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Research on the Impact of Board Stability on Corporate Internationalization: Evidence from China

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Abstract

In the context of economic globalization, internationalization strategies serve as a critical pathway for enterprises to enhance competitiveness. Board stability reflects the internal resilience of the board of directors and the continuity of corporate strategic orientation, exerting a significant influence on corporate internationalization. This study empirically examines the impact of board stability on the degree of corporate internationalization using a sample of Chinese A-share listed companies from 2015 to 2023. The results indicate that board stability significantly improves the degree of corporate internationalization. Further analysis reveals that this positive effect is pronounced only in firms where the board lacks overseas experience and in those located in eastern regions of China. The findings clarify the role of board stability in the dynamic process of corporate internationalization and provide practical insights for optimizing multinational operations and management.

Keywords

board stability, corporate internationalization, empirical study

1. Introduction

According to the 2023 Statistical Bulletin of China's Outward Foreign Direct Investment, by the end of 2023, Chinese domestic investors had established 48,000 overseas direct investment enterprises across 189 countries (regions), with total assets of overseas enterprises reaching USD 9 trillion. Against the backdrop of advancing the Belt and Road Initiative and the "dual-circulation" development paradigm, Chinese enterprises have generally adopted a steady and progressive approach to internationalization. However, recent years have witnessed heightened global economic and political turbulence, rising anti-globalization sentiment, and frequent deglobalization practices, leading to escalating environmental uncertainties and risks for Chinese firms.

In this context, the resilience and adaptability of corporate boards have been severely tested, making board stability a critical factor for sustainable corporate development. As the core decision making team of enterprises, board stability not only reflects the continuity of strategic orientation but also underscores organizational resilience. Frequent board member turnover often signals strategic instability (Feng et al., 2022) and triggers adverse consequences, drawing intense scrutiny from internal and external stakeholders. Consequently, how to effectively maintain board stability to facilitate corporate internationalization has become a pressing issue in both theory and practice.

The potential marginal contributions of this study are twofold. First, by focusing on board stability, it seeks to elucidate its role in the dynamic process of corporate internationalization, thereby extending research on the economic consequences of board stability and enriching the literature on factors influencing internationalization. Second, incorporating perspectives of overseas experience and regional heterogeneity enhances the practical relevance of the analytical framework, deepening the understanding of board stability and internationalization strategies, and offering actionable insights for optimizing corporate governance and advancing global expansion.

2. Theoretical Analysis and Research Hypothesis

In the context of the increasing trend of global economic integration, international sales revenue is an important measure of the internationalization process of multinational enterprises, which not only reflects the behavior and results of the strategic decisions of the management of the enterprise, but also reflects the positive interaction between the enterprise and economic globalization. According to the upper echelons theory, factors such as the structure and characteristics of the board of directors can have a significant impact on the development strategy of the organization (Hambrick & Mason, 1984). The stability of the board of directors is a more direct reflection of its membership structure and characteristics, which will have a significant impact on the internationalization process of the enterprise (Lin, 2014).

Board stability reduces the operational risk of a firm (Feng et al., 2022). Board stability implies a more solid pattern of benefit sharing and risk sharing, with better long-term expectations and long-term orientation. Crutchley et al. (2002) found that board stability has a significant positive impact on firm performance after initial public offering. Agarwal et al. (2020) found that stable executive team can contribute to the improvement of long term performance of firms as well as competitiveness of industry leadership. Based on the perspective of the economic man hypothesis, the internationalization process of enterprises is often accompanied by high risks and high returns, and the internationalization strategy is characterized by a long period of time, which executives will weigh and make trade-offs. When the board of directors lacks stability, board turnover is frequent, and board members avoid internationalization due to high private costs and lack of long-term benefits, hindering the internationalization of the firm. In contrast, stable boards usually have more solid risk-taking and benefit-sharing mechanisms, and are more willing to invest in long-term internationalization strategy projects, thus increasing firm internationalization.

The stability of the board reflects the level of trust among the board members and is also an indication of the cohesiveness of the board (Zhang et al., 2018). On the one hand, according to the theory of social homogeneity, directors have a certain degree of similarity in terms of circumstances and values, otherwise they may not be able to form a stable team. In the current situation of saturated domestic market and increasingly fierce competition, the implementation of internationalization strategy can expand the competitive advantage of enterprises. The stability of the board of directors helps to reduce collaboration conflicts and communication costs, and improves the efficiency of internationalization strategy decision-making. Barney (1991) points out that the stability of the board of directors, as the core decision-making team of a company, is both a manifestation of cohesion and a strategic resource of the enterprise. Specifically, in the process of internationalization, if a firm possesses unique advantages that are not easily imitated, i.e., strategic resources, it will be in a better position to further increase the degree of internationalization. On the other hand, the stability of the board of directors

reflects a stronger long-term orientation of the board members, which increases the willingness of the firm to invest in internationalization projects. According to the rational economic man hypothesis, since the benefits brought by the implementation of internationalization strategy have a certain time lag, if the board of directors can maintain the stability, the board members will get more benefits from the internationalization strategy of the enterprise, and then they may support the internationalization strategy of the enterprise.

Based on the above analysis, this study proposes the following hypothesis:

H1: Board stability can enhance the degree of corporate internationalization.

3. Research Design

3.1 Sample Selection and Data Sources

In this paper, the listed companies of Shanghai and Shenzhen A-share companies from 2015 to 2023 are selected as the research sample, and the samples of companies with insolvency (i.e., gearing ratio greater than 1), financial industry, ST in the current year, PT, and missing data of key variables are excluded. After the above screening, the final remaining 29,639 unbalanced panel data in this study. This study involves data from CSMAR databases. In order to avoid the effect of extreme values, this study has performed a two-sided 2% shrinkage on all continuous variables.

3.2 Measurement of Variables

Explanatory variable, Board Stability (*BS*). The board stability in this paper considers two aspects of team size change and member change, and constructs the following model (1) with reference to the calculation methods of Crutchley et al. (2002) and Yu et al. (2004):

$$BS_{t,t+1} = \frac{M_t - \#(S_t/S_{t+1})}{M_t} * \frac{M_{t+1}}{M_{t+1}+M_t} + \frac{M_{t+1} - \#(S_{t+1}/S_t)}{M_{t+1}} * \frac{M_t}{M_{t+1}+M_t} \quad (1)$$

M_t and M_{t+1} indicate the total number of directors in year t and year t+1, respectively; $\#S_t/S_{t+1}$ indicates the number of directors who were in office in year t but left in year t+1; and $\#S_{t+1}/S_t$ indicates the number of directors who were not in office in year t but were newly added in year t+1.

Explained variable, degree of enterprise internationalization (*FSTS*). Since the proportion of the enterprise's overseas business revenue can reflect the enterprise's internationalized operation status more directly, this paper selects the proportion of the enterprise's overseas sales revenue to the total operating revenue to measure the enterprise's internationalization degree.

Control variables. To control the influence of other factors, this paper adds the variables of firm size (*Size*), firm performance (ROA), financial leverage (*Lev*), cash flow ratio (*Cashflow*), fixed asset ratio (*FIXED*), firm market value (*TobinQ*), institutional investor shareholding (*INST*), firm age (*FirmAge*), and the nature of ownership (*SOE*) and other variables. Meanwhile, in order to control the effects of yearly trends and industry differences on the internationalization process, this study introduces yearly dummy variables (Year) and industry dummy variables (Ind). The specific definitions are shown in Table 1.

Table 1. Definitions and Measures of Key Variables

Variable type	variable name	variable symbol	Description of indicators
Independent variable	Board Stability	*BS*	See the description of the measurements in equation (1) for more details
Dependent variable	Degree of enterprise internationalization	*FSTS*	Proportion of the enterprise's overseas sales revenue to total operating revenue for the year
Control variables	Enterprise size	*Size*	Natural logarithm of total annual enterprise assets
	return on assets	*ROA*	Net profit/average balance of total assets
	gearing	*Lev*	Total liabilities at year-end divided by total assets at year-end
	Cash flow ratio	*Cashflow*	Net cash flows from operating activities divided by total assets
	Ratio of fixed assets	*FIXED*	Net fixed assets to total assets
	market value	*TobinQ*	(Market value of outstanding shares + number of non-outstanding shares × net assets per share + book value of liabilities)/Total assets
	Institutional investor holdings	*INST*	Institutional investors' shareholding
	Age of business	*FirmAge*	Natural logarithm of the number of years the business has been established
	Nature of property rights	*SOE*	State-controlled enterprises take the value of 1, otherwise 0
	Number of employees	*Employ*	Natural logarithm of total number of employees
	vintage effect	*Year*	Year dummy variable
	industry effect	*Ind*	Industry dummy variables

3.3 Model Construction

To test hypothesis H1, model (2) is constructed to verify the effect of board stability on the degree of corporate internationalization:

$$FSTS_{i,t} = \beta_0 + \beta_1 BS_{i.t} + \beta_i Controls_{i.t} + \delta_t + \mu_i + \varepsilon_{i,t} \quad (2)$$

Where $FSTS_{i,t}$ denotes the degree of internationalization of firm i in year t; and $BS_{i.t}$ denotes the stability of the board of directors of firm i in year t. The following is a list of control variables set out above $Controls_{i.t}$ denotes a series of control variables set above. δ_t , μ_i *and* $\varepsilon_{i,t}$ represent year fixed effects, industry fixed effects and residuals, respectively.

4. Empirical Testing and Analysis of Results

4.1 Descriptive Statistics

Table 2 presents the descriptive statistics of the variables. The summary statistics reveal a polarized landscape in the sample: while the foreign sales-to-total sales ratio (FSTS) exhibits a right-skewed distribution (mean = 0.126, median = 0.005) with significant heterogeneity (SD = 0.210), indicating that internationalization is concentrated in a small subset of firms (max = 0.865), board stability (BS) displays a left-skewed pattern (mean = 0.894, median = 0.927) and limited dispersion (SD = 0.112), suggesting most firms maintain stable boards despite meaningful variation (min = 0.496, max = 1.000).

Table 2. Summary Statistics

VarName	Obs	Mean	SD	Min	Median	Max.
FSTS	29639	0.126	0.210	0.000	0.005	0.865
BS	29639	0.894	0.112	0.496	0.927	1.000
Size	29639	22.346	1.275	20.064	22.162	25.890
ROA	29639	0.036	0.065	-0.265	0.036	0.199
Lev	29639	0.420	0.198	0.067	0.413	0.867
Cashflow	29639	0.049	0.064	-0.125	0.048	0.218
FIXED	29639	0.199	0.150	0.003	0.168	0.665
TobinQ	29639	2.049	1.296	0.831	1.630	10.597
INST	29639	0.422	0.246	0.005	0.433	0.886
FirmAge	29639	3.018	0.282	2.079	3.045	3.584
SOE	29639	0.336	0.472	0.000	0.000	1.000
Employ	29639	7.667	1.211	5.142	7.578	10.699

4.2 Correlation Analysis

As shown in Table 3, the correlation coefficient between *BS* and FSTS is 0.046 and is significant at the 1% level. This result suggests that as the stability of the board of directors increases, the internationalization of the firm also increases, which initially verifies the hypothesis of this paper H1. In addition, through further variance inflation factor analysis (VIF), the results indicate that the model does not have serious multicollinearity.

Table 3. Correlation Coefficient of Main Variables

	FSTS	BS	Size	ROA	Lev	Cashflow
FSTS	1					
BS	0.046***	1				
Size	-0.012**	-0.059***	1			
ROA	0.060***	0.109***	0.036***	1		
Lev	-0.040***	-0.091***	0.490***	-0.346***	1	
Cashflow	0.090***	0.038***	0.081***	0.441***	-0.166***	1

Note. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$, same below.

4.3 Analysis of Regression Results

Table 4 reports the results of the baseline regression of this paper, which is used to verify the effect of board stability on the degree of firm internationalization. Column (1) in Table 4 does not include any control variables to test the relationship between board stability (*BS*) and firm's degree of internationalization (*FSTS*) and the results show that the regression coefficient of BS is 0.058 and significant at 1% level. Column (2) adds a series of all the control variables set in this paper, and the results show that the regression coefficient of BS is still significantly positive at the 1% level. The above results indicate that the higher the stability of the board of directors, the higher the degree of internationalization of the firm, and hypothesis H1 is supported.

Table 4. Benchmark Regression Results

	(1)	(2)
	FSTS	FSTS
BS	0.058***	0.027***
	(5.63)	(2.67)
Size		-0.010***
		(-4.82)
ROA		-0.026
		(-1.13)
Lev		-0.001
		(-0.10)
Cashflow		0.204***
		(9.25)
FIXED		0.002
		(0.20)
TobinQ		-0.000
		(-0.44)

INST		0.015**
		(2.33)
FirmAge		-0.024 ***
		(-5.27)
SOE		-0.058 ***
		(-21.17)
Employ		0.025 ***
		(13.97)
_cons	0.075 ***	0.200 ***
	(8.17)	(5.21)
N	29639	29639
adj. R^2	0.077	0.106
Year	Yes	Yes
Industry	Yes	Yes

Note. t statistics in parentheses.

4.4 Robustness Tests

4.4.1 Sensitivity Analysis

Drawing on the sensitivity analysis method of Cinelli et al. (2020), this paper further explores the omitted variable problem of the regression model. In this paper, we set the variables used to compare with the intensity of potential omitted variables, as asset size is an important control variable in the study of listed companies' strategies, this paper takes the size of the firm (*Size*) as a comparison variable, and the results of the sensitivity analysis test are shown in Table 5, when Size is the comparison variable, R^2dz.X and R^2yz.x are smaller than the robustness value, indicating that the intensity of the omitted variables is less than 1x and 2x, 3 times Size intensity (Size×1, Size×2, Size×3), the previous estimation results are valid; in summary, it can be seen that it is more difficult for the omitted variables to reach the intensity that overthrows the previous estimation results, and the omitted variable problem is further considered, and it can be considered that the previous regression results are robust.

Table 5. Sensitivity Analysis Test Results

	variant	*ratio*	*standard error*	*t-value*	R^2*yd.x*	*robustness value*
	BS	0.0271	0.0106	2.5501	0.0002	0.0034
DV=FSTS	*dissociation*	R^2*dz.X*	R^2*yz.dx*	*ratio*	*standard error*	*t-value*
	Size× *1*	0.0009	0.0010	0.0253	0.0106	2.3834
	Size ×*2*	0.0019	0.0020	0.0235	0.0106	2.2167
	Size ×*3*	0.0028	0.0030	0.0218	0.0106	2.0497

Note. R^2yd.x denotes the bias R^2 of *BS* against *FSTS* controlling for other control variables; robustness values denote robustness values that make the estimated coefficients exactly zero; R^2dz.X denotes the bias R^2 of the omitted variable Z against the explanatory variable *BS*, controlling for the other control variables; R^2yz.dx denotes the bias R^2 of the omitted variable bias R^2 for the explanatory variable *FSTS*.

4.4.2 Propensity Score Matching

Considering that sample selection bias may lead to endogeneity problems in the regression model of this paper, this study further adopts the propensity score matching method for control. In this paper, we construct dummy variables bounded by the median *BS* calculated by year and by industry, set up treatment and control groups, use 1:1 nearest-neighbor matching, and use all the control variables in this paper as covariates, and carry out regression analysis based on the matched samples. As shown in Table 6, the results of the impact of board stability on corporate internationalization are basically consistent with the previous paper when after using propensity score matching.

Table 6. Results of Propensity Score Matching Test

	(1) FSTS	(2) FSTS
BS	0.040***	0.027**
	(2.94)	(2.00)
Size		-0.008***
		(-3.02)
ROA		-0.040
		(-1.30)
Lev		0.008
		(0.78)
Cashflow		0.217***
		(7.05)
FIXED		-0.005
		(-0.42)
TobinQ		-0.001
		(-0.47)
INST		0.004
		(0.41)
FirmAge		-0.030***
		(-4.64)
SOE		-0.057***
		(-15.13)
Employ		0.025***
		(10.53)
_cons	0.089***	0.187***
	(7.42)	(3.54)
N	15311	15311
adj. R^2	0.074	0.106
Year	Yes	Yes
Industry	Yes	Yes

5. Further Analysis

5.1 Heterogeneity Analysis of Board Experience Abroad

As shown in Table 7, the regression coefficient of board stability BS on FSTS is significantly positive at the 5% level in firms whose boards do not have overseas experience. In contrast, the regression coefficient of board stability BS on FSTS is positive but not significant in firms whose boards have overseas experience, indicating that board stability contributes to firms' internationalization strategies only in firms whose boards do not have overseas experience.

This phenomenon may be related to the dual mechanism of resource substitution effect and strategic decision-making path dependence brought about by the board's overseas experience (Sambharya, 1996). From the resource base perspective, when the board of directors lacks internationalization experience, stability becomes a key mechanism for bridging the knowledge gap of the organization, and a long-term stable governance structure can gradually build up the institutional capacity for internationalization through continuous internal knowledge accumulation and strategic coherence, thus facilitating the expansion of the firm's overseas business.

However, when board members already have overseas experience, their individually embedded international networks, market perceptions, and decision-making paradigms can directly provide the heterogeneous resources needed for internationalization, and the role of board stability is not significantly manifested at this time: on the one hand, the dynamic decision-making preferences of directors with overseas backgrounds may be more inclined to flexibly adjust their strategies to international market fluctuations, which creates a tension with the continuity of paths that is emphasized by stability. On the other hand, the cognitive framework formed by established international experience may reduce the reliance on the traditional decision-making model of local boards, resulting in a dilution of the marginal contribution of stability to strategy execution. In addition, under the higher-order theory perspective, the cognitive diversity brought about by overseas experience may change the board power structure, and directors with international backgrounds tend to have a stronger voice on strategic issues, which may weaken the role of authoritative centralization that stability relies on as a safeguard for strategy implementation. Therefore, the relationship between board stability and internationalization strategy is characterized by conditionality, and there is essentially a dynamic balance of strategic complementarities and substitutions between the heterogeneous resources of overseas experience and the stability of the governance structure.

Table 7. Test for Heterogeneity of Board of Directors' Overseas Experience

	No overseas experience	Overseas experience
	(1)	(2)
	FSTS	FSTS
BS	0.024**	0.024
	(2.02)	(1.38)
Size	-0.019***	-0.004
	(-8.10)	(-1.23)
ROA	-0.024	0.036
	(-0.87)	(0.96)
Lev	0.005	0.012
	(0.65)	(0.87)

Cashflow	0.162 ***	0.217 ***
	(6.33)	(5.76)
FIXED	-0.023**	0.061 ***
	(-2.27)	(3.52)
TobinQ	-0.004 ***	-0.001
	(-3.28)	(-0.54)
INST	0.025 ***	-0.006
	(3.09)	(-0.56)
FirmAge	-0.009*	-0.036 ***
	(-1.70)	(-4.85)
SOE	-0.048 ***	-0.052***
	(-14.33)	(-11.69)
Employ	0.029 ***	0.020 ***
	(13.97)	(6.65)
_cons	0.323 ***	0.169 ***
	(6.97)	(2.74)
N	16752	12887
adj. R^2	0.102	0.124
Year	Yes	Yes
Industry		

5.2 Heterogeneity Analysis of the Areas in Which Firms Are Located

As shown in Table 8, the regression coefficient of board stability BS on FSTS is significantly positive at the 5% level among firms in the eastern region. In contrast, the regression coefficient of board stability BS on FSTS is positive but not significant for firms in the western and central regions, suggesting that the facilitating effect of board stability on firms' internationalization strategies is only effective for firms in the eastern region.

This phenomenon may stem from structural differences in resource endowment, institutional environment and market maturity between regions in China. First, as the frontline of reform and opening-up, the eastern region has a more complete industrial support system, a higher density of international trade networks and a more developed financial services system. Stable boards of directors are able to make full use of the regional agglomeration effect, integrate cross-border resources through long-term strategic layout, and reduce the cost of internationalization transactions. In contrast, due to the objective conditions of weak infrastructure, high logistics costs and limited access to international markets in the central and western regions, it is more difficult for enterprises to break through the disadvantages of geographic location and resource constraints to form an effective internationalization capability even if they maintain a stable governance structure. Second, the more market-oriented institutional environment in the east provides a more transparent information environment and more standardized legal protection for board decisions, and a stable governance structure can more efficiently transform strategic decisions into practical actions, while the relatively lagging marketization process in the central and western regions may lead to systemic transaction costs to offset the advantages of governance stability. Furthermore, eastern enterprises generally have stronger risk tolerance and richer international experience, and board stability is more likely to create synergies

with organizational memory and the international vision of the executive team, while central and western enterprises may face internationalization uncertainties, which may lead to a decline in the efficacy of strategy implementation due to insufficient experience reserves. This regional heterogeneity is essentially a manifestation of the differences in the fit between corporate strategic choices and the external institutional environment under China's gradient development pattern.

Table 8. Test for Heterogeneity in Different Areas

	Western area	Central area	Eastern area
	(1)	(2)	(3)
	FSTS	FSTS	FSTS
BS	0.019	-0.001	0.028**
	(0.94)	(-0.06)	(2.17)
Size	0.014***	-0.009**	-0.013***
	(4.24)	(-2.12)	(-5.55)
ROA	-0.071	-0.113*	0.003
	(-1.22)	(-1.92)	(0.10)
Lev	0.025*	0.024	-0.004
	(1.70)	(1.51)	(-0.48)
Cashflow	0.131***	0.043	0.227***
	(2.84)	(0.93)	(8.37)
FIXED	0.015	-0.053***	0.037***
	(0.86)	(-2.97)	(3.05)
TobinQ	0.003	-0.000	0.001
	(1.39)	(-0.01)	(0.44)
INST	-0.023*	-0.021	0.025***
	(-1.90)	(-1.43)	(3.27)
FirmAge	-0.011	-0.050***	-0.017***
	(-0.97)	(-4.37)	(-3.05)
SOE	-0.045***	-0.043***	-0.049***
	(-7.64)	(-7.40)	(-14.29)
Employ	0.004	0.023***	0.030***
	(1.35)	(5.14)	(14.32)
_cons	-0.266***	0.306***	0.220***
	(-4.05)	(3.59)	(4.76)
N	3277	4773	21574
adj. R^2	0.131	0.075	0.118
Year	Yes	Yes	Yes
Industry			

6. Conclusions and Implications

The stability of the board of directors is an important issue of corporate governance, and the internationalization of enterprises is a realistic path for them to achieve long-term development in the context of economic globalization. Using the sample data of A-share listed companies in Shanghai and Shenzhen, this paper empirically examines the mechanism of the influence of board stability on the degree of corporate internationalization, and at the same time, this paper further analyzes the difference in the influence of whether the board of directors has overseas experience, and the influence of the board stability on the internationalization process of the enterprise in different geographic situations through regression tests.

The main conclusions of this study are as follows: First, as board stability increases, the degree of internationalization of firms increases. It suggests that stable board stability has a better driving role in the internationalization process, which makes firms willing to invest resources in long-term international business activities, leading to a higher degree of their own internationalization. Second, from the perspective of overseas experience, the board's overseas experience and board stability form a substitute for each other. When the board does not have overseas experience, board stability has a significant positive impact on the degree of internationalization of the enterprise, indicating that the overseas experience of the executives will be through the circulation and coordination of international knowledge, which will replace the facilitating effect of the board stability on the internationalization of the enterprise. Third, from the perspective of firms in different geographical regions, board stability of listed firms in the eastern region can significantly promote firm internationalization due to resource endowment and location advantages.

This study also provides some insights into management practices: first, the board of directors is the core human capital of an enterprise, and the consequences of changes in board members should be scrutinized to maintain board stability and enhance the long-term expectations and orientations of the board for sustained internationalization of the enterprise. Second, the role of overseas experience of the board of directors should be emphasized to further promote the positive role of board stability through the coordination of its international knowledge. Executives with international experience are often able to help enterprises cope with various international market issues and promote their international development. Thirdly, paying close attention to the heterogeneity of different regions, enterprises should make good use of their regional advantages, alleviate the problems of insufficient policy resources, further control their overseas risks, make prudent internationalization decisions, and try to reduce the adverse impact of overseas risks on internationalization. At the same time, enterprises should improve their own risk-bearing capacity to mitigate the impact of overseas risks on enterprises.

This study also has certain limitations. First, confined to the availability of data, this paper only analyzes a sample of local listed companies in China. The governance role of board stability in foreign listed and unlisted companies may be different and deserves further discussion. Second, this paper does not analyze the mechanism of board stability and the degree of internationalization of firms, nor does it analyze the drivers of board stability, which may be considered in the future to intervene in terms of the quality of the firm's internal control and the uncertainty of the external environment.

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