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„Foreign Exposure and Personal Success:  
An Empirical Study of Determinative Factors in the  
Careers of Germany's Top Executives“

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Thanks, Mum for making all this possible and, thanks, Dad for making me see and understand things in a way I could not without you!

I want to dedicate this paper to my Omi, who unfortunately can not be with us any more to see me finish it, and is greatly missed.

## **Abstract:**

The purpose of this thesis is to gain new insights on how foreign exposure influences personal success.

The first part of this paper evaluates the existing literature with regard to international experience and having been an expatriate, as well as the corresponding aspect of personal success.

The following second part and core piece of this paper describes the conducted empirical investigation, in which a sample of eighty of Germany's top executives, who hold leading positions in the thirty companies listed in the DAX-index, were evaluated. A theoretical framework was developed to categorize the sampled individuals with regard to their foreign exposure, so that each executive belonged to one specific kind of group. Two separate models were implemented and analyzed, corresponding to the natures of the two different outcome variables (*duration to becoming a first-time "C" level executive; percentage of bonus pay to total compensation*). The first of the models used the Poisson regression analysis, whereas the second model was investigated with a simple linear regression analysis.

Finally the most drastic shortcomings of this paper are addressed, such as the lack of a measure for the impact of social networks on career success factors, and the consequences of not being able to gather primary data for this study; this critique is followed by recommendations on how to overcome some of these limitations.

## **Keywords:**

Personal success; foreign exposure; expatriate; executive compensation structure

## **Kurzzusammenfassung:**

Die Absicht dieser Arbeit ist es, neue Einblicke und Zusammenhänge zwischen Auslandserfahrung und persönlichem Karriereerfolg zu finden und zu definieren.

Der erste Abschnitt der Arbeit evaluiert sowohl die Literatur, die sich auf die internationale Erfahrung per se bezieht, als auch diejenige, die Expatriates in Zusammenhang mit ihrem persönlichen Erfolg dokumentiert und analysiert.

Die folgenden Kapitel, die das Herzstück der Arbeit bilden, befassen sich mit der durchgeführten empirischen Studie. Dafür wurde eine Auswahl von achtzig Führungskräften, welche die Verantwortung und Leitung der dreißig deutschen DAX Unternehmen innehaben, analysiert. Ein theoretischer Rahmen wurde entwickelt um die ausgewählten Personen nach der jeweiligen Auslandserfahrung katalogisieren zu können. Diesem Muster folgend wurde jede Führungskraft einer bestimmten Gruppe zugeteilt. Zwei separate Modelle wurden implementiert, korrespondierend zu den jeweiligen abhängigen Variablen (*duration to becoming a first time "C" level executive; percentage of bonus pay to total compensation*). Das erste wurde an Hand der Poisson Regression Analyse bearbeitet, das andere mittels einer Simple Linear Regressions Analyse.

Abschließend wird auf die wichtigsten Mängel der Arbeit eingegangen, wie zum Beispiel das nicht Vorhandensein einer Maßeinheit für die Auswirkung von sozialen Netzwerken auf persönlichen Karriereerfolg, oder auch die Konsequenzen, die daraus entstanden sind, dass es keine Möglichkeit gab, primäre Daten für diese Studie zu erheben.

## **Schlagworte:**

Persönlicher Erfolg, Internationale Erfahrung, Expatriate, Managementvergütung

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# 1 Introduction

The world as we know it is greatly influenced by multinational firms and their leaders. Their decisions not only determine corporate success, but also shape the overall political landscape and social development of our countries. As Levy and Newell point out, this pervasive involvement can be observed even on the European level with regard to environmental policymaking, as large firms exert great influence over the agenda setting and policy formulation in Brussels.<sup>1</sup>

Therefore, a question that naturally arises is this: Who are the people in charge of these companies and who occupy some of the most influential and powerful positions our society has to offer? This question becomes even more meaningful for those people who are interested in pursuing such a career themselves. If someone wants to become one of the top leaders in business, it makes sense to examine closely just how the most successful executives have attained their high positions. What essential and decisive factors can one identify on the road to success in multinational firms?

Hence, the aim of this paper is to investigate if and how foreign exposure contributes to the personal success of an individual pursuing a career in international business. The data chosen for this empirical study is strictly focused on those top executives in Germany who are in charge of the thirty companies listed in the Deutscher Aktien Index (DAX).

All the individuals included in the study have already attained an executive or so-called "C" position, and so the comparative evaluation of their success is not considered here in terms of their current positions as such, but rather in terms of two specific factors: firstly, the amount of time it took the person to obtain his or her first

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<sup>1</sup> Levy, Newell (2005)

executive position after entering the labor market, and secondly, the calculated percentage of bonus pay included in the total annual compensation. Using these two parameters as the outcome variables in the study makes it possible to explore two different factors for assessing success in conjunction: both the straightforward aspect of the time needed to reach the top, and the controversial matter of top executive compensation. In particular, the study should throw some light on the question of whether there is any relationship between the often large bonus payments received by managers and time spent on foreign assignments gaining overseas exposure.

## 2 Foreign Exposure

In a world that is becoming more and more globalized and internationalized, multinational companies must either embrace these new challenges or ultimately fade into unimportance. It has become essential for managers to have an international horizon in order to lead an international work force. They must acquire a kind of professional experience that can cope and function in the various parts of the world where their business interests exist.<sup>2</sup>

Therefore, multinational firms send their brightest personnel and best performers out on global assignments – senior managers who can take responsibility for the conduct of business worldwide, as well as junior managers with high potential who can benefit from worldwide experience in their career development.<sup>3</sup>

For the purpose of this paper the term foreign exposure is divided into two main categories:

- international experience as a whole,
- time spent abroad on a particular expatriate assignment.

Before going into more detail on both of these points, the term “expatriate” should be explained a little bit closer. The origin of the word is based in the medieval Latin word *expatriare* which simply means leaving one’s own country.<sup>4</sup>

This is closely linked to how the term is used nowadays in business to define an expatriate assignment: “An employee who is sent by his or her firm to live abroad for a defined time period. An expatriate is expected to relocate abroad, with or without family, for as short a period as six months to a year; typical expat assignments, however, are from two to five years long.”<sup>5</sup>

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<sup>2</sup> Forster (2000)

<sup>3</sup> Adler (2008) p.274

<sup>4</sup> URL: <http://www.merriam-webster.com/dictionary/expatriate> [March, 27<sup>th</sup> 2012]

<sup>5</sup> URL: <http://lexicon.ft.com/Term?term=expatriate> [March, 27<sup>th</sup> 2012]

## **2.1 International experience**

Gaining international experience in any phase of a person's life not only broadens one's personal horizon, promoting greater understanding of life itself, but it can also provide one with decisive advantages for a career in a business. Such people with international experience and who feel at home in more than one national culture, often have greater problem solving capabilities and superior power of creativity. Thus, people with international experience are more likely to start their own businesses, to develop new products, and to receive promotions.<sup>6</sup>

A study made of Israeli managers working in Silicon Valley in California showed that the individuals who were able to connect equally well with both the American and the Israeli cultures, incorporating both into their mode of work, gained a better reputation and got promoted much faster. Such people are called bicultural, in contrast to most individuals, who are monocultural, only having the capacity to identify with one culture.

When tested, bicultural managers achieved better scores in the category of "integrative complexity", a measurement of one's ability to realize and incorporate multiple perspectives on different issues, which would therefore explain their better job perspectives and performance.<sup>7</sup>

International experience can be divided into two types: that which does not involve holding down a job, such as travel and education abroad, and that which is work-related.<sup>8</sup> In examining the impact that international experience can have on the success and tenure of later expatriate assignments, one should take into account both the age at which these experiences occurred and their duration.<sup>9</sup>

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6 Muddux, Glinsky, Tadmor (2010)

7 Muddux, Glinsky, Tadmor (2010)

8 Takeuchi et al. (2005)

9 Goodman et al. (2001)

## 2.2 Expatriates

When talking about expatriates, one makes a distinction between parent country nationals (PCNs), who are natives of the home country of the multinational company, and third country nationals (TCNs), who come neither from the home country nor the host country. Those employees who are not expatriates are referred to as host country nationals (HCNs), or simply as locals. The most pertinent advantages and disadvantages of each employee category are listed in table 1.

Clearly, for most multinational companies the largest part of the workforce consists of locals and only a fraction are expatriates.<sup>10</sup>

**Table 1: Parent, Third, Host Country Nationals<sup>11</sup>**

	<b>Advantages</b>	<b>Disadvantage</b>
<b>Parent Country Nationals (PCM)</b>	<ul style="list-style-type: none"> <li>• Control by headquarter</li> <li>• May be most qualified</li> <li>• Managers are given international experience</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunities for HCNs are limited</li> <li>• Adaption may take long time</li> <li>• PCN are usually very expensive</li> </ul>
<b>Third Country Nationals (TCM)</b>	<ul style="list-style-type: none"> <li>• TCNs may bridge the gap between headquarters and the subsidiary</li> <li>• TCNs may be less expensive than PCNs</li> </ul>	<ul style="list-style-type: none"> <li>• Host government and employees may resent TCNs</li> <li>• Similar disadvantages to PCNs</li> </ul>
<b>Host Country Nationals (HCM)</b>	<ul style="list-style-type: none"> <li>• Language and cultural barriers are eliminated</li> <li>• Continuity of management is improved</li> <li>• Usually cheaper</li> </ul>	<ul style="list-style-type: none"> <li>• Control and coordination of headquarters may be impeded.</li> <li>• HCNs limited career opportunities</li> <li>• International experience of PCNs is limited</li> </ul>

Generally, expatriates represent the more expensive option, and depending on factors such as the host's location, an expatriate's base salary is roughly three times greater than that of a comparable local executive. But at the same time, expatriates contribute numerous

<sup>10</sup> Peng (2009) p 366-377

<sup>11</sup> Adapeted from Dowling, Welch (2005) p 63

essential assets to the subsidiaries, such as technology transfer, communication of corporate culture, and the enhancement of the international skill set of the workforce.<sup>12</sup>

### **2.2.1 Staffing top positions at subsidiaries and the effects of multinational strategies**

One of the biggest challenges for multinational companies is the staffing of executive positions, especially at the CEO or CFO level, in its subsidiaries. The different approaches that are used correspond to the overall strategic philosophy of the particular multinational company. An *ethnocentric approach* focuses on the practices of the parent company and hence clearly relies on the skills of PCNs. In contrast, the *polycentric approach* stresses the norms of the host country, in the belief that operations in a foreign country should make use of locals for its managers, thus eliminating or reducing problems caused by cultural misunderstandings and faulty communication in the foreign language. Finally, the *geocentric approach* disregards the national background of the managers and looks solely at who is most suitable for the vacant position, giving equal consideration to PCNs, TCNs and HCNs. This third approach tends to keep potential conflicts between host and parent executives at a minimum, but it also makes it more challenging to incorporate a greater variety of nationals within one company.<sup>13</sup>

The close connection between the chosen strategy of a multinational company and its staffing decisions is highlighted in the following table.<sup>14</sup>

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12 Bennett, Aston, Colquhoun (2000)

13 Peng (2009) p 367-368

14 Peng (2009) p 368

**Table 2: Multinational strategies and staffing approaches<sup>15</sup>**

<b>MNE strategies</b>	<b>Typical staffing approaches</b>	<b>Typical top managers at local subsidiaries</b>
Home replication	Ethnocentric	Parent country nationals
Localization	Polycentric	Host country nationals
Global standardization	Geocentric	A mix of parent, host and third country nationals
Transnational	Geocentric	A mix of parent, host and third country nationals

### **2.2.2 Selection**

The question of how to select the appropriate person for an expatriate assignment has been discussed extensively in the literature, but the opinions vary immensely and there is no generally accepted model for an ideal screening mechanism. Choosing the best person for the job is especially important in the case of expatriate positions because so failure will result in extremely high costs for the company.

A study conducted in the United States and Germany showed that the ability to speak the language of the foreign country was judged to be the most important qualification for expatriate positions.<sup>16</sup>

In addition to language ability, characteristics of openness and sociability have been shown by Caligiuri to increase the quality of interaction between the host nationals and expatriates, thereby contributing to the success of a foreign assignment.<sup>17</sup>

The family situation of the prospective expatriate must not be ignored

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<sup>15</sup> Peng (2009) p 368

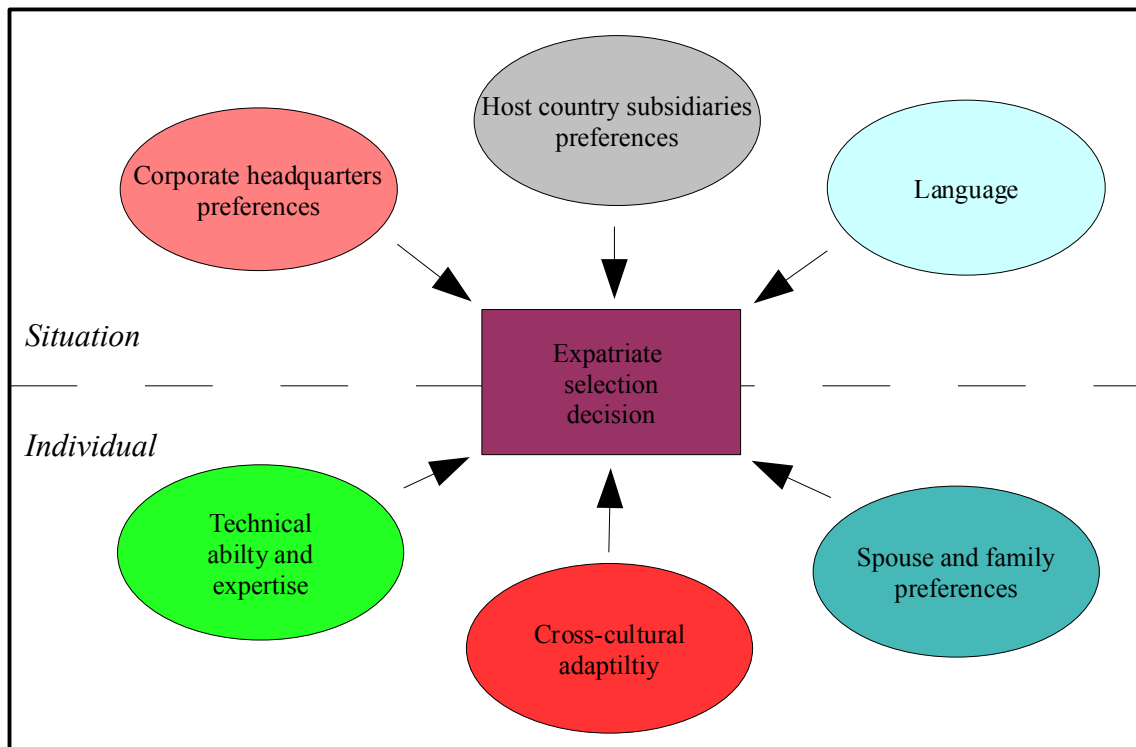
<sup>16</sup> Graf (2004)

<sup>17</sup> Caligiuri (2000)

either, as the influence of spouses who have difficulties adapting to a foreign environment can jeopardize the mission's success.<sup>18</sup>

Although it is difficult to incorporate all the ideas in one model, figure 1 summarizes the most essential aspects. Which one of these is given the most weight in the selection process depends on the overall strategy of the individual company.

**Figure 1: Factors in expatriate selection<sup>19</sup>**



**2.2.3 Expatriate assignment: success or failure**

Ensuring that a mission will be successful starts with recruiting the right personnel. But that alone will not be sufficient and a well designed training program is required to maximize the skill utilization and collaborative teamwork.<sup>20</sup>

It is difficult to define the success of an expatriate assignment in general terms, as it is depends entirely on the basic strategy of the multinational company in question. Short-term goals are easily

<sup>18</sup> Schaffer, Harrison (2001)  
<sup>19</sup> Adapted from Dowling, Welch (2005) p 98  
<sup>20</sup> Bolino, Feldman, (2000)



formulated as basically getting the specific job done. Long-term objectives, on the other hand, are of a strategic nature, and involve building a global organizational structure. Therefore, from a long-term perspective it is often difficult to assess one's mission right away as a success or failure.<sup>21</sup>

#### **2.2.4 Repatriation**

The final phase of the expatriate process is when the manager returns home. This is referred to as repatriation and is just as important as all the other steps of the expatriate process, but often neglected and insufficiently supported by the company.

One of the biggest concerns is career anxiety and worries about what kind of a position the individual will get after returning to the home office. As a kind of psychological contract, which can only exist as an informal understanding, it is therefore easily broken.

The returning employee's entire family is again affected by such a change of location and children need to readjust and reconnect to their peer group as well as to the different school system. Painfully discouraging experiences are often in store for returning managers as well, when they encounter a loss of status and discover that the knowledge gained at the subsidiary location is often ignored at the headquarter; the learning stream is, in many occasions, a one-way street.<sup>22</sup>

Consequently an alarming number of returning expatriates leave the company within the first year of their return.<sup>23</sup> This phenomena is clearly counterproductive and destroys any long-term purposes the multinational company has tried to achieve with the expatriate assignment.

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<sup>21</sup> Bennett, Aston, Colquhoun (2000)

<sup>22</sup> Peng (2009) p 371-372

<sup>23</sup> Suutari, Brewster (2003)

### **3 Personal success**

A huge amount of research has been done in an effort to identify the significant factors that makes one person's career more successful than another one's. In the particular case of this paper, the question is which factors related to work and other other experience abroad tend to increase the success of an executive.

To begin with, the notion of success in business needs to be defined as concretely as possible. Summarizing the consensus of recent scholarship, Judge et al. construe success as the positive results and achievements, whether work-related or of a psychological nature, which one was able to attain as a result of one's efforts and experiences. Furthermore, the primary elements of career success can be separated into two main fields: objective elements, such as pay and position in the power hierarchy, and subjective elements, such as job satisfaction and the experience of intangible values.<sup>24</sup> For the purpose of this paper, the focus will be limited to the objective elements.

#### **3.1 Influences on career success**

Factors that tend to influence career success and development have been categorized by Ferries and Judge into organizational and individual rubrics.<sup>25</sup>

Organizational influences range from socialization and mentoring to the type of position and early career challenges.

In this specific case socialization is understood as how well newcomers are able to adjust and interact in the initial phase of encounters with insiders of the organization, this experience being a determinative factor for future success.<sup>26</sup> Socialization is thus the

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<sup>24</sup> Judge at al. (1994)

<sup>25</sup> Ferries, Judge (1990)

<sup>26</sup> Reichers (1987)

experience of making a lasting first impression.

Along the same lines are the findings by Whitely, Dougherty and Dreher demonstrating a significant relationship between mentoring by immediate bosses or other leading professionals and one's promotion rate, as well as one's total compensation. That is to say, people engaged in intensive mentoring relationships earn more money and are more satisfied. Their findings also show that there is a strong connection between a higher socio-economic background and the involvement of career oriented mentoring.<sup>27</sup> In an previous study focusing on gender differences no support was found for a connection between the frequency of mentoring activities and gender.<sup>28</sup>

A longtime investigation of 85 engineers at the beginning of their careers showed that the more technically challenging their initial work experience had been, helping them to increase their knowledge and competence at an early stage, the better their later job performance was, initiating more successful careers.<sup>29</sup>

The various individual influences affecting personal success include motivational variables, such as the number of hours worked, human capital variables, such as experience and education, as well as demographic influences and family variables. A phone survey in the United States that involved 276 companies came to the conclusion that managers are not generally promoted due to their higher skill set or better performance, but rather on the basis of experience alone.<sup>30</sup> This finding supports the theory of the importance of early career challenges. With regard to education, it was discovered that graduates holding an MBA degree had a significantly higher starting salary than their counterparts with only a bachelor degree. Interestingly, on a longer time perspective this effect disappeared and later salaries were no longer influenced by the possession of certain

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27 Whitely, Dougherty, Dreher (1991)

28 Dreher, Ash (1990)

29 Kaufman (1974)

30 Mills (1985)

academic degrees.<sup>31</sup>

Sadly, up until now women are still facing challenges when trying to compete with men for top management positions. An examination of 20 of the Fortune 500 companies showed the continuing discrepancies among male and female managers. Even though the female executives did everything just the way the men did, obtaining the same degree, not moving in and out of the workforce, working in similar industries and not removing their names from considering transfer any more frequently than men, simply acting as male as a female can act, was not enough. There was still recorded a significant gap between male and female compensation development as well as geographic mobility.<sup>32</sup>

Simply focusing on these two main ideas of organizational and individual characteristics to pin down success may not be sufficient. A combination of these inputs are in most cases seen as a rational model and as a function of what someone invests into human capital and motivation and its expected return on their careers.<sup>33</sup>

In many studies political influences are often neglected, even though some authors argue that political tactics may actually be the more realistic factor in determining career success in many organizations.<sup>34</sup>

A study by Judge and Bretz attempts to fill this void and its results emphasize the significant connection between career success and political influences on both an intrinsic as well as extrinsic level. Intrinsic measurements focus on job and career satisfaction, whereas extrinsic variables are characterized for example by salary levels and frequency of promotion.

The results of these studies imply ways to devise strategies for career management, and provide an implicit warning that using the wrong political tactic can backfire. Choosing to pursue a path of integration is well advised and more likely to produce success than trying to

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31 Pfeffer (1977)

32 Stroh, Brett, Reilly (1992)

33 Judge, Bretz (1992)

34 Pfeffer (1989)

show off one's personal competence. On a strategic note, it is beneficial to follow a course of social integration, rather than one of self-promotion. Simply stated, "apple polishing" seems to be a better tactic for getting ahead than "blowing one's own horn".<sup>35</sup>

### **3.2 Influence of foreign exposure on career success**

Following the theory of human capital, it is natural to believe that any sort of foreign exposure, either as an expatriate or as a consulting manager who has gained lots of international experience, is beneficial for long-term career success.<sup>36</sup> With regard to the development of skill sets and the crucial learning experience gained abroad<sup>37</sup> as well as the general improvement of knowledge and overall understanding of international business practices<sup>38</sup>, one can predict nothing but a positive impact on the long-term success within the organization or in outside opportunities. These arguments are supported the results of a survey conducted among Finnish repatriates, who claimed that their expatriate assignment was beneficial for their careers.<sup>39</sup>

However, fueled by the poor repatriation practices of many firms, already mentioned above, returning expatriates often let their new skills lie dormant or even find that the experience gained abroad is counterproductive in the time immediately after their return. Except for the paper by Benson and Pattie, little empirical research has been conducted on the short term career effects of a foreign assignment. But the general consensus in the literature is that once you leave the headquarter's home country, the so-called phenomenon "out of sight, out of mind" starts to kick in and often continues even upon the return.<sup>40</sup>

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35 Judge, Bretz (1992)

36 Benson, Pattie (2008)

37 McCauley et al. (1994)

38 Tung (1998)

39 Suutari, Brewster (2003)

40 Sutari, Välimaa (2002)

Benson and Pattie conducted a survey among the employees of a large US network firm, which has historically had a large expatriate program, evaluating 423 expatriates and repatriates, as well as 423 domestic US employees. They collected data on salary and wage growth, rate of promotion, the extent of external employment opportunity enhanced by contact with recruiters and headhunters, and the career development prospects, among the two sample groups.<sup>41</sup>

The results indicate that repatriates earn slightly less than their US counterparts with no international experience; there is also a significant negative correlation between having been an expatriate and the numbers of promotions. In regard to their expected career outlooks, expatriates were more optimistic and anticipated a greater salary growth in the future. External employment opportunities and the contact to headhunters were both perceived as greater for expatriates and repatriates than for their US coworkers without international experience.

These findings indicate that expatriates are willing to accept numerous shortcomings in wages and promotions in the short run, in order to improve their long term career success. They are optimistic about their career development and view an expatriate assignment as a stepping stone to new opportunities within the firm or new external challenges to maximize their career.<sup>42</sup>

### **3.3 Influence of international experience on top management selection**

As the empirical part of this paper will be dealing with individuals in top management positions, it is of interest to see what the literature says about the role that international experience plays in the selection process for top executives. In fact, most of the recent studies of the factors involved in making the crucial decisions about

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41 Benson, Pattie (2008)

42 Benson, Pattie (2008)

CEO succession have focused rather on other items, such as estimating its impact on firm performance<sup>43</sup>, or insider versus outsider succession, to mention a few.<sup>44</sup>

Historically, the CEO selection decision has been for the founder to hand over the leadership of the firm to one of his children. This so-called *relay-style* succession is still a very common method for selecting the next CEO. Obviously such a selection process neglects any sort of international experience on the part of the candidates.<sup>45</sup> The other main three selection tactics commonly used have been identified by Friedman and Olk as *the horse race* approach, where internal candidates openly compete over a period of time for the position, secondly *the coup d'état* tactic, in which the incumbent CEO is ousted and most likely replaced by the head of the coup. And finally *the comprehensive* approach, which is very similar to the horse race style, except it also allows for external candidates to apply and does not include a contest period before the decision.<sup>46</sup>

But is international experience relevant to being selected CEO? A study conducted in the USA comparing recent CEO successions of Fortune 200 firms, noticed a significant correlation between having international experience and being chosen the new CEO. The more international experience a candidate had been able to acquire, the more likely it was for him or her to be victorious in the competition. However, there was no evidence found in the study for a relationship between CEO tenure and the international experience of the CEO.<sup>47</sup>

These findings clearly support the importance of international experience for personal career success, even at the highest level, as it might make the crucial difference between reaching the mountain top and staying just one step beneath.

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43 Zhang, Rajangopalan (2004)

44 Zhang, Rajangopalan (2003)

45 Mangusson, Boggs (2006)

46 Friedman, Olk (1995)

47 Mangusson, Boggs (2006)

## **4 Executive compensation**

The compensation of CEOs and other top executives has been a controversial topic and has currently become even more heated due to the worldwide financial crisis and its impact on some of the largest firms. The fundamental questions that are being repeatedly raised are these: Do executives deserve the kind of money they make? Is their bonus pay related to the company's performance and/or their personal contribution?

The method of Pay-by-Performance based upon bonuses is commonly subjected to criticism. Managers who have reached their maximum bonus for a designated period will shift and postpone their efforts to the next year or if the bonus is no longer available, the executive may stop trying altogether. In the long run these patterns can lead to a vicious circle of manipulation and could provide an explanation for the declining effect of bonus pay.

Then why is it still so widely used? Even though many firms are aware of the complications created by this system, rejecting it would nowadays be considered as out of touch with modern thinking. Therefore, until a new idea takes over, it will prevail.<sup>48</sup>

All of these questions are worth investigating, but for the purpose of this paper the primary question is whether a connection exists between having been an expatriate, or having other international experience, and the structure of one's received compensation.

### **4.1 Cultural influence on executive pay practices**

In order to understand how international experience may influence the compensation structures of executives, it is helpful to consider the impact of cultural factors on their pay. Comparing executive pay

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48 Rost, Osterloh (2009)



practices around the world, it is evident that there are extreme differences, and a widely held view is that these discrepancies are the product of cultural diversity.

A study by Tosi and Greckhamer (2004) supports this theory, as they establish a connection between Hofstede's often quoted (1980) cultural dimensions and different kinds of compensation schemes. The findings are coherent and illustrate that power distance in a society has strong influence on all the dimensions of CEO compensation identified in the paper, such as: total pay, ratio of bonus to total pay, and the relative proportions between the CEO salary to the lowest salary earned by an employee in the firm.<sup>49</sup>

The results indicate further that individualism within a culture can reflect upon the total compensation of the CEO, as well as the relative proportions existing between pay components, in the form of bonuses and total earned compensation.<sup>50</sup>

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49 Tosi, Greckhamer (2004)

50 Tosi, Greckhamer (2004)

## 5 Empirical Investigation

In order to address the research objectives, an empirical investigation needs to be conducted, in which the career paths are examined of Germany's top executives who bear the responsibility for and are in charge of leading the country's largest firms.

The purpose of the study is to identify possible connections between foreign exposure and personal career success. The first part of this paper has looked into the existing literature on this topic, and now this study will try to make a contribution to the existing research by approaching the question in a slightly different way and method.

For most scholars, personal success is measured by the number of promotions received over a certain time period or the total compensation earned by the executive, and therefore focusing simply on objective and monetary measures of success, as illustrated by Judge et al.<sup>51</sup>

This paper attempts to extend and complement the previously used scales of value and to establish new connections and insights on the effects that international experience has had on the career development of people holding a "C" in their job title.

I am not aware of the existence of any research that has been made utilizing the concrete measurement of time it took an individual to become a first-time executive at a "C" level, as an outcome variable, while investigating the contributions made by either having gained international experience with multiple companies in numerous countries, or having been an expatriate with just one firm. One could summarize the aim of this investigation as trying to identify the fastest and therefore in our case most successful pattern of using international experience to become an executive in a large multinational firm based in Germany.

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<sup>51</sup> Judge et al. (1994)

Or, on the contrary, will the findings suggest that staying close to the headquarters of the company is more beneficial with regard to climbing up the career ladder, since it would allow the manager to develop other important parameters such as networking with the most influential people of the company and at the same time avoiding the “out of sight out of mind” malady mentioned by Sutari and Välimaa<sup>52</sup> and conveniently escaping all the negative side effects caused by foreign assignments. Moreover, the world we live in is becoming smaller and smaller due to globalization, and the constantly improving technical possibilities enable most negotiations to be conducted using conference calls, or short day trips for important meetings. As a consequence, making long foreign assignments is becoming a thing of the past and staying in the home county is the most promising and for out time most suitable career move one can make.

Such findings would clearly contradict most of the current literature, which is of one mind in pointing out the positive long-term contributions of international experience, especially for reaching the highest levels of management within a company as shown by Mangusson and Boggs<sup>53</sup>

Concurrently, the data will also be used to investigate any sort of influence foreign exposure may have in respect to the received compensation structure. The aim is to exam if individuals who have spent time abroad, with multiple companies or as expatriates, negotiate their salary packages differently than managers who have not gained international experience. In particular, the focus will be on the percentage the entire bonus pay contributes to the total compensation earned within one year.

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52 Sutari, Välimaa (2002)

53 Mangusson, Boggs (2006)

Essentially, the data is being reviewed in search of indications that would support the hypothesis that having been exposed to different cultures has an influence on the compensation practices of executives and CEOs. The hypothesis stems from research made by Tossi and Grackhmer (2004) and represents an attempt to extend and substantiate their idea that cultural differences are mainly responsible for existing variations in CEO compensation practices.

### **5.1 Sampling method and size**

As this subject deals with highly sensitive personal information, gathering the data obliges one to observe the appropriate level of confidentiality, which requires a lot of time and effort. But regardless of the amount of effort exerted, data privacy protection sets limits to the possibilities of conducting highly specific research.

In order to be able to compare the companies and their leading executives, all the firms listed in the German DAX-Index having their headquarters situated in Germany were included in the survey, but nevertheless, a wide variety of industries and a high rate of globalization is included in the coverage.

Since all of these firms are publicly traded companies, a certain amount of information on their executives must be provided and published by law, thus alleviating some of the difficulties in tracking down detailed information about their career paths.

**Table 3: List of companies included in the survey<sup>54</sup>**

Adidas AG	Allianz SE	BASF SE	Bayer AG	Beiersdorf AG
BMW AG	Commerzbank AG	Daimler AG	Deutsche Bank AG	Deutsche Börse AG
Deutsche Post AG	Deutsche Telekom AG	E.ON AG	Fresenius Medical Care AG	Fresenius SE
Heidelberg Cement AG	Henkel AG	Infineon Techno AG	K+S AG	Linde AG
Lufthansa AG	MAN SE	Merck KGaA	Metro AG	Münschner Rück. AG
RWE AG	SAP AG	Siemens AG	Thyssen Krupp AG	Volkswagen AG

Looking at the firms included in the investigation, it becomes obvious that reaching out to its leaders, using for example telephone interviews or even online questionnaires, would be extremely difficult or most likely impossible. Since these individuals are the highest profile executives the country has to offer, their presumptive low rate of response would not allow for any statistical investigation.

Therefore, I was forced to depend upon secondary data sources, using primarily the data base maintained by Standard and Poo's called *Capital IQ*. This financial platform gathers high quality information on both public and private markets, processing the data with new powerful applications that enable financial professionals to identify and utilize newly discovered investment opportunities. For the purpose of my study, I was exploring and working with the qualitative data section, in particular with the people intelligent category, which provides access to over two and a half million profiles of public and private executives and board members worldwide. For these

<sup>54</sup> URL: <http://www.finanzen.net> [April, 10<sup>th</sup> 2012]

individuals the data is divided into sub-categories such as, education, compensation, biography, job functions and titles, just to name the most relevant ones.<sup>55</sup>

Unfortunately, not all of the executives whom I had planned to include in my investigation were listed with sufficiently detailed data to serve my purpose. This circumstance led to a slight reduction in the sample size and some adjustment of the sample group membership. The final group contained the CEOs of all the companies, as well as CFOs and other key executives in those cases where the highest quantity of information and the most accurate data were available. The final sample size was seventy-nine (n=79) of Germany's top executives.

Going even further to ensure the highest possible quality of data and to minimize sampling errors, I cross checked all the information which I used from the data base with the published numbers from the annual reports as well as with the individual curriculum vitae available on the official company websites.

## **5.2 Hypothesis**

The primary question of this thesis can be posed in terms of a set of straightforward hypotheses.

These following hypothesis are fueled by the previously mentioned observation that the conventional wisdom on the necessity of international exposure and experience is outdated. This is due to the continuing process of global coalescence and the rapidly developing technology, which makes it possible to stay connected with even the most remote places on this planet without ever having to travel there. As a consequence, the logical way to promote one's career would be to stay close to headquarters, where one can more effectively

<sup>55</sup> URL: <https://www.capitaliq.com> [April, 11<sup>th</sup> 2012]

develop immediate networking and not to become a victim of the “out of sight out of mind” syndrome.

*Hypothesis 1:*

*Spending one’s entire career with only one company and, moreover, always being located in the home country of company headquarters, will lead to becoming an executive faster than having been an expatriate or having changed companies and countries frequently.*

This hypothesis introduces parameters of quantified specification and represents the core piece of this investigation. Taking as the base case of reference, not ever having left Germany to work abroad and using as the outcome variable the time it took an individual to reach its first “C-Position”, different career paths are compared to find the optimum strategy one should use when pursuing an executive position in Germany.

The second hypothesis deals with the other area of investigation in this paper: executive compensation structures, and in particular, variable bonus payments in relation to the total compensation earned. Here the focus is on the possible leverage that international experience and expatriate assignments might have on bonus pay.

*Hypothesis 2:*

*Former expatriates and executives with international experience are willing to accept higher levels of risk and uncertainty regarding bonus pay in relation to their total compensation than their counterparts without any international exposure.*

This theory is based on the idea that individuals who are willing to accept the risks and challenges entailed in an international assignment, will also be more open to payment structures with higher rates of risk and uncertainty. The formulation of this hypothesis is

also influenced by the findings of Tosi and Greckhamer (2004), who illustrate the influence of cultural dimensions, especially that of power distance, upon the ratio between CEO total compensation and bonus pay received.<sup>56</sup> Accordingly, this third hypothesis prompts a comparative investigation of compensation structures among those individuals who have gained more international experience and have been exposed to a greater number of cultural differences within their professional lives, and those who have not.

### **5.3 Model one**

The first model is structured to test the validity of hypotheses one and two, focusing on the different kinds of international exposure (having been expatriate or overall international experience) the managers have gained and its influence on their career development compared to colleagues who have always been employed and situated in Germany.

Numerous independent variables were included in the model as control variables (in the following Figure 2, circled in red) to help in the identification of significant connections between the different categories associated with an executive career path -- a topic that will be more closely explained in the sub-section *measurements* -- and the two dependent outcome variables. In order to find significant interactions a wide variety of combinations between these variables were tested.

The term "C" position designates any and all positions including the word "Chief" in their title, such as for example *Chief Executive Officer* (CEO), *Chief Financial Officer* (CFO) or *Chief Human Resource Officer* (CHRO).

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<sup>56</sup> Tosi, Greckhamer (2004)



### 5.3.1 The Poisson Regression Model

In the specific case shown in figure 2, the outcome or dependent variable, "duration to first receiving a "C" position", has an especially interesting component, namely time. This variable is not amenable for either simple or multiple linear regression, and therefore in order to make an optimal analysis to test hypothesis 2, a more suitable regression model needs to be found.

Searching through the literature for viable alternatives, the model that seems to bear the closest resemblance to the situation is the so-called *Poisson Regression Model*. According to Maltz, the Poisson distribution was first utilized in France in the 1820s to create models for the investigation of the rates of criminal convictions.<sup>57</sup> Nowadays the Poisson Regression Model is also still a common statistical aid for the analysis of social aspects of criminal behavior, as for example evaluating the structure of sub-groups in the criminal population.<sup>58</sup>

But where is the connection to the research addressed in this paper? Poisson regression models are widely used to research scenarios in which events that seldom happen to subjects are followed over a variable time frame.<sup>59</sup> In this case of this study, the subjects who are being investigated are the executives and the rare event that is mentioned is the promotion to their first "C" position.

The Poisson distribution model deals with the likelihood of observing any number of events, assuming that the appearance of the events is random and independent. This also explains why this model has been used for nearly two centuries to investigate criminal phenomena, taking criminal acts as the observed events in the model. Another relevant aspect is that the Poisson distribution and therefore the position model are based upon the variance equaling the mean count.

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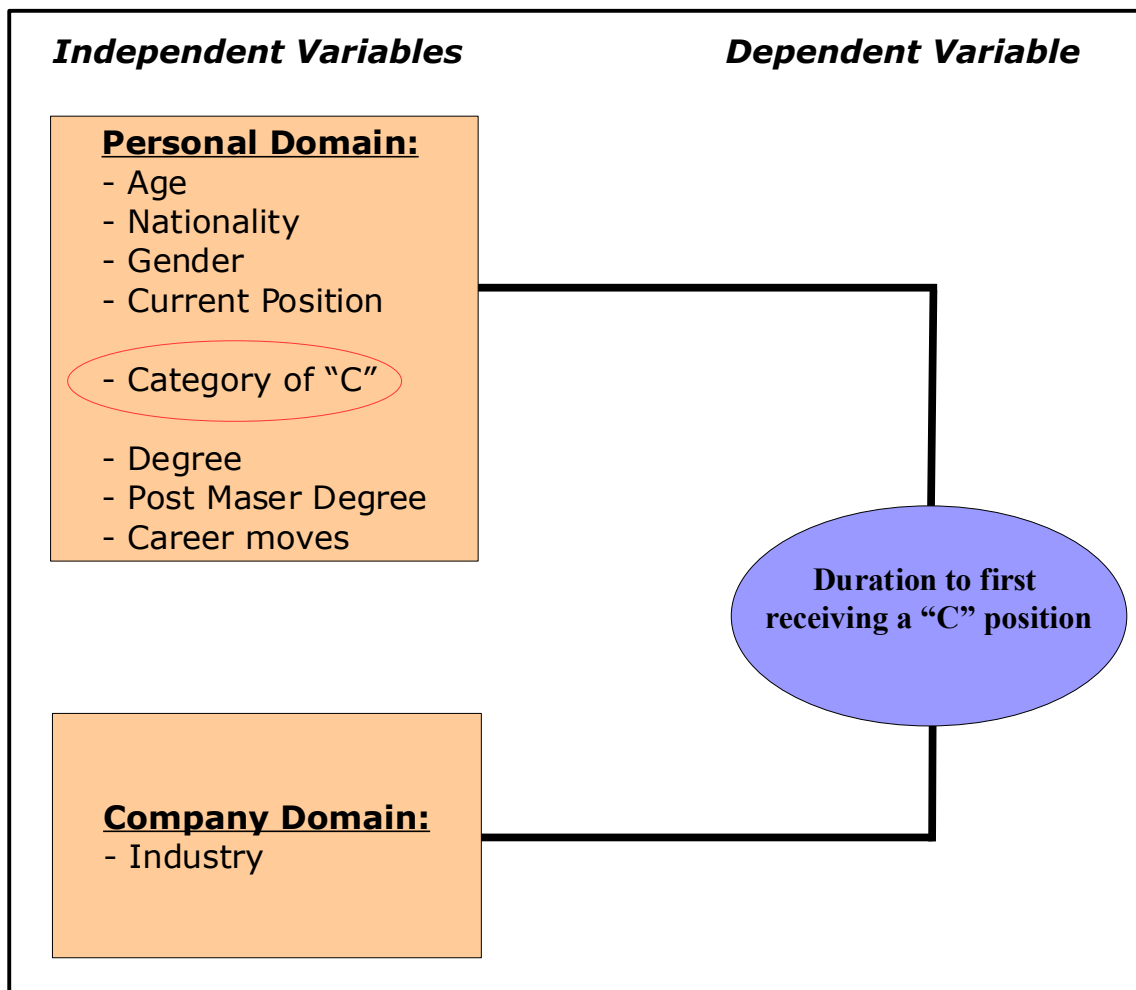
57 Maltz et al. (1994)

58 Osgood (2000)

59 Guangyong (2004)

60 Osgood (2000)

**Figure 2: Model 1, Duration to first receiving "C" position**



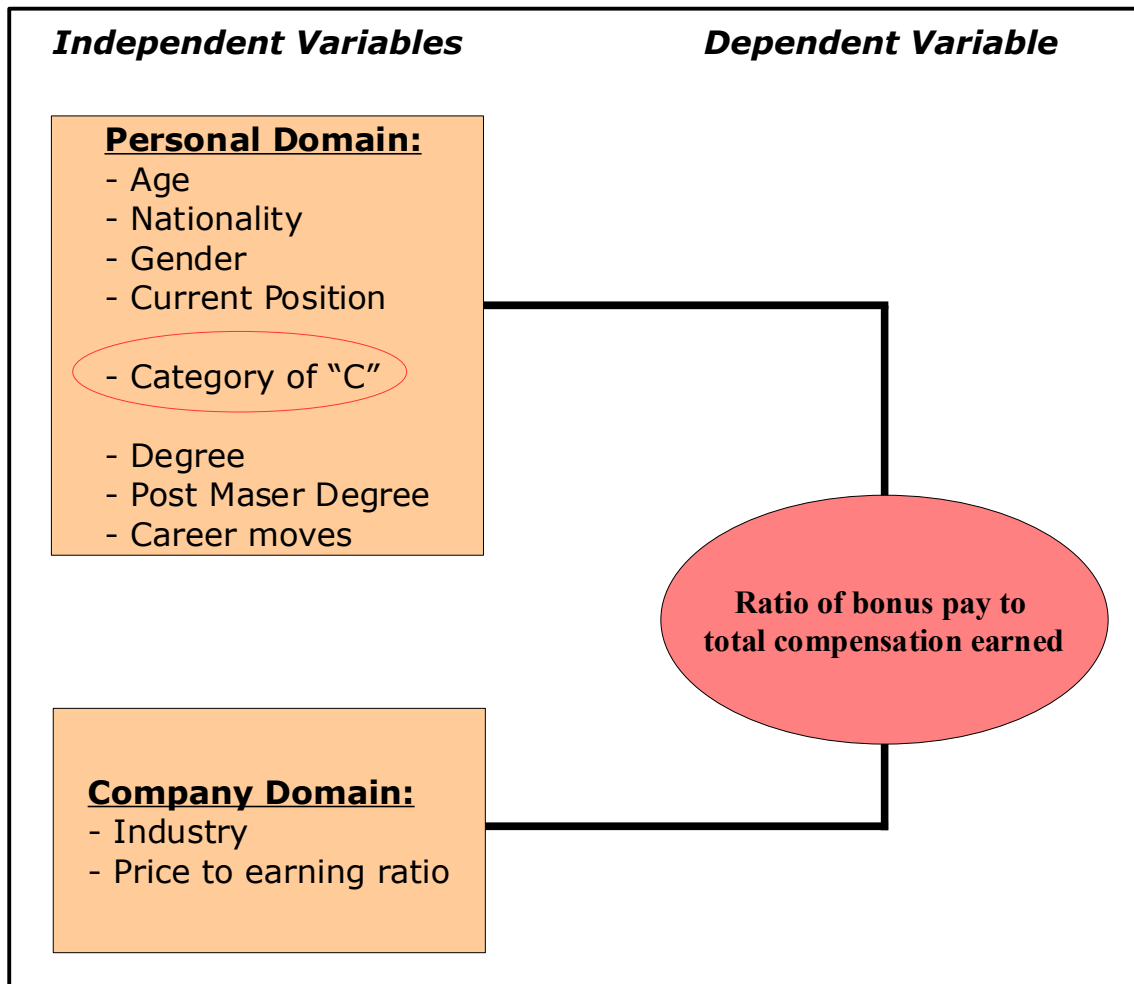
#### **5.4 Model two**

Similar to the first model and using some of the same data, model two is designed to test hypothesis three by illustrating the interactions of variables that identify elements impacting the ratio between total compensation earned and the flexible bonus pay. Here again, the main focus is on foreign exposure, expressed in this model by the variable - Category of "C" -.

In this analysis as well as in the previous one all possible combinations among the variables have been tested. One main difference between the two models that needed to be taken into consideration was the structure of the dependent variable. As "the ratio of bonus pay to total compensation" does not deal with any time components, the complex Poisson regression model used in the

previous model was not necessary and the analysis was therefore based upon a linear regression model.

**Figure 3: Model 2, Ratio of bonus pay to total compensation earned**



## 5.5 Measurements

The aim of this chapter is to explain in detail how each variable has been measured and calculated. All financial data used in this study refer to the fiscal year of 2010 and all values are recorded in Euros.

### 5.5.1 Dependent Variables

Each of the two models described above is designed to process one of the two separate dependent variables.

- *Duration to first receiving a "C" position*

This variable is stated in years and is calculated by taking the initial year a member from the sample group received a "C" position (must not necessarily have been the same firm as they are with now) and deducting from it the year he or she entered the labour market. Entering the labour market is defined as the year in which the subject concluded his or her studies and was first employed. Both of the dates used for this calculation were extracted from the subject's published CVs, since the data base *Capital IQ* could not provide any consistent data that could have been used for this purpose.

All values used for estimating the second independent variables were extracted from the financial platform *Capital IQ*.

- *Ratio of bonus pay to total compensation earned*

The ratio is obtained by dividing the total bonus received by an executive in the sample by the total earned compensation in the year 2010. Total compensation is taken to be the sum of the total annual cash compensation (salary, bonus, all other monetary compensations) in addition to the total annual non-cash compensation (such as restricted stock awards).

### **5.5.2 Independent Variables**

- *Category of "C"*

One of the central concerns of the entire study is the exact definition of this key independent variable, which must enable a clear differentiation to be made among the examined executives' chosen career paths as they relate to their foreign exposure. And so a coding system was invented indicating four possible categories resulting from the possible permutations of the two sub-variables, as shown in Table 4. Using this system,

each subject can be assigned to one of the four categories, and the independent variable itself is given the label –*Category of "C"*–.

**Table 4: Category of "C"**

	<b>Same Country</b>	<b>Different Country</b>
<b>Different company</b>	<i>Category 2</i>	<i>Category 3</i>
<b>Same company</b>	<i>Category 1</i>	<i>Category 4</i>

- *Category 1:* Executives belonging to this group are in the rare position of having spent their entire careers with the same company, and in addition they were also able to move up the career ladder internally without ever having been sent abroad by the company. This group will be used in the following analysis as the control variable.
- *Category 2:* Individuals assigned to this category gained experience working for different firms within Germany, but also never left the country, like the executives in Category 1, and therefore do not possess any kind of international experience.
- *Category 3:* The initial belief would be that this group would include by far the most executives from the sample. Executives belonging to it have worked for numerous companies spread over many different countries on their way to their current position.
- *Category 4:* Refers to the classic expatriate who has been sent by the headquarters to manage an affiliate abroad and after the assignment is expected to return to the

home country. The selection and the repatriation process as well as the needed criteria to be a successful expatriate were discussed in a previous chapter of this work.

To be able to work with the collected data properly, this variable – Category of “C” – was coded as a dummy variable, and the commonly used values of zeros and ones were employed. For the sake of simplicity and the purpose of this study, each executive could only be appointed to one specific category.

- *Age*

The age of each executive was included in the data set in absolute values as of the year 2010, thereby correlated with the financial input.

- *Nationality*

After identifying the nationality of each sample member, the data was once again coded as a dummy variable, separating European nationals from Non-European nationals.

- *Gender*

A more or less self-explanatory variable that was included in the data set using the dummy variable format for females and males.

- *Current Position*

To handle the large variety of different executive positions and to facilitate analysis, a dummy coding system was used separating CEOs from CFOs, as well as from all other executive positions which were subsumed under one dummy variable.

- *Degree*

Similar to the current position variable, the data input concerning academic degrees was also divided into three dummy variables. Executives holding a business degree were differentiated from individuals who graduated in law, and all managers with other kinds of degrees, where technicians and engineers clearly predominate, were put into the third dummy variable.
- *Post Master Degree*

Here again, simple dummy coding was used to separate executives who had successfully completed an MBA program from those with the more academic Ph.D. degree. Finally, the individuals holding neither of these two postgraduate degrees were put into a third group.
- *Career moves*

This measurement counts all clearly recorded career moves an executive has made before reaching his or her current position. Since the available data provided by *Capital IQ* did not give enough insight, extensive online research was needed to compile satisfactorily complete data. This variable was added to the data set in absolute numbers.
- *Industry*

One of the variables belonging to the company domain, which is then additionally split up into a combination of dummy variables. This decision mainly serves the purpose of separating sensitive industries, especially in regard to bonus pay, such as the banking sector, from other industries.

- *Price to earning ratio (P/E)*

One of the standard definitions of the P/E ratio reads as followed: "A valuation ratio of a company's current share price compared to its per-share earnings",<sup>61</sup> and is calculated by dividing the market share by the earnings per share (eps). In practice this business ratio is also often referred to as the multiplier, and it shows the willingness of an investor to pay for the company's stock in relation to its earnings.<sup>62</sup>

In this paper the P/E ratio is included in the process of analyzing the bonus pay structures of executives. Its function is to represent the company's financial situation as well as acting as an indicator for future development, since this ratio is based upon the market share. For this investigation, the P/E ratios for all companies have been taken from the year 2010, consistently with all other financial and income data.

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61 URL: <http://www.investopedia.com> [April, 25<sup>th</sup> 2012]

62 URL: <http://www.investopedia.com> [May, 1<sup>st</sup> 2012]



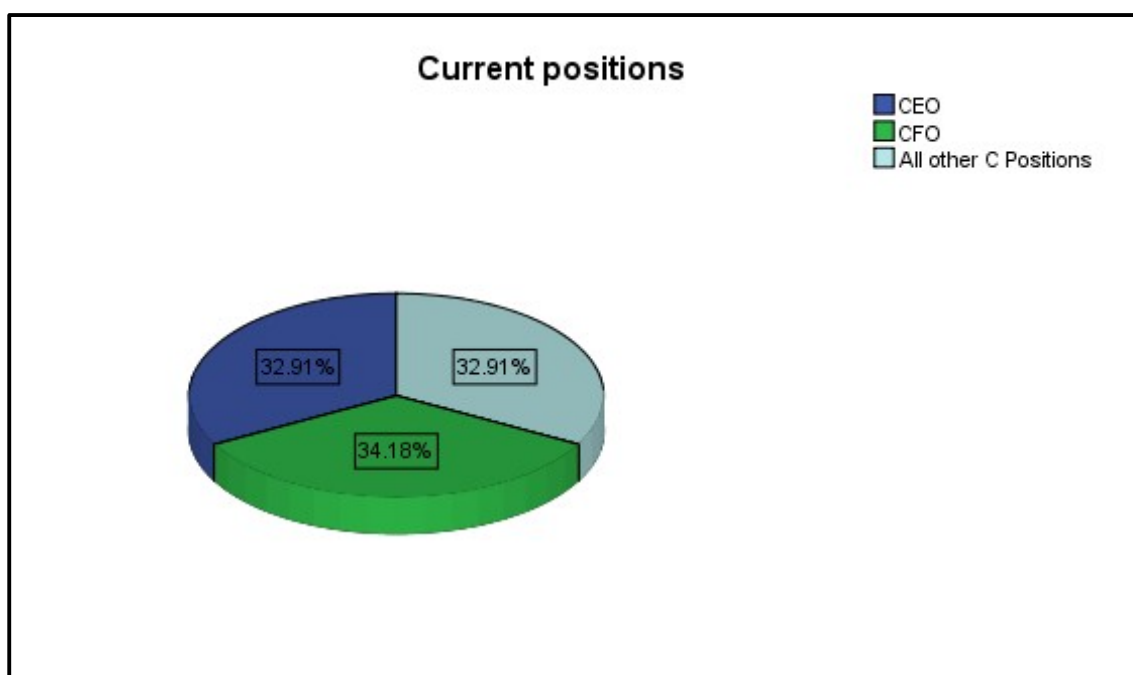
## 6 Findings and Empirical Proof

After having identified and collected the relevant variables and incorporated them into the chosen models, the most exciting part of the project began. Namely, working out the statistical analysis and then interpreting the findings in light of the formulated hypotheses. The initial step was to gain more insight into the structure and demographics of the chosen sample group.

### 6.1 Sample

A total of seventy-nine ( $n=79$ ) executives were included in the study, spread evenly among the thirty companies registered in the DAX-Index. Most strongly represented were the Deutsche Bank AG and SAP AG with each company having five individuals included in the study. On average, more than two people ( $\text{avg.} = 2.6$ ) from each company were sampled.

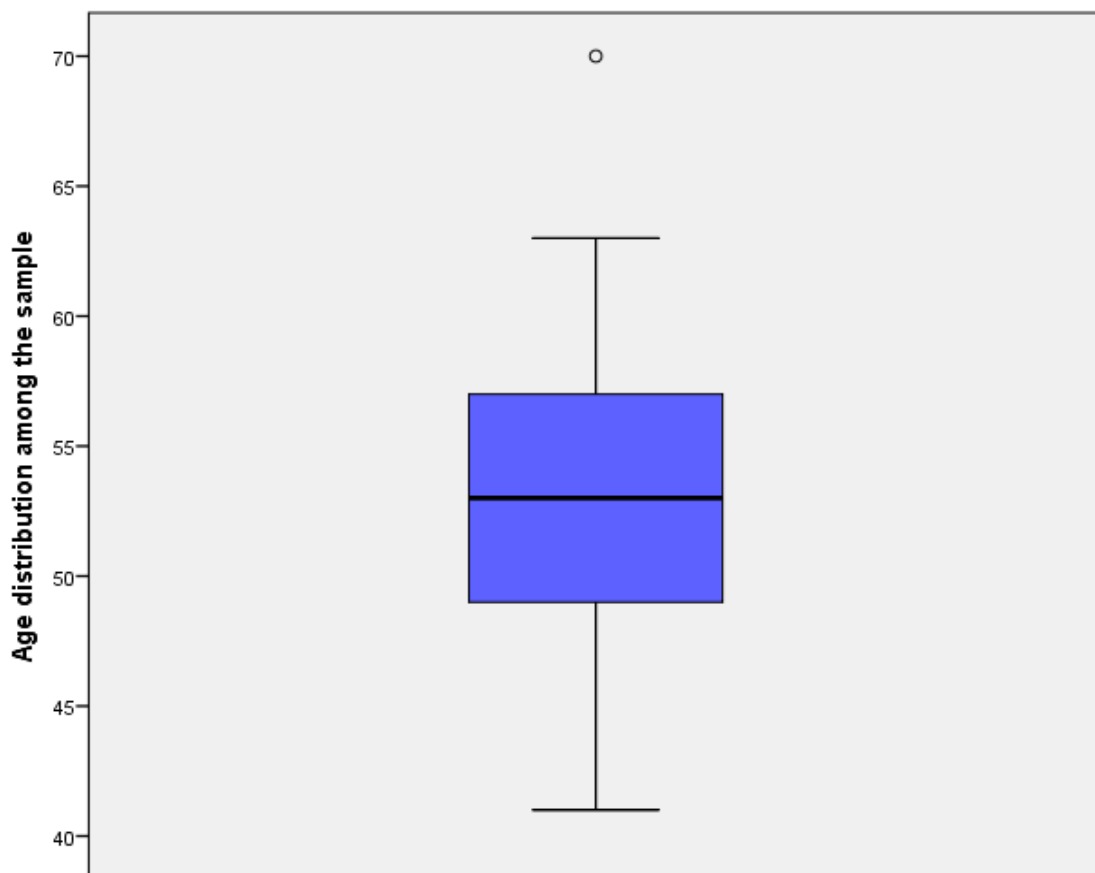
**Figure 4: Current position distribution among sample**



For most firms it was possible to gather enough reliable information on the two top executives of a company, its CEO and CFO, to be part of the investigation. The result, as illustrated in figure 4, is a very even distribution among the different executive positions. The category "All Other C Positions" includes a wide range of jobs from COOs all the way to CHROs.

Becoming a leader in one of Germany's major companies requires a considerable amount of experience. This fact is reflected in the age distribution among the sample group. The youngest executive analyzed was 41 years of age, with the average age of the sample being 52.75 years with a standard deviation of 5.69. As seen in the box-plot, figure 5, there is also one outlier among the executives of the sample, who was 70 years old in the year under investigation.

**Figure 5: Age distribution (Box-Plot)**



A clear tendency among the executives can be noticed in regard to their nationality. Among all seventy-nine individuals there are only six people who are not in possession of a European passport.

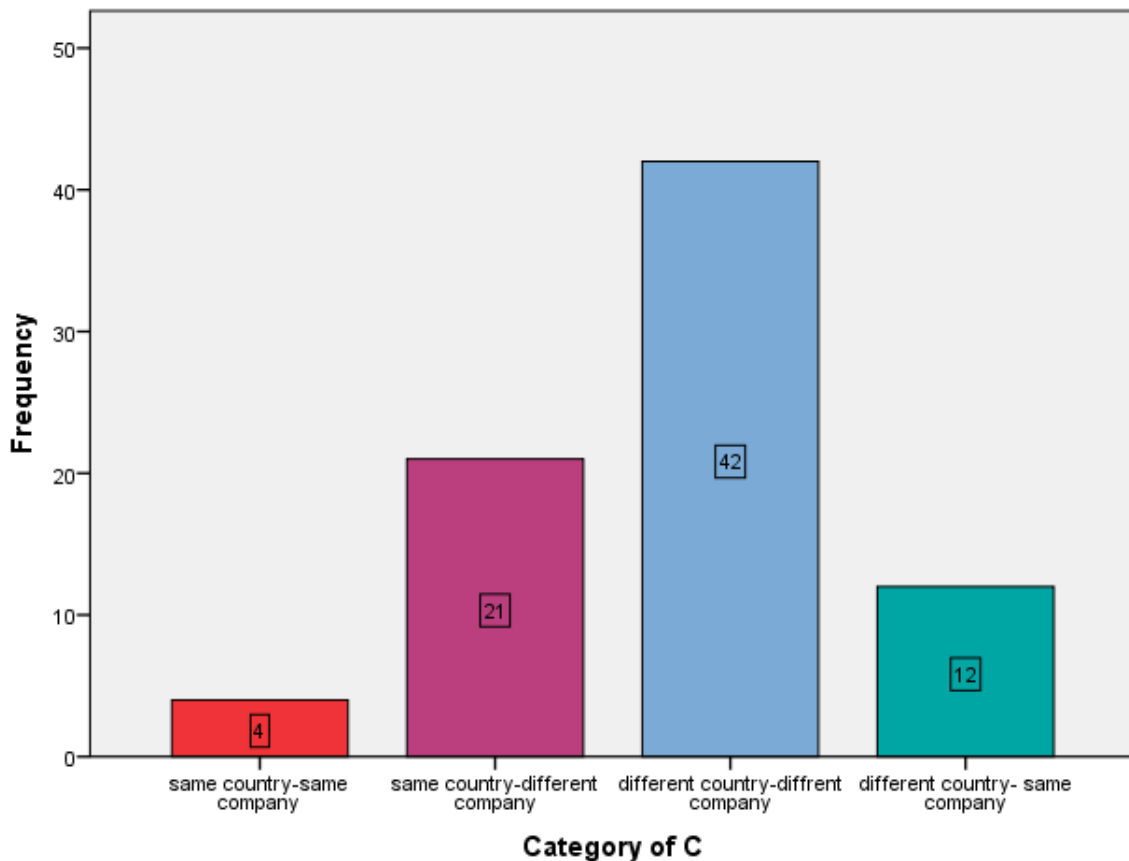
Crucial for the following analysis was the separation of the individuals into the specific categories representing their career paths. The findings were in harmony with most of the literature, stressing the importance of international foreign exposure. A total of 54 executives had worked in a foreign country before, twelve among them could be categorized clearly as having gained their international experience as a classical expatriate. Only a small group of executives, four, were always loyal to their company and also never went on an expatriate assignment. This category was extracted in the analysis as the control variable. Twenty-one executives chose to spend their entire careers so far working only in Germany, but for numerous different companies. (See figure 5)

Personally, one of the more shocking discoveries revealed in the sample was that even nowadays there was only one female among all the executives. This suggests quite dramatically that the widely assumed belief that women have attained equal status in the world of business, is not yet valid for the top executive level. But rather supporting Stroh, Brett and Reilly<sup>63</sup> that even if a female acts as male as possible, she will not be promoted at the same rate than the male competitor.

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<sup>63</sup> Stroh, Brett, Reilly (1992)

**Figure 6: Category of C**



It was also relevant for the present study to differentiate among the sample members with regard to their academic backgrounds, specifically their degrees. A clear majority among the executives are business graduates (65.8%), exceeding the individuals holding a law degree by far (10.1%). All other sampled individuals have gained some other kind of degree, most frequently in a technical field, and were for the purpose of this study brought together into one group (24.1%).

The highest level of education each executive attained beyond the undergraduate level was also recorded. The highest incidence of postgraduate degree was the Ph.D., followed by the MBA. 46.8% of the executives in the study had acquired a Ph.D. degree, whereas nine members of the sample (11.4%) were satisfied with an additional MBA. A large group, namely 41.8%, did not continue their higher education after having received their first master degree.

## **6.2 Results**

In general terms, the incidence of foreign exposure among the sampled executives evidently supports the idea frequently expressed in the literature that such foreign exposure is often important for reaching a top executive position. Thus, 68% of the highly successful individuals included in the sample have worked internationally during their professional careers. On the face of it, this percentage shows two things: it suggests that foreign exposure may have been helpful for two-thirds of the successful executives, while it also demonstrates that it was not necessary for one-third of them. Moreover, a majority of the individuals in the sample chose to ignore country and company boundaries and were therefore presumably less dependent on the effects of recent developments in communication technology; this circumstance suggests that the literature in this regard is outdated and does not reflect the current situation accurately any more. However, such general findings as these provide only a preliminary view of the situation, to gain more precise insights it is necessary to apply differentiated statistical evidence to the specific hypotheses.

## **6.3 Hypothesis one**

This hypothesis was formulated to test the working assumption that current theories about foreign exposure are no longer valid, and also to provide practical guidance about which type of career path can lead one most quickly to a top executive position in Germany.

*Hypothesis 1:*

*Spending one's entire career with only one company and, moreover, always being located in the home country of company headquarters, will lead to becoming an executive faster than having been an expatriate or having changed companies and countries frequently.*

At this point it should be pointed out once again that the focus is

strictly on the time component. As all the subjects of this study have already reached a C-level position, the purpose of this examination should not be misconstrued as trying to identify the routes leading to becoming such a “C”, but it is much rather concerned with the different career choices and strategies that lead to the fastest promotions. One could argue that all the individuals in this sample have obtained a rank within their companies of such high level that how fast they got there doesn't matter as much as the simple fact of getting there. But in a world that is as competitive as the one we live in these days, knowing a significantly faster route to becoming an executive would be a valuable competitive advantage over one’s rivals. Such insights are clearly no guarantee of reaching the aspired position, but they can make an important, even decisive contribution in a race for one of these rare positions.

In the first steps of the analysis of hypothesis one it becomes evident that the chosen method (Poisson regression analysis) and model are well suited to the scenario of this research project. The suitability is proven and illustrated by the results of the Omnibus Test, which show a highly significant value (Sig. = .000) and thus confirm the theoretical validity of the analysis.

**Table 5: Findings Hypothesis one**

<b>Indep. variable</b>	<b>B</b>	<b>Significance</b>
<i>Type 2</i>	-0.50	n.s.
<i>Type 3</i>	-0.02	n.s.
<i>Type 4</i>	0.030	n.s.
<i>Age</i>	0.033	.000
<i>Degree (Business)</i>	4.257	.000

As illustrated in Table Five, the analysis for hypothesis one did not result in any significant findings in regard to the different types of “C” level executives and the time it took the sampled individuals to reach their first “C” position. This is shown in the figure by the non-

significant results for *Type 2*, *Type 3* and *Type 4*. These findings refute hypothesis one, that spending one's entire career with one company and in the country of the company's headquarter will lead to becoming an executive faster. One must conclude that any chosen form of foreign exposure does not influence the speed with which one of the executives from the sample reached their first "C" position.

An additional indication of the reliability of the the model and data is the result of other key variables included in the study. As already mentioned earlier in this paper, a large variety of different combinations among the independent variables were tested and the resulting findings are consistent with the standard literature.

The independent variable *Age* provides a significant result with a positive correlation (  $B = 0.033$ ). The findings state that a significant connection exists between the age of an individual and the time it took him or her to reach the first "C" position. The positive correlation means that among the sample members it took the older managers longer to become first-time "C" level executives.

This result is not too surprising when one considers the representative function and responsibility such positions bear and that these often challenging positions require a certain amount of experience and a certain aura of seniority for representative functions.

The other variable that showed a significant result and connection to how fast a manager became a "C" for the first time was the kind of *Degree* the individual had obtained, keeping in mind that the variable *Degree* was subdivided into: business, law, and all other degrees, which were mostly made up of different technical areas. Among these three different kinds of degree the one providing a significant contribution (Sig. = .000) to the research question of how fast one

has obtained its first "C" positions is the category of business degree, as shown in table five. As this significantly positive correlation does not allow for any appropriate interpretation the initial model needed to be adapted and further developed.

The first objective was to modify the dependent variable in order to facilitate the identification of more detailed distinctions in the results. This required including a sub-category of when an individual started to be available on the open labour market. As a large number of managers in the sample have gained either an MBA or Ph.D., the number of actual working years it took them to reach their first "C" position was not clearly enough defined in the first attempt.

The new formulation of two slightly different and more detailed dependent outcome variables for this model were created by adjusting the first version already earlier explained in the measurements chapter: *Duration to first receiving a "C" position*.

- *Duration to first receiving a "C" position; Version 2*

From the initial outcome variable dependent on the earned degree, a certain amount of years were deducted to reach a more accurate and realistic measurement.

- Minus one year for all certified accountants
- Minus two years for all individual holding an MBA degree
- Minus four years for all Phds

If a manager was in possession of an MBA as well as a PhD a total of six years were deducted from the initial calculation.

Although not all MBA programs last for two years nor all PhD programs for four years, these standard estimates were chosen for the sake of simplicity and feasibility.



Finally a third version of the dependent variable was formulated to better control and crosscheck any possible differences.

- *Duration to first receiving a "C" position; Version 3*

In this version the starting date for when an individual has first joined the labor market is taken strictly as the date when the final degree has been completed. Here all the different varieties of how an academic degree can be earned are simply ignored and the measurement is made solely from the time of the last degree to the first "C" position.

For both of these newly formulated variables the acquisition of an honorary doctorate was not taken into account.

These adjustments are also designed to take into account the different practices among the North American and the European patterns of transitioning from higher education to employment. In Europe it is more common to continue the studies all the way to a master level without taking a break between the bachelor, master, and possibly the PhD diploma. But in North American society it is very widespread to take some time off after a bachelor degree to work and maybe later continue on with a master degree, or further on, a PhD degree. As the sample of this study is internationally influenced, these adjustments to the dependent variable serve the purpose of being more case sensitive.

### **6.3.1 Results from revised dependent variable (Hypothesis one)**

The initial attempt of rerunning the analysis using as an outcome variable *Duration to first receiving a "C" position; Version 2*, did not supply the anticipated outcome of a non-significant result for the independent variable *Degree*, but much rather showed almost

identical results as in the previous examination: a significant connection with a positive correlation between a business degree and the newly stated dependent variable of duration to first receiving a "C" position. Therefore, this version led to the same difficulty in interpretation as before.

Repeating the analysis a final time incorporating the third version of the dependent variable (*duration to first receiving a "C" position; Version 3*) in the model showed the hoped for and anticipated results of non-significance between the variables *Degree* and the outcome variable. As a consequence, these findings did not lead to the kind of stymied interpretations of significant results encountered in the previous attempts, and so it was clear that the last version among the outcome variables, counting the years since the final earned degree to the first "C" position, was the most appropriate theoretical explanation of the real life scenario.

That leaves the variable age as the only significant contributor to have an impact on the time it took a current executive to reach a first "C" level position.

#### **6.4 Hypothesis two**

Hypothesis two deals with a totally different scenario from that in hypothesis one, focusing namely on the compensation structure among executives.

*Hypothesis 2:*

*Former expatriates and executives with international experience are willing to accept higher levels of risk and uncertainty regarding bonus pay in relation to their total compensation than their counterparts without any international exposure.*

The outcome variable for this second model was the *ratio of bonus pay to total compensation earned*. Similar to the previous examination, a variety of slightly different independent variables were incorporated into the model in order to find significant interactions.

The findings resulted in no significant outcomes. Therefore, foreign exposure, as either an expatriate or as generally gained international experience, showed no impact on the individual compensation structure in the sample. Hence, hypothesis two was negated. Even though Tosi and Greckhamer have suggested the influence of cultural differences, such as power distance, on compensation structures, like total pay and ratio of bonus to total pay, among different countries<sup>58</sup>, the data and findings of this present study contradict their claims. Just spending time on foreign assignments and therefore logically being exposed to different cultural circumstance for some time alone does not demonstrably contribute a significant influence on the ratio of bonus pay to total compensation earned. Consequently, the assumption that having spent time professionally abroad impacts one's willingness to accept a higher risk and variable pay can not be supported.

As neither variable used in the second model contributed significantly to the ratio of bonus pay to the total compensation, this leaves it open to further investigation what other factors might be responsible for the existing differences among executive bonus pay ratio; contracts negotiated on an individual basis will involve other parameters, such as met objectives and company specific characteristics.

## 7 Limitations

Ultimately, the value of any given empirical study depends on a clear understanding of the possibilities and the limitations of its methods and its source materials. In particular, it is vital to give an explicit account of the limiting contingencies and parameters as they affect the accuracy and precision of the findings.

Due to the nature of what kind of individuals were included in the study, namely the top level executives from Germany's DAX enlisted companies, the means by which the necessary data could have been gathered was drastically limited. The chance of receiving filled out questionnaires from a representative amount of executives answering the required questions for this study is, as one could imagine, very slim. The same can be said about the likelihood of conducting one-on-one in-depth interviews with top managers whose time is at a premium. Therefore, the only other available option was to use published secondary data sources. The highest quality secondary data resource, with the most sophisticated and trustworthy data base, *Capital IQ*, was used in this study, but nevertheless there is always the possibility of error and, more importantly, the available data is restricted because of not all desired information was included in the necessary detail. For example, it was very challenging to find out the year when an individual completed his or her final management training, or MBA, before first becoming a "C"-level executive. Often the only possibility was to rely upon secondary sources outside the primary data base, such as published CVs, and even then, merely the fact that this person had earned an MBA degree was stated, but not when it was completed. In this regard, the primary data base, *Capital IQ*, was also not able to provide many detailed insights. Although by painstakingly crosschecking all the utilized data with different sources the level of reliability was enhanced, there remained unavoidable gaps where certain detailed information was simply not procurable.

This obstacle could have been avoided or lessened if a different mode of research could have been implemented and customized for the explicit purpose of this study.

A general limitation regarding all research dealing with topics with personal information, like the one addressed in this paper, is the issue of privacy protection. Due to the fact that some questions might deal with sensitive information that respondents are hesitant to provide, as for example: age, nationality, or if they have joined a fraternity while at university, exacerbates the difficulty for researchers. In the present study, only publicly traded companies were investigated, which at least avoided the problem of acquiring some kinds of sensitive data, such as compensation and compensation structure, since these sort of facts are required to be published in the annual report.

It could be argued that the rather small number of sampled individuals could be construed as a shortcoming for the model, and indeed the sample included in this study represents just the tiny top of a huge iceberg that is the entire manager force existing in Germany. But of course the restricted focus on only the very highest examples of success is exactly the topic under investigation and therefore not in itself a shortcoming.

And as illustrated by the data, the managers belonging to this elite group show in many cases a high rate of similarity with regard to career choices and foreign exposure. Therefore, might not one of the causes responsible for creating the apparently unsatisfactory nonsignificant results in this study be that the margins of difference among the executives' CVs is simply in many cases too slight? It is one consequence of the sample used for this study, which includes only a certain type of manager who was able to reach a "C" - level position already and who exhibits similar patterns with regard to international experience, that it makes it challenging to identify what

significant factors influenced, for example, the speed with which they reached their first C position.

Resolving such issues would have required extending the research sample to the next management level beneath the top executives in order to make comparisons between individuals who had made it to the top and those who hadn't reached this very top of the iceberg. However, this additional challenge would have gone far beyond the possibilities of conducting such detailed research on the huge number of individuals who would have been included in the sample.

### **7.1 Networks influencing career success**

One of the first aspects that crosses most people's minds when thinking about influences on career success are networks. That is an influence that is not taken into consideration in this paper. Knowing the right people and being well connected socially is believed to be a driving force in enhancing career development and success. Networking theory has been widely discussed in the literature, as for example by Seibert, Kraimer and Liden, who point out the connection between social capital and career success. Their research documents the positive bond of network benefits, such as access to information, availability of resources, and career sponsorship as well as the influence on salary level, number of promotions over the duration of one's career, and overall career satisfaction. These findings refer to a sample of 448 US university alumni among different degrees who have graduated between three to thirty years prior to the study.<sup>64</sup>

Clearly it would be interesting and desirable to integrate a consideration of social networking into the interpretation of the influence of foreign exposure on successful career development. That would be a further step in refining our understanding of the significance of foreign exposure in general and should be

<sup>64</sup> Seibert, Kraimer, Linde 2001

recommended as a continuation and extension of the present research project.

Other papers, such as the study by Brown et al.<sup>65</sup>, point out the impact social networks can have upon CEO compensation and therefore also have a bearing on the research objective of this paper as well.<sup>66</sup>In contrast to other papers like the one by Strahilevitz in 2004, which focuses on the impact different kinds of existing ties, both weak and strong, can have on a manager's career <sup>67</sup>, Brown et al. have found a new approach for measuring the size of a network. In their paper the size of a network consists of all acquaintances made, ranging from the golf club friends to university colleagues without differentiating between weak and strong ties.

In this study 1,366 observations were included resulting in a median of 190 ties made as an average over a CEO lifetime. The findings show that the larger one's network is and therefore according to the authors' definition also the power in the labour market, the higher is the CEO's total compensation and vice versa.<sup>68</sup> In other words, a significant positive connection is shown between the size of the CEO's network and his or her earnings.

These findings need to be considered when further developing the research of this paper in the future.

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65 Brown et al. 2009

66 Strahilevitz 2004

67 Brown et al. 2009

68 Brown et al. 2009

## **8 Recommendation**

The combination of model and method used in this study is unique and widens the horizon of study in the field of career success factors in the context of internal exposure, but it is just the initial stepping stone to a new level of understanding. In order to extend and refine this investigation, several recommendations should be considered for future research.

A natural and first consideration would be to expand the research to another country, as this study focuses strictly upon German companies and it would be of interest to compare the findings to a culturally different country, especially in regard to those that are rich in immigration such as for example Canada, and to investigate the impact international exposure and experience has on its executive career paths and compensation structure.

Clearly, in regard to further research an attempt should be made to gather primary data despite all the difficulties it entails. Being able to gain even more detailed insights, tailored exactly to one's research question, would help to verify the findings of this study and eliminate potential shortcomings. How to gain such primary data is the challenging question that needs to be resolved. A questionnaire delivered by mail, with all sorts of motivational enticements as well as a follow up reminder might be an option to consider. Another method worth considering would be to conduct telephone interviews, clearly facing some similar challenges in respect to actually getting through to the executives, but if successful, the tactic would greatly improve the precision of the data.

For further research, simply changing the sampling method and adding another country to the mix would be a good beginning, but one should also consider expanding the model with some more



variables of interest. For example, one could include components which can incorporate the influences of networks. Such adjustments would help one to investigate how international exposure is linked to international networks and provide a significant contribution to the established outcome variables of “duration to first receiving a “C” position” and “ratio of bonus pay to total compensation earned”. A similar measure of the network size and strength as used in the paper by Brown et al.<sup>69</sup> would be recommended for the purpose of this study.

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<sup>69</sup> Brown et al. 2009

## 9 Conclusion

The paper develops and examines the relationship of foreign exposure, which is divided into several categories such as international experience per se and having been an expatriate, to important career success measures for Germany's elite executives, formulated on the one hand as the time elapsed before their becoming a first-time "C" level executive, and on the other hand the influence that foreign exposure has on the structure of their compensation packages.

Two separate models were implemented to address the research objectives, taking into account the different structures of each outcome variable as well as as adapting them for the required changes among the independent and control variables. Model one was based upon the Poisson regression analysis, whereas model two was investigated using a simple linear regression analysis.

The results confirmed neither of the proposed hypotheses, and as a consequence no causal connection can be construed between the category an executive was assigned to in regard to his or her past foreign exposure and the time it takes to become a first-time "C" level executive or the structure of their compensation packages. The only variable contributing significantly and positively correlated to the outcome variable of *time it took to become a first-time "C" level executive* was the dependent variable age, highlighting once again and going hand in hand with the most relevant literature the importance of experience in attaining such a responsible and representative function in a large multinational firm.

Clearly any evaluation of the findings should take into consideration the mentioned limitations, such as the possible deviations caused by the difficulties of gathering tailored primary data, or the omission of

social networks as a possible additional factor influencing career success.

This study can be utilized as a foundation to necessary further research in order to gain more insights into how foreign exposure contributes to career success factors. It is strongly recommended that further studies expand the models to compare conditions in other countries, possibly finding the means to acquire primary data, and also incorporating some more control variables.

*"Try not to become a man of success, but rather try  
to become a man of value."*

*- Albert Einstein<sup>70</sup>*

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<sup>70</sup> <http://www.brainyquote.com/>

## List of Abbreviations

CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CHRO	Chief Human Resource Officer
DAX	Deutscher Aktien Index
Cf.	confer (compare)
e.g.	for example
i.e.	that is
US	United States

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## Appendix

### Curriculum Vitae

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#### **Rainer Elliott Larsen**

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#### **PERSONAL:**

Date of birth: October 23<sup>rd</sup>, 1984  
Place of birth: Vienna, Austria  
Nationality: Austrian and United States of America

#### **EDUCATION:**

July 2012  
(expected)                      **Masters in International Business Administration**  
University of Vienna, Austria  
Majoring in International Marketing and International  
Management; emphasis on Human Resource Management  
Thesis: "*Foreign Exposure and Personal Success: An  
Empirical Study of Determinative Factors in the Careers  
of Germany's Top Executives*" with the  
Chair of International Personnel Management

June 2004                      **Advanced High School Diploma**  
Graduated with Highest Honors from Federal Gymnasium  
in Baden bei Wien, Austria

#### **EMPLOYMENT:**

October 2011                      **Buyer**  
to present  
(part-time)                      *Roche Austria GmbH, Vienna Austria*  
Member of the Procurement Department

- Responsible for purchasing printing material as well as advertising goods
- Involved in sourcing decisions and category management activities

- June 2001  
to present  
(seasonal)
- Administrative Assistant**
- Franz-Schubert-Institut in Baden bei Wien, Austria*  
Organizing international summer courses for singers and pianists
- Responsible for local publicity and fund-raising as well as the design and implementation of international advertising strategies
  - Responsible for the coordination of student affairs and for fulfilling the needs of the resident teachers
- 
- March to August  
2007
- Special Project Coordinator for Marketing Communications**
- July to Sept.  
2008  
(full-time)
- Edmonton International Airport, Canada*  
Designed and implemented a program to enhance passenger experience  
(*"Live all year at EIA"*)
- Responsible for writing the business plan and securing support from community leaders (e.g. City of Edmonton Mayor's Office)
  - Managing all on-site performances and sponsorships
  - Implementing the new brand (*"We will move you"*) within the airport
- 
- September 2004  
to September 2005  
(full-time)
- Orderly (completed Federal Civil Service requirement)**
- General Hospital of Baden bei Wien, Austria*  
Transported and cared for resident and ambulant patients
- Extensive experience in dealing with emergency room situations
  - Developed close working relationship with Head Surgeons
- 
- Sept. 2006  
to March 2007
- English Teacher**
- Montessori School of Enzesfeld, Austria*
- Intensive innovative group teaching of children
- 2004 to present  
(part-time)
- Private English Tutoring*
- Extensive success with students at all levels

## **VOLUNTEER EXPERIENCE:**

2003 to 2004

### **Coach: Under-12 Boys Basketball**

*Basketball Club Arkadia Lions in Traiskirchen*

- Trained, coached, and motivated boys basketball team
- Finished second at State Finals Tournament

2001 to 2002

### **Volunteer Coach**

*Federal Gymnasium Baden*

- Head Coach of the Junior Division boys basketball team and won Second Place of 143 teams in the National Finals Tournament

## **LANGUAGE and COMPUTER SKILLS**

- Fluent in German (written and verbal)
- Fluent in English (written and verbal)
- Conversational French
- MS Office (good)
- SAP (intermediate)
- Ariba (beginner)

## **AWARDS:**

- Graduation with Highest Honors from Federal Gymnasium Baden in 2004 with A-level exams in German, English, History, Mathematics, and Biology
- Award for excellence of senior thesis: "The Political Oratory of Martin Luther King, Jr."
- Second Place National League Basketball Final, Under-22 Division, Arkadia Lions Traiskirchen, 2004
- First Place National High School Basketball Finals, Junior Division, in 1998 and 1999; leading scorer both times

## **INTERESTS:**

- Playing Basketball, Fencing, Sailing
- Travel in Europe and North America
- International political affairs