variables

Two types of strategic committee member heterogeneity were examined: educational heterogeneity and company tenure heterogeneity. *Educational heterogeneity* examines the diversity in educational backgrounds of strategic committee members. *Company tenure heterogeneity* studies the amount of time strategic committee members have spent with the organization. Both of these heterogeneity measures have been used in prior studies (Carpenter, 2002; Luo and Chung, 2005) reflecting diversity on different dimensions (Hambrick *et al.*, 1996). Examining two different levels of diversity, offers a slightly broader perspective on the effects of SC heterogeneity on a firm's competitive behavior. *Company tenure heterogeneity* was calculated as the standard deviation of the number of years the members of the strategic committee had spent in the firm (Hambrick *et al.*, 1996). *Committee education heterogeneity* was measured using a variation of the Herfindahl-Hirschman Index (HHI),

$$H = 1 - \sum_{i=1}^8 p_i^2$$

where H is the heterogeneity measure and p is the percentage of strategic committee members in each of the eight educational categories listed in the Appendix. Those with graduate degrees were coded using the corresponding graduate disciplines; those without graduate degrees, were coded using undergraduate disciplines. Coding members' educational background was straightforward for almost all cases. However,

for those few cases that could not be coded easily (*i.e.*, multiple graduate or undergraduate degrees and/or degree attained but not listed), the most recent degree that was listed was used. Then the HHI was calculated for educational background heterogeneity (Hambrick *et al.*, 1996).

The third and final predictor variable is *committee organization tenure*; how long the organization has had a strategic committee. Performance could be affected negatively or positively depending upon how long the organization has used a strategic committee. Put differently, has the committee had ample time to navigate organization bureaucracies and understand organizational functions? To capture *committee organization tenure*, a search was done for the first mentioning of the aforementioned terms in the proxy statements. However, since this sample included international firms that may not be required to provide proxy statements, the search was broadened by examining annual reports, glossy annual reports, and press releases. Once the date of the first mentioning of the searched term was located, that date was subtracted from 2008 to get strategic committee age.

Control Variables

Two sets of control variables were selected for the current study. The first set of controls look at industry influences and firm performance. In a given industry, a number of factors may influence performance; the level of industry competition may vary based on the industry. These factors might influence the competitiveness of the firm and create unobserved industry heterogeneity (Dess, Ireland and Hitt, 1990). For

that reason, ten industry dummy variables classified by Capital IQ were used to control for specific influences (Dess *et al.*, 1990; McGuire and Dow, 2003).

The second set of control variables looks at firm characteristics. First, *firm size* is an important control variable because firm behaviors may depend on resource availability (Hambrick *et al.*, 1996; Smith *et al.*, 1991). To measure *firm size*, the log of number of firm employees was used (Barkema and Shvyrkov, 2007; West and Noel, 2009). *Firm age* is the second firm level control variable. Age may be used as an indicator of firm experience dealing with industry competition (Boyd and Bresser, 2008; Shamsie *et al.*, 2004). *Firm age* is calculated here as 2008 minus firm inception.

ANALYSIS

To examine relationships among the predictor and dependent variables two sets of hierarchical OLS regression were used. Prior to running the regressions correlations between variables were examined. Table 3.1 shows substantial variability in the variables. Bivariate correlations among dependent variables (*ROA* and *ROA S.D.*) were high, which is expected since these dependent variables measure the same construct (performance). Since these dependent variables never appear in the same equation, the high correlations did not create multicollinearity problems. In addition to the correlation table, skewness and kurtosis analyses were done; the results indicate the data met the normality assumptions.

Table 3.1. Means, standard deviations, and bivariate correlations for all study variables

Table 6. Means, standard deviations, and bivariate correlations for all study variables

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. ROA	0.0512	0.0791	1															
2. SDROA	0.0443	0.0798	-0.535 ***	1														
3. Company Tenure Heterogeneity	5.4719	4.4811	0.140 *	-0.082	1													
4. Committee Education Heterogeneity	0.5685	0.1988	-0.076	-0.147	0.044	1												
5. Committee Org Tenure	4.6938	3.2599	-0.017	-0.075	0.155 *	0.073	1											
6. Consumer Discretionary	0.1737	0.3798	-0.120	0.155 *	0.022	-0.042	-0.029	1										
7. Consumer Staples	0.0704	0.2565	0.086	-0.007	0.096	-0.006	0.025	-0.126	1									
8. Energy	0.0376	0.1906	0.062	-0.047	-0.065	-0.011	0.072	-0.091	-0.054	1								
9. Financials	0.0845	0.2788	-0.029	-0.104	-0.031	-0.025	-0.045	-0.139 *	-0.084	-0.060	1							
10. Healthcare	0.0986	0.2988	-0.058	0.026	0.005	-0.024	0.051	-0.152 *	-0.091	-0.065	-0.100	1						
11. Industrials	0.1925	0.3952	-0.015	-0.112	0.057	0.066	0.039	-0.224 ***	-0.134	-0.096	-0.148 *	-0.161 *	1					
12. Information Technology	0.1737	0.3798	0.028	0.066	-0.069	-0.069	-0.103	-0.210 **	-0.126	-0.091	-0.139 *	-0.152 *	-0.224 ***	1				
13. Materials	0.0986	0.2988	0.078	0.037	-0.020	0.024	0.071	-0.152 *	-0.091	-0.065	-0.100	-0.109	-0.161 *	-0.152 *	1			
14. Telecommunication Services	0.0423	0.2016	0.078	-0.039	0.009	0.082	-0.016	-0.096	-0.058	-0.041	-0.064	-0.069	-0.103	-0.096	-0.069	1		
15. Firm Size	42770.2100	159480.1160	0.042	-0.072	0.221 ***	-0.014	0.151 *	-0.062	0.235 ***	0.098	-0.053	-0.069	0.025	-0.094	-0.007	0.021	1	
16. Firm Age	56.5400	44.8030	0.012	-0.059	0.061	0.004	0.307 ***	0.081	0.006	-0.081	0.093	0.068	0.027	-0.243 ***	0.106	-0.129	0.035	1

*** $p < .001$; ** $p < .01$; * $p < .05$

Table 3.2 displays four sets of hierarchical OLS regression models used to examine the relationship between strategic committee member characteristics and firm performance. Model 1 is the base model and is not significant. Model 2 includes the main effect variable *company tenure heterogeneity*. The model is significant ($F = 1.670$, $p < .10$) and significantly improved the analysis of the dependent variable (R-square change = 0.023, $p < .05$). However, the low adjusted R-square of .034 for this model suggests that *company tenure heterogeneity* alone does not adequately explain *average ROA*.

Model 3 includes the main effect variable *committee organization tenure* but was insignificant and failed to significantly improve the base model. Model 4 is the full model and significantly improved the analysis of the dependent variable ($F = 1.629$, $p < .10$; R-square change = 0.036, $p < .10$). All analyses were two-tailed tests.

Table 3.3 displays two sets of hierarchical OLS regression models used to examine the relationship between *committee education heterogeneity* and firm performance stability. Model 1 was the base model and is not significant. Model 2 includes the main effect variable *committee education heterogeneity* and significantly improved the analysis of the dependent variable ($F = 1.766, p < .10$; R-square change = $0.020, p < .05$). However, similar to Model 2 in Table 7, the low adjusted R-square value of .048 does not adequately explain *S.D. ROA* alone.

Table 3.2. Hierarchical OLS regression analysis: firm performance^a

	Model (1)		Model (2)		Model (3)		Model (4)	
	β	S.E.	β	S.E.	β	S.E.	β	S.E.
<i>Control Variables</i>								
Consumer Discretionary	0.014	0.025	0.012	0.025	0.002	0.031	0.016	0.025
Consumer Staples	0.030	0.028	0.026	0.027	0.030	0.034	0.028	0.028
Energy	0.048	0.030	0.050	0.030	0.046	0.038	0.053 [†]	0.030
Financials	-0.008	0.027	-0.009	0.026	-0.007	0.033	-0.008	0.026
Healthcare	0.024	0.026	0.021	0.026	0.026	0.032	0.024	0.026
Industrials	0.018	0.025	0.016	0.024	0.018	0.030	0.017	0.024
Information Technology	0.023	0.025	0.022	0.025	0.024	0.030	0.022	0.025
Materials	0.042	0.026	0.041	0.026	0.043	0.032	0.047 [†]	0.026
Telecommunication Services	0.049	0.030	0.047	0.029	0.049	0.036	0.048	0.029
Log Firm Size	-0.003	0.003	-0.004	0.003	0.000	0.003	-0.003	0.003
<i>Independent Variables</i>								
Company Tenure Heterogeneity			0.002 *	0.001			0.002 *	0.001
Committee Org Tenure					0.000	0.002	-0.002	0.001
R ²	0.063		0.086		0.053		0.093	
Adjusted R ²	0.015		0.034		0.000		0.036	
Change in R ²			.023*		-0.100		.036 [†]	
F	1.316		1.670 [†]		0.994		1.629 [†]	
N	208		208		206		204	

*** p < .001; ** p < .01; * p < .05; [†] p < .10

^a β , unstandardized regression coefficients; S.E., standard error of the coefficients

Results for hypotheses 10, 12a and 12b can be found in Table 7. Hypothesis 10 predicts a positive relationship between high organizational tenure heterogeneity and average firm performance. In Model 2, *company tenure heterogeneity* was positive and significant ($\beta = 0.002$, $p < .05$); H8 is supported. Hypothesis 12a predicted a negative relationship between strategic committee tenure and average organizational performance while hypothesis 12b predicted a positive relationship. In Model 3, *committee organization tenure* was positive, but not significant; H12a and H12b were not supported.

Table 3.3. Hierarchical OLS regression analysis: s.d. of firm performance^a

	Model (1)		Model (2)	
	β	S.E.	β	S.E.
<i>Control Variables</i>				
Consumer Discretionary	0.028 [†]	0.015	0.0260 [†]	0.015
Consumer Staples	0.026	0.017	0.0240	0.017
Energy	0.009	0.018	0.0080	0.018
Financials	0.005	0.017	0.0030	0.017
Healthcare	0.019	0.016	0.0180	0.016
Industrials	0.011	0.015	0.0110	0.015
Information Technology	0.029 [†]	0.015	0.0270 [†]	0.015
Materials	0.031 [†]	0.016	0.0300 [†]	0.016
Telecommunication Services	0.015	0.018	0.0150	0.018
Log Firm Age	0.000	0.003	-0.0001	0.003
<i>Independent Variable</i>				
Committee Education Heterogeneity			-0.025 *	0.012
R ²	0.086		0.111	
Adjusted R ²	0.028		0.048	
Change in R ²			0.020*	
F	1.474		1.766 [†]	
N	168		168	

*** p < .001; ** p < .01; * p < .05; [†] p < .10

^a β , unstandardized regression coefficients; S.E., standard error of the coefficients

Results for hypothesis 11 can be found in Table 8. Hypothesis 9 predicts a negative relationship between low education heterogeneity and firm stability. In Model 2, *committee education heterogeneity* was negative and significant ($\beta = -0.025, p < .05$); H11 is supported.

DISCUSSION & CONCLUSION

This study represents an initial attempt to examine the relationship between strategic committee member characteristics and firm performance. An upper echelon's perspective suggests that large firms using strategic committees may look for certain member characteristics to enhance firm performance. Three hypotheses result: (1) strategic committees in large firms that contain more organization tenure heterogeneity will on average perform better compared to large firms with strategic committees with less organization tenure heterogeneity; (2) strategic committees with more education heterogeneity in large firms will on average have greater performance stability than strategic committees with less education heterogeneity in large firms; and (3) large firms with strategic committees with greater tenure underperform compared to strategic committee with less tenure.

Hypotheses 10 and 11 were supported (1 and 2 above, respectively). Using *company tenure heterogeneity* as a proxy for strategic committee member experience within the organization, findings indicate that lower organization experience heterogeneity by committee members has a negative impact on performance; put differently, large firms that have strategic committees with similar levels of experience, typically long organization tenure, on average underperform compared to other large firms with greater experience heterogeneity in strategic committees. For hypothesis 11, *committee education heterogeneity* was a proxy for strategic committee education. The analysis suggests that lower education heterogeneity within strategic committees leads to greater performance instability within large organizations.

At least two conclusions can be drawn from the empirical results. First, the results imply that large organizations with strategic committees enhance performance when members of the strategic committee have greater organization experience heterogeneity. Secondly, large firms with strategic committees can better stabilize performance by selecting committee members with greater education diversity. Lastly, the results do not show a positive or negative relationship between organization tenure of the strategic committee and firm performance; these results do not indicate the length of time needed for an organization to reap the potential benefits, if any, of a strategic committee. Thus, based on the empirical findings, greater strategic committee heterogeneity in experience and education appears to have a positive influence on performance and performance stability.

Two managerial implications are derived from the study and relate to committee member selection. First, to enhance firm performance through the use of a strategic committee, it would be in the firm's best interest to select a mix of individuals with varying levels of organization experience; select people that are new and old to the organization. I speculate that selecting only members with vast amounts of organization experience hinder innovative thinking as they are primarily familiar with current operations and possibly not best practices of the industry or non-similar firms. In addition, by selecting only new members to the organization the strategic committee is at a disadvantage as members are not currently familiar with organization operations and may not be able to apply effective strategies in a reasonable time frame. Second, improving performance stability may be possible by selecting strategic committee

members with different educational backgrounds. It is not the level of education that one achieves, but concepts and cognitive skills that come from education. By selecting members from different educational backgrounds, a balance of cognitive abilities is being created within the strategic committee; performance should be enhanced by having strategic committee members with different mindsets, not similar. Thus, greater heterogeneity in organization experience and education should lead to innovative thinking and improved organizational operations.

Limitations and Future Research

This study has several limitations. First, the sample only included publicly traded companies. Future research may wish to extend these research questions by examining non-publicly traded or private international firms. Second, relatively simple constructs measured profits (*ROA*) and profit stability (*S.D. ROA*). Future research may wish to develop and test other measures of firm performance. Third, *strategic committee organization tenure* was not significant, which could simply be due to strategic committees being a fairly new phenomenon; non-significance could be related to the fact that the average age of a strategic committee is four to five years old. To examine this phenomenon more closely, future research may want to explore this topic once strategic committees have had a chance to get better established within organizations.

Finally, this paper raises additional research questions. For instance, could the relationship between strategic committee age and firm performance be curvilinear? At what point does a strategic committee become beneficial and/or harmful to the organization? How does home cultural context impact the relationship between

strategic committee members and performance? What are the performance differences between strategic committees comprised primarily of internal members and strategic committees comprised primarily of external members? Thus, this paper is research opening, raising as many questions as it answers. Future efforts, by addressing these and other questions, will be able to better explain strategic committee characteristics and provide better guidance to firm managers who attempt to implement strategic committees.

CONCLUSION

This dissertation sought to answer three research questions regarding strategic committees: 1) is it possible to accurately predict which firms have strategic committees (SCs) and do these firms perform better than firms without strategic committees; 2) in what type of industries are strategic committees beneficial to firm performance; and 3) what strategic committee characteristics lead to better firm performance? For Essays 1 and 2, nine hypotheses were created (six for Essay 1 and three for Essay 2) using the “liabilities of newness” theory which states younger firms are more likely to fail because they often lack key resources, experience and legitimacy (Stinchcombe, 1965) and for that reason strategic committees that bring experience and legitimacy may improve new firm performance. Essay 3 formulated three hypotheses based on upper echelons theory proposing that large firm performance may be enhanced by certain top management team characteristics (Hambrick and Mason, 1984).

The three essays of this dissertation provide a starting point for studying a new organizational phenomenon, the strategic committee. Due to (1) no prior systematic research on SCs, (2) the relative newness and lack of commonality of the SC, and (3) continual difficulty in realigning large organizations with dynamic environments and external pressures, it is important to know are there possible benefits to having an SC and do these benefits have contingent factors? This dissertation attempts to answer this important question by first identifying the internal and external environmental characteristics that led to the prediction of firms with a SC. Second, once firms with a

SC were predicted, a comparison was done between firms with and without a SC.

Third, the performance of firms with a SC was then examined based on industry characteristics of maturity, hypercompetitiveness, and experience curve effects. Lastly, SC member characteristics of organizational tenure and educational heterogeneity were examined in relation to firm performance.

Conclusions and Implications

Based on empirical findings, Essay 1 drew four primary conclusions. First, it appears a SC is more likely to be present in firms with less experience and fewer resources. Second, the probability of a firm having a SC increases with greater market stability. Third, the probability of a firm having a SC decreases significantly for firms with experience and for firms in unstable industries. Fourth, SC firms with less experience and resources operating in more stable markets will on average have better performance compared to firms without SCs. Thus, the empirical findings indicate that the probability of a firm having a SC increase with lower experience/resource levels and industry maturity. This leads to greater performance in firms with SCs compared to firms without SCs.

Four managerial implications were derived for Essay 1. First, creating a SC may provide legitimacy to external stakeholders as the name 'strategic committee' signals long-term orientation and is visible. Second, SCs can aid organizational effectiveness by developing routines that enhance efficiencies in more stable markets. Third, inexperienced firms may improve efficiencies by creating more formal structures through the creation of a SC; inexperienced firms typically lack organizational structure

which leads to operational inefficiencies. Fourth, firms should evaluate organization experience, resources, and market stability prior to forming a SC to enhance performance. Therefore, the creation of a SC may be in response to an organization's lack of experience, resources, and/or legitimacy.

Essay 2 had three conclusions based on empirical results. First, the empirical tests do not indicate if it is or is not beneficial to have a SC in more mature industries. Second, it appears firms with a SC operating in less hypercompetitive industries will on average have higher performance. Third, firms with a SC in more flat experience curve industries will on average have higher performance. Hence, based on the empirical findings, having a SC in non-hypercompetitive and flat experience curve industries has a positive relationship with performance; having a SC is beneficial in specific industries and enhances performance levels with decreased hypercompetition and experience levels.

This resulted in two managerial implications. First, firms with a SC in non-hypercompetitive industries benefit more from the use of a SC as hypercompetitive industries require constant innovation; constant innovation is derived from constant information processing and established routines and processing. Second, firms with a SC in flat experience curve industries benefit more than firms in steep experience curve industries as flatter industries are characterized as being more stable. I speculate that flat experience curve industries have greater competition intensity and market saturation and therefore firms create a SC to maintain firm competitiveness.

For Essay 3, empirical findings resulted in two conclusions. First, SC members with greater organizational experience heterogeneity enhance performance in large firms with a SC. Second, greater education heterogeneity within a SC leads to greater performance stability in large firms with a SC. Lastly, no empirical results were found for organization tenure of the SC and firm performance; put simply, the findings do not indicate the necessary amount of time to reap the benefits, if any, of a strategic committee. Thus I conclude that, based on my findings that greater SC heterogeneity in experience and education has a positive impact on performance and performance stability.

As a result, I derive two managerial implications. First, large firms with a SC can enhance firm performance by selecting members with varying levels of organizational experience; select people that are both new and old to the organization. I conjecture that selecting only new members puts the organization at an operational disadvantage as new members are not currently familiar with organizational routines and may not be able to formulate effective strategies in a reasonable amount of time. Moreover, by only selecting members with large amounts of organizational tenure, innovation may be hindered as members are primarily familiar with current operations and not necessarily best practices of the industry or non-similar firms. Lastly, performance stability in firms with a SC can be enhanced by selecting members with varying levels of educational backgrounds. By varying levels of education, I mean different educational backgrounds, not level of education achieved. By selecting members with different educational backgrounds, the firm is creating a more diverse cognitive foundation in

which to base decision on. Firm performance stability is enhanced through SC members with dissimilar educational backgrounds, not similar. Thus, greater heterogeneity in organization experience and education should lead to innovative thinking and improved organizational operations.

Limitations and Future Research

There were at least four limitations in this dissertation. First, my sample only included publicly traded companies. Future research may wish to extend these research questions by examining non-publicly traded or private international firms. Second, I used simple constructs to measure profits (ROA), profit stability (*S.D. ROA*), firm resources (number of employees), firm experience (firm age), firm maturity (average change in ROA), hypercompetitiveness (*R&D intensity*) and experience curve effects (*capital intensity*). Future research may wish to develop and test other measures of firm performance, firm characteristics and industry characteristics. Third, this research only examined environmental factors to predict which firms may have strategic committees and did not look at the possible internal or political reasons why firms form such committees.

Finally, *firm maturity* in Essay 2 and *strategic committee organization tenure* in Essay 3 were not significant. Future research may wish to explore other measures of firm and industry maturity to examine its impact on firm performance. Regarding strategic committee organization tenure, non-significance could be because the average age of the SC is only four years old; enough time may not have transpired between the formation of a SC and the writing of this dissertation to find significant results. Future

research may wish to re-explore this issue once SCs have had a chance to get better established within organizations.

Finally, this dissertation raises additional research questions. For instance, why do firms form strategic committees? Since this is an international study, how does culture influence these findings? Are there specific types of firms that benefit from the use of a strategic committee in hypercompetitive or steep experience curve industries? At what point does a strategic committee become beneficial and/or harmful to the organization? Thus, this dissertation is research opening, raising as many questions as it answers. Future efforts, by addressing these and other questions, will be able to better explain the role of the strategic committee and provide better guidance to firm managers who attempt to implement strategic committees.

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APPENDIX

Coding categories for strategic committee educational backgrounds

1. Engineering
2. Science
3. Business Administration
4. Economics
5. Liberal Arts
6. Law (LL.B./J.D.)
7. Business (other than administration, *e.g.*, accounting, finance)
8. Other

VITA

Jason P. McNicol, the first child of Greg and Becky McNicol and brother of Corrie Barde, was raised in Round Rock, Texas. He earned a Bachelor's of Business Administration in International Business and Economics from Texas Tech University. He later earned his Master's of Business Administration from the University of Texas at El Paso. While in enrolled in the MBA program, he learned of the International Business Doctoral Program and entered upon graduating. His work includes a published article in a top peer reviewed journal, two book chapters, and numerous conference proceedings at national meetings.