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CEO RISK BEARING AND INTERNATIONALIZATION STRATEGY OF IPO FIRMS (SUMMARY)

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SUMMARY

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Principal Topic

Internationalization, or expansion of firm sales to foreign countries, is a critical strategic decision for firms of all types (Hitt et al., 2006). Yet, this strategy is particularly risky for firms completing an initial public offering (IPO) (Filatotchev & Piesse, 2009; Shrader et al., 2000). For instance, internationalization can expose an IPO firm to liability of foreignness (Lu & Beamish, 2001), which is defined as the sum of 'additional costs a firm operating in a market overseas incurs that a local firm would not incur' (Zaheer, 1995: 343) such as the cost of coordination across countries. As compared to larger firms' internationalization strategy, IPO firms' internationalization can be particularly risky because the lack of public history of these firms can threaten their legitimacy in foreign markets and substantially increase their liability of foreignness (Yu et al., 2011). Given the riskiness of a firm's internationalization strategy, it is necessary to understand why certain IPO firms pursue an internationalization strategy whereas others do not.

Method

This study identifies the risk bearing associated with the compensation form of the CEO as one such driver. Specifically, we use behavioral agency theory (Wiseman & Gomez-Mejia, 1998) to argue that higher levels of CEO stock option wealth and CEO restricted stock will increase the CEO's risk bearing and make him or her less likely to engage in risky strategic actions such as pursuing an internationalization strategy. Behavioral agency theory incorporates the role of loss aversion into predictions of agent risk taking through applying the concept of risk bearing (wealth-at-risk of loss). Risk bearing, defined as the "perceived threat to agent wealth" (Wiseman & Gomez-Mejia, 1998: 136), is negatively related to risk taking behavior of the CEO (e.g., Lim, 2014). Since stock options and restricted stock grants create risk bearing for the CEO (e.g., Lim, 2014), we expect CEOs of IPO firms with higher levels of stock options and restricted stock to avoid making risky decisions such as internationalization.

Results and Implications

The OLS hierarchical regression results based on a randomly selected sample of 200 IPO firms that completed an IPO between 2006 and 2010 show that, after controlling for several factors, the higher the level of CEO stock options, the lower the likelihood of the IPO firm's operational internationalization (foreign sales/total sales). However, restricted stock holding of the CEO is not a statistically significant determinant of the internationalization strategy.

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