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Date: 30-06-2020

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Antecedents of appointing a foreign director

EXECUTIVE SUMMARY

In this paper, I focus on identifying the antecedents of appointing a foreign director. It is increasingly common to see firms appoint foreign directors in response to increases in international business activities, but many highly internationalized firms do not have nearly the diversity in nationality in their boards that you might expect based on their business activities.

I start by arguing that as firms increase their degree of internationalization (DOI), so does their likelihood of appointing a foreign director. I come to this hypothesis through the use of Resource Dependence Theory (RDT) (Pfeffer & Salancik, 1978). RDT asserts that directors can provide certain resources, such as information, skills, networks and legitimacy. In accordance with this proposition, RDT argues that one should expect specific changes in board composition in response to changes in the firm's external environment. One such change in the context of this study, is a firm's entering of foreign markets, which makes it more attractive for a firm to appoint a foreign director.

Drawing on Similarity-Attraction theory (Byrne, 1971), an important premise of this study is that the strength of the relationship between DOI and foreign-director appointments is hampered by inertia in the current board to appoint directors who are dissimilar to them. While I expect that a firm's DOI will generally lead to the appointment of a foreign director, I also recognize that some internationalizing firms will feel more pressure to do so than others. Primarily because firms that internationalize will differ in their need for the resources that are offered by foreign directors.

Building on RDT and behavioral theories, I attempt to identify moderating variables that alter the need of an internationalizing firm for the resources of a foreign director. I hypothesize that the effect of firm internationalization on the likelihood of appointing a foreign director is moderated by a) the firm's financial performance, b) the firm's visibility and c) the proportion of foreign directors that are already present in the board.

I argue that internationalizing firms need a period of sub-par performance to trigger a transformation process to realign the firm's resource-seeking, information-processing, and legitimacy-building capacities. I predict that such firms have an increased likelihood of appointing a foreign director, who can facilitate those capacities in international stakeholder environments.

Given that the appointment of a foreign director can serve as an instrument for legitimacy in foreign markets, I also argue that firms with a high degree of visibility experience more pressure to appoint foreign directors. The key logic here being that legitimacy attempts are less worthwhile if there is no crowd to witness them.

In my final hypothesis, I argue that internationalized firms are less likely to appoint a foreign director if the board is already internationalized. I reach this hypothesis in two ways: a) research on team diversity points out that as the proportion of out-group people grows, the dominant coalition begins to perceive it as a threat and will thus attempt to keep it small and b) existing research shows that diversity is often used in a form of tokenism. In this case, groups only need one or two members that are not part of the dominant coalition to signal socially responsible behavior.

In my analysis, I look at nine years of director appointments in 304 very large UK firms. I operationalize firm performance as annual return on assets, visibility as the logarithm of annual newspaper mentions, and board internationalization as the proportion of foreign directors on the board.

I find that there is indeed a positive relationship between a firm's DOI and its likelihood of appointing a foreign director. With regard to the moderators, my data show the following results: neither in the main analysis nor in the robustness tests is there support for a moderating effect of firm performance. I did find empirical support for the moderating effect of firm visibility. Specifically, firms with a high DOI and high newspaper mentions are most likely to appoint a foreign director in the following year, but firms with a low DOI are not affected by newspaper mentions.

Finally, my main regression shows no support for a moderating effect of proportion on the relationship between DOI and the likelihood of appointing a foreign director. However, I do find support for this interaction in two of my robustness tests. The robustness tests also suggest very notable differences between the appointments of executive directors and non-executive directors. The appointment of foreign non-executives appears to influenced by a firm's DOI, but this relationship is not influenced by any of the aforementioned moderators. However, the appointment of foreign executives is influenced by a firm's DOI and this relationship appears to be moderated positively by Return on Assets and the logarithm of annual newspaper mentions. Looking at earlier research, this could be related to the notion that non-executives are recruited within the "old-boys network", rather than through the use of comprehensive selection, which is primarily applied to executive directors (O'Higgins, 2002).

Given these results, I succeed in the aims that I set for this paper. Namely, this paper points out that firms that appoint foreign directors indeed operate in contexts that are different from firms that do not. Finally, it points out that the likelihood that a firm will appoint a foreign director in response to internationalization depends on contextual factors, making some internationally active firms more motivated to increase nationality diversity than others.

This paper contributes to the existing body of literature in the following ways: First of all, it explores the boundary conditions of the resource dependence view on corporate boards. As is commonly argued, board composition is adjusted to fit the external environment and provide certain resources such as legitimacy (e.g. Krause et al., 2016), but I find that there needs to be strong pressures from both within and outside the firms to actually force these adjustments to happen. Secondly, research on board diversity has mostly focused on the effects of board diversity, rather than its antecedents (Hambrick, 2007). The problem with this is that composition and structure are then being used as exogenous predictors of organizational outcomes, in particular firm performance, even though composition is likely to arise endogenously because economic actors choose them in response to the organizational challenges that they face (Adams et al., 2010). Finally, this work provides a broader understanding of diversity-related recruitment decisions, telling us when foreign directors will be attractive candidates for inclusion in the boardroom and when there will be little interest in increasing the diversity of nationalities.

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1. INTRODUCTION

The board of directors is a vital part of a firm's corporate governance system. It serves many important functions such as the hiring, firing and compensation of managers (monitoring role), advising managers on decisions of strategic nature (advisory role) and managing important resources for the firm (Hillman et al., 2009). Research on corporate governance has for a long time concentrated around Agency Theory, where directors are classified simply as insiders or outsiders. In the past two decades, however, the importance of director characteristics beyond independence has increasingly been recognized (Daily et al., 2003; Ruigrok et al., 2007).

In this paper, I focus on a specific group of board members, namely foreign directors. In today's globalized economy, it is almost a matter of common sense to assume that the boards of large international firms are increasingly taking on more foreign directors (Staples, 2007). Indeed, a multinational board has long been seen as a sign of readiness to transform into truly global organizations (Bartlett & Ghoshal, 1989). Given these statements, it should come as no surprise that firms have increasingly appointed foreign directors in order to face the challenges of doing business abroad (Athanassiou & Nigh, 2000). Over twenty years ago, in 1999, 71% of the European firms in the Financial Times 500 already reported to have at least one non-national director, and this number has been increasing ever since (Staples, 2007; Nielsen & Nielsen, 2008).

A growing body of literature has pointed out that as firms increase their international activities, so does their likelihood of appointing a foreign director (e.g.: Greve et al., 2015; Estelyi & Nisar, 2016). Through the use of Resource Dependence Theory (RDT), one could strongly argue that foreign directors are uniquely well-suited for serving on a multinational's board, given that they bring resources such as information, skills, foreign networks and legitimacy (Hillman et al., 2009). That being said, existing studies fail to explain why it is that so many international firms

still have a lack of nationality diversity on their boards. For example, a recent global CEO succession study from 2013 found that newly appointed CEO's of multinational firms do not have the international diversity or background that you might expect (Favaro et al., 2013).

In this paper, my goal is to introduce a contingency model which explores why some internationalized firms are likely to appoint foreign directors, whilst others are less likely to do so. For this I use a nine-year dataset of 304 large publicly listed UK firms (2010-2018).

I first identify the relationship between degree of internationalization (DOI) and the likelihood of appointing a foreign director. The novelty of this paper, however, lies in the identification of the moderators of the aforementioned relationship.

Drawing on Similarity-Attraction theory (Byrne, 1971), an important premise of this study is that the strength of the relationship between DOI and foreign-director appointments is hampered by inertia in the current board to appoint directors who are dissimilar to them. While I expect that a firm's DOI will generally lead to the appointment of a foreign director, I also recognize some internationalizing firms will feel more pressure to do so than others. Primarily because firms that internationalize will differ in their need for the resources that are offered by foreign directors

Building on RDT and behavioral theories, I attempt to identify moderating variables that alter the need of an internationalizing firm for the resources of a foreign director. I hypothesize that the effect of firm internationalization on the likelihood of appointing a foreign director is moderated by a) the firm's financial performance, b) the firm's visibility and c) the proportion of foreign directors that are already present in in the board.

This study will contribute to the literature on board diversity in the following ways: First of all, it makes us able to understand why MNE's would diverge in their board composition. Many attempts are being made to make corporate boards more diverse, and new insights into why some

boards lack diversity would improve such attempts. This also contributes to the search for the boundary conditions of applying RDT to boards, as was called for by Hillman et al. (2009). Thirdly, research on board diversity has mostly focused on the effects of board diversity, rather than its antecedents (Hambrick, 2007). The problem with this is that composition and structure are then being used as exogenous predictors of organizational outcomes, in particular firm performance, even though composition is likely to arise endogenously because economic actors choose them in response to the organizational challenges that they face (Adams et al., 2010). Finally, this work provides a broader understanding of diversity-related recruitment decisions, telling us when foreign directors will be attractive candidates for inclusion in the boardroom and when there will be little interest in increasing the diversity of nationalities.

2. THEORY AND HYPOTHESES

In this chapter, I start by describing why and how firms use their boards to manage important resources. Then, in section 2.2, I introduce the topic of foreign directors and explain how they have become an interesting topic of research. In section 2.3, I develop a Resource Dependence view on foreign directors in internationalized firms. Finally, in section 2.4, I develop a contingency model for the relationship between firm internationalization and the likelihood of appointing a foreign director. I do so by introducing the following moderating variables: a) a firm's performance, b) a firm's visibility and c) the proportion of foreign directors that are already present on the board.

2.1 Resource Dependence Theory

One of the important roles of boards is the provision and securing of resources in the external environment (Hillman, 2009). Early studies using the Resource Dependence Theory (RDT) to examine boards emphasized board composition and board size as indicators of the board's ability to provide critical resources to the firm. Important findings included that board size is related to the firm's environmental needs, and firms with a large interdependence need a higher ratio of outsiders on the board. Pfeffer (1972) concluded that "board size and composition are not random or independent factors, but are, rather, rational organizational responses to the conditions of the external environment". Later research supported the findings by Pfeffer, especially the relationship between board size and organizational characteristics such as internationalization (Sanders & Carpenter, 1998) and firm financial performance (Dalton et al., 1999).

Scholars did realize, however, that board size by itself is too simple an answer to the questions regarding the resource-provision role of boards. Boyd (1990), for example, already found that in some environmental conditions board size can hinder firms, whereas certain types of

directors, such as directors with other directorships, are a benefit. This suggests that "resource-rich" directors should be the focus of board composition.

These resources that directors can bring to the organization include (a) information in the form of advice, (b) access to channels of information between the firm and environmental contingencies, (c) preferential access to resources, and (d) legitimacy (Pfeffer, 1972). In the following section, I identify what makes foreign directors "resource-rich" and I discuss under which circumstances firms are likely to appoint them.

2.2 Foreign directors

Research on board diversity initially focused on task-related director attributes such as functional and educational background, as well as tenure (e.g. Goodstein et al., 1994; Golden & Zajac, 2001; Westphal & Zajac, 1995). However, since then developed an acceptance of the notion that there is important value in diversity in a broader sense (Robinson & Dechant, 1997). Moreover, firms are experiencing greater and greater pressure to increase diversity on corporate boards (Daily and Dalton, 2003). With that, new dimensions of diversity in board composition began to receive academic attention. These dimensions primarily include gender, ethnicity (primarily in the U.S.) and nationality (Ruigrok et al., 2007).

To start off, it is important to note that a director's nationality is not fully determinant for his/her skills or cognitive frame. Take the example of an average American who may be more individualistic than a Finn (as observed by Hofstede, 1980), but some Americans are far less individualistic than the average American and even the average Finn (Hambrick et al., 1998). That being said, it is not without reason that firms go out of their way to look for different nationalities in their human capital.

Despite all its shortcomings, nationality is a valid factor for explaining an individuals' psychological behavior and attributes (Hambrick et al., 1998). Hambrick, Davison, Snell, & Snow (1998) lay out four important implications of one's nationality: values, cognitive schema, demeanor and language. Hambrick and his colleagues argue that combining people of different nationalities in multi-national groups – such as boards – can bring substantial advantages and disadvantages to the firm.

2.3 Appointing a foreign director in response to internationalization

Internationalization increases the complexity and ambiguous demands from the external environment (e.g. Calori, Johnson, & Sarnin, 1994; Carpenter, 2002; Hitt, Hoskisson, & Ireland, 1994; Sanders & Carpenter, 1998). Lead by the positive view on team-diversity, boards in internationalizing firms may be tempted to increase their diversity to improve the information-processing capacity on the group-level and enhance their decision making (Mannix & Neale, 2005; Cyert & March, 1963). Diversity, however, can be achieved in many ways (gender, nationality, functional background, etc.). In this section, I argue why firms might want to appoint specifically foreign directors in response to internationalization.

In accordance with RDT, one could expect specific changes in board composition in response to changes in the firm's external environment. For example, Hillman et al. (2000) find that environmental changes as a result of deregulation in the airline industry led to significant changes in board compositions of airlines. On a similar note, one could expect that firms with increasing internationalization are likely to adjust their board composition. Especially when firms internationalize to such a degree that they become reasonably dependent on foreign markets, they commonly respond by appointing a foreign director (Athanassiou & Nigh, 2000).

The first notable resources that foreign directors bring to the table are information and advice, specifically advice about foreign markets, regions and governance systems (Greven, Nielsen & Ruigrok, 2009). Information and advice can be employed directly in the case of expanding operations in the market region where the new foreign director is from, as was found by Masulis et al. (2012). They found that firms with foreign directors make better cross-border acquisitions if the targets are from the home region of the foreign director(s). Firms may also benefit from appointing a foreign director from a specific country if they suffer from the *liabilities of foreignness* (Zaheer, 1995): Upon entering a new geographical market, MNE's have to deal with local customers and institutions that are dissimilar to the ones in the home country. There are several ways of dealing with these challenges, and hiring local directors is one of them.

Perhaps more importantly, however, internationally oriented and experienced directors provide internationalizing firms with a broad network of opportunities, knowledge and resources (Athanassiou & Nigh, 1999). Luo (2005) posits that foreign directors possess a unique type of internationally deployable expertise. This extends beyond the knowledge of a specific foreign market, enabling the internationalizing firm to make better use of its international experience.

The final important resource that foreign directors bring to internationalized firms is legitimacy. Legitimacy is "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). Overall, a multinational board signals readiness to transform into truly global organizations (Bartlett & Ghoshal, 1989). The legitimacy role of boards is typically viewed through an institutional theory perspective, arguing that firms manipulate the composition and structure of their boards in order to abide by the expectations and norms of external assessors such as analysts and investors (Krause et al., 2016). The appointment of a

foreign director may thus be used to achieve legitimacy in specific foreign markets. For example, Krause et al. (2016) find that firms alter the composition of their boards to match the cultural-cognitive institutions prevalent in their product markets.

Finally, Bear et al. (2010) point out that demographic diversity in the boardroom is an important factor in many CSR-ratings, which can in turn, enhance legitimacy and positively impact financial performance, institutional investment, and share price (Fombrun, 2006)

In addition to theoretical reasons for arguing that an increasing DOI leads to the appointment of foreign directors, some empirical research already found that the appointment of foreign directors is preceded by internationalization (e.g.: Estelyi & Nisar, 2016; Greve et al., 2015). Hence, as a first hypothesis for this thesis I predict the following:

H1: A firm's degree of internationalization positively influences its likelihood to appoint a foreign director.

2.4 Boundary conditions of the DOI-foreign director relationship

Despite the aforementioned reasons why we would expect an increased likelihood of appointing a foreign director as in response to internationalization, not all international firms have an international board. As mentioned in the introduction, even amongst highly internationally active firms there is still a large variance regarding to the proportion of foreign directors that occupy positions on the board (Greve et al., 2015; Favaro et al., 2013). This suggests that when it comes to the appointment of foreign directors, the DOI-foreign director relationship deserves a more comprehensive analysis.

One explanation for the lack of foreign directors on boards of internationalized firms is a behavioral one. Specifically, the pessimistic view on diversity offers us the notion that being similar on attributes such as values, beliefs and culture will ease the interaction between people,

since people are attracted to people who are similar to them, better known as the Similarity-Attraction theory (Berscheid & Walster, 1978; Byrne, 1971). In this view, organizations lean towards homogeneity because individuals want to join organizations where people are much like them, and organizations recruit members that are similar to those that already work there. Diversity manifested in culture (Triandis 1959, 1960), ethnicity (Hoffman, 1959) or socioeconomic status (Lincoln & Miller, 1979) has been shown to negatively influence communication and collaboration. Building on the Similarity-attraction theory, the theory of organizational and relational demography points out that differences in demographic characteristics can create cohorts in the boardroom which in turn decreases the strength of the relationships within boards and organizational attachment (Boone et al., 2004; Williams & O'Reilly, 1998), which could eventually lead to higher turnover.

From this view, it is not surprising that existing directors often favor the appointment of directors who are very much like them on certain demographic variables (Zhu, Shen, & Hillman, 2014). A common problem among large MNE's is that new directors are primarily recruited through the 'old-boys-network' and are thus not as independent as they perhaps should be (Ruigrok et al., 2007).

That being said, even without the social barriers that are derived from the Similarity-Attraction theory, firms face unique challenges when recruiting foreign directors, such as information asymmetry and increased complexity (e.g.: Schuler, Jackson, & Tarique, 2011, Stahl et al., 2012). It is cumbersome and costly for firms to do appropriate job-matching and talent monitoring across borders. MNE's may be hesitant to incur such costs and they would rather work with the domestic talent pool that they are familiar with.

It is through these barriers that we can begin to understand why not all boards internationalize as quickly as we may expect. While I expect that a firm's DOI will generally lead to appointment of a foreign director at some point in time, I also recognize that firms differ in terms of the pressure or 'need' that they experience to increase the diversity in nationality on their boards in response to internationalization. For some firms, increasing international activity may indeed lead to a higher need for legitimacy and information. Whereas for other firms, this effect may be less prevalent. Generally speaking, one should consider that within boards, there may be an innate inertia to appoint 'out-group' directors. Hence, they only appoint foreign directors if the need for them is high.

Below, I explore the boundary conditions of the relationship between a firm's DOI and its likelihood of appointing a foreign director. In a broader sense, this also contributes to the search for the boundary conditions of applying RDT to boards, as was called for by Hillman et al. (2009).

Poor firm performance

As previously discussed, internationalized firms are likely to appoint foreign directors because of their unique resource-seeking and resource-managing capacities. However, due to behavioral factors, firms may be hesitant to appoint foreign directors. I argue that poor firm performance is one of the factors that increases the need for the unique capacities of foreign directors as firms internationalize, making firms break through the barrier of inertia vis-à-vis out-group directors. I argue this for the following reasons.

First of all, firms that internationalize and do so with satisfactory firm performance may simply not feel the pressure from shareholders or within the firm to change its leadership composition. The situation is different, however, for those firms that increase international activity but then find they have underestimated the challenges that are unique to internationalization, such

as the liability of foreignness or increased levels of complexity. These firms have extended their international activity beyond the scope of their current capacities and thus experience more incentive to appoint foreign directors (Vermeulen & Barkema, 2002).

Furthermore, there is a growing body of literature which indicates that a firm's bias against out-group members diminishes as performance worsens. Performance feedback theory suggests that organizations and its leadership are led largely by their performance and make decisions based on the degree to which performance is satisfactory (Greve, 2003). As long as performance is 'good enough', managers and organizations feel little pressure to adjust their decisions beyond their preferences (Cyert & March, 1963). However, unsatisfactory performance takes away such slack, leaving little room for biases. Zhang (2017) summarized this effect as follows: "higher team performance reduces managers' performance pressure and therefore, leads to more managerial bias in the subsequent decisions."

I argue that internationalizing firms need a period of sub-par performance to trigger a transformation process to realign the firm's resource-seeking, information-processing, and legitimacy-building capacities. I predict that such firms have an increased likelihood of appointing a foreign director, who can facilitate those capacities in international stakeholder environments.

To conclude, I formulate the following hypothesis:

H2: A firm's performance negatively moderates the effect that DOI has on appointing a foreign director

Firm visibility

According to RDT, directors can serve an important role in managing the legitimacy of a firm. I mentioned earlier that foreign directors may be valuable in managing a firm's legitimacy because they signal the global posture of a firm and they may provide legitimacy in certain foreign markets.

Furthermore, I argued that appointing a foreign director contributes to the CSR-reputation of a firm, which in turn leads to legitimacy. In this section, I argue that both of these motivations to appoint a foreign director do not apply equally to all internationalizing firms. Indeed, based on recent research I argue that a firm's visibility moderates the pressure that internationalizing firms feel to appoint foreign directors.

Firms are visible if they and their activities are easily observed by stakeholders outside the firm (Puck et al., 2012). Given that the appointment of a foreign director is arguably aimed at (some of these) stakeholders, I argue that visibility plays an important role in the consideration of appointing a foreign director for legitimacy purposes. The key logic here being that legitimacy attempts are less worthwhile if there is no crowd to witness them.

Firms that are expanding their business in foreign markets often face scrutiny and resistance from local institutions (Henisz & Zelner, 2003). Puck et al. (2012) found that these pressures are especially strong for businesses that are highly visible to the public and that these firms are thus more likely to engage in symbolism and political activities to deal with these institutions. For example, Holtbrügge et al. (2007) reported of a German firm in Russia whose manager attributes the firm's low exposure to institutional forces to the fact that it only sells to a small number of industrial buyers. In contrast, if a firm is to sell directly to a large number of end consumers, it would be comparatively more visible to the public and thus attract more attention and possible scrutiny. Following this line of reasoning, I argue that firms only feel the pressure to appoint a foreign director of a specific foreign market if its visibility there is large enough.

Besides this notion that firms may appoint a foreign director to 'bridge' to a certain foreign market, firms may also feel political pressure to appoint a foreign director in general. In the literature on motivations for team diversity, it shows that many groups have experienced negative

scrutiny for their lack of diversity (Chang et al., 2019). Ranging from Oscar nominees to presidential cabinets and corporate boards. In this regard, appointing a foreign director on a firm's board may act as a signal to observers indicating that the firm pays attention to diversity and is, therefore, socially responsible. This dynamic has been identified for other types of demographic diversity such as ethnicity and gender (e.g.: Bear, Rahman, & Post, 2010; Chang, et al., 2019). However, not all firms experience the same external pressure to have a more demographically diverse board. Studies have found that visibility puts increased pressure on firms to take action in response to political and social pressures, because 'actors in the general environment are likely to take a greater interest in organizations that directly affect them, or at least in organizations of which they are aware' (Meznar & Nigh, 1995: 980). Visibility could thus make firms more sensitive and responsive to the social and political push for diversity. For example, Chang et al. (2019) found that firms are more likely to increase their diversity once they were under scrutiny by the media, and that this effect was much stronger for firms with a high profile.

To conclude, appointing a foreign director can be beneficial for the legitimacy of an internationalizing firm. However, the benefits of doing so or the costs of not doing so are greater for firms that are in the eye of the general public. Hence, I formulate the following hypothesis:

H3: Firm visibility positively moderates the relationship between a firm's DOI and the likelihood of appointing a foreign director.

Effects of current foreign directors

The final moderating variable that I add to the model is the proportion of foreign directors that are already present on the board. A large body of literature on diversity points out that in any relevant type of diversity, proportions seem to matter (e.g.: Kanter, 1977; Chang et al., 2019; Post & Byron,

2015). In the proportion approach, the researcher focuses on one type of diversity (e.g.: gender or ethnicity) and analyzes the effects of the proportion by which this group is represented. There are for example skewed groups, in which minority members constitute 1% to 15% of the group, but also balanced groups, where the minority group members have a representation beginning at 35%. Depending on the ratio, there may be different pressures to adjust the proportions. When the minority group reaches bigger proportions, the majority group begins to perceive it as a threat. This in turn leads to an increase in competition and hostility, which explains why balanced groups could perform worse (Kanter, 1977).

Proportion research is often focused on demographic groups that are in some way marginalized in society, but Kanter points out that her findings can be generalized to any minority group because proportional imbalance, rather than "femaleness" or "blackness" inspires certain group dynamics. Hence, a focus on foreign directors would be appropriate.

Following this line of reasoning, one would expect that the odds of appointing a foreign director diminishes with the number of foreign directors that are already present on the board. After all, the established group of domestic directors will start to perceive the out-group members as a threat when they are become too large in number.

Moreover, some of the legitimacy benefits that internationalizing firms may achieve as a result of appointing a foreign director will have diminishing marginal returns. I.e.: having one or two foreign directors may be enough to signal a firm's readiness to transform into a global organization. Even for CSR purposes, internationalizing firms could be satisfied with just a small number of foreign directors. For example, Chang et al. (2019) find that large U.S. firms recruit women into their TMT's only up to a certain proportion, after which the odds of recruiting another

woman drastically drop. Specifically, they coined the term ‘twokenism’ after they found that the odds of appointing a female director drop when two women are present in the TMT.

Finally, empirical evidence suggests that firms do indeed have reasons to reduce their efforts to recruit foreign directors when they are already present in the boardroom. The results of a study done by Dahlin, Weingart & Hinds (2005) suggest that the positive effects of nationality diversity on group-level information processing follow an inverted U-shape.

In conclusion, boards may be hesitant to allow the number of foreign directors grow to the extent that they can challenge the dominant coalition of domestic directors. Moreover, many of the benefits that an internationalizing firm receives from appointing a foreign director may drop if the board is already internationalized. This brings me to my final hypothesis:

H4: The proportion of foreign directors on a board negatively moderates the effect of DOI on the likelihood of appointing a foreign director.

Summarized, the conceptual model of this paper is as follows:

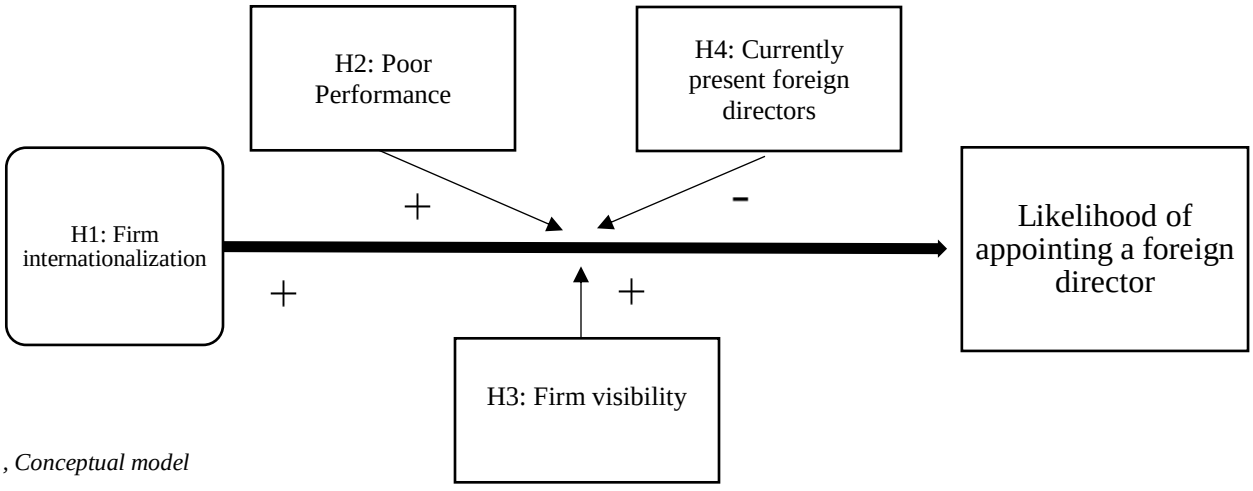

Figure 1, Conceptual model

3. DATA & METHODS

For this study I conduct panel data analysis for 304 UK large publicly listed firms over a period of nine years, from 2010-2018. Firm financial data is retrieved from Orbis, Thomson One and annual reports. Data on board composition and directors is retrieved from BoardEx. Finally, data on media mentions is retrieved from NexisUni (LexisNexis).

The sample started with the 936 UK firms that were classified as 'very large' in Orbis. These firms met one or more of the following criteria: 1) Operating revenue >= 100 million EUR, 2) Total assets >= 200 million EUR, 3) Employees >= 1,000. For over 60% of these firms, insufficient data was available on their international activity, which I extracted from ThomsonOne Database. For firms that had missing data for 1 or 2 years, I looked up the data in their annual reports. Manually looking up data for firms that had missing data for more than 2 years typically bore no fruits. From the remaining 40% of the firms in my sample, I lost 70 firms because there was little to no data available on their directors and their respective nationality.

Of the remaining 304 firms, 15.41% of the director data was looked up manually in annual reports, firm websites and CV's of the directors via LinkedIn. In the latter case, I made the assumption that the directors have the same nationality as the country where they followed their undergraduate program or, if available, where they went to high school. Previous studies on director nationality also used resumes to derive nationality, but give no specification on how they did this (e.g.: Rissing & Castilla, 2014; Sullivan, 1992).

The final dataset of 304 firms included a total of 21.038 firm observations (excluding robustness test variables). Other papers with similar research topics have used similar datasets (e.g. Kunisch et al., 2019; Greve et al., 2015). Most of the missing data comes from smaller firms, where there is little data available on their foreign activities and board members.

3.1 Dependent variable: likelihood of appointing a foreign director

The dependent variable will be coded as '1' if a firm appointed a new director in a given year and that director has a nationality that is different from the UK and as '0' if this is not the case. I acknowledge that the concept of ''being foreign'' is a complex one. Using nationality will label a director who moved to the country where he/she became a director as 'domestic', even though that director may have lived most of his or her life in another country. Whereas using country of birth will label a director as 'foreign', even if that director at a very young age moved to the country where he/she became a director (Miletkov et al., 2017). Previous studies on foreign directors vary in how they operationalize "being foreign", often admitting that their choice is driven by data-availability (e.g.: Nielsen & Nielsen, 2013; Miletkov et al., 2017). My decision is no different in that regard, given that BoardEx only retrieves the nationality of a director.

In my dataset, a total number of 567 foreign director appointments have taken place, which results in 416 instances where a firm has appointed one or more foreign directors in a given year. This difference is a result of the fact that some firms have appointed more than one foreign director in a given year. As a first robustness test, I also use a Poisson regression model where the dependent variable is the number of foreign directors appointed in a year, rather than the dummy variable.

It is important to note that boards in the UK are one-tier rather than two-tier. Hence, the directors in this study can be either executive directors or non-executive directors. There are large differences between the two when it comes to hands-on involvement with the day-to-day management of a firm. Non-executive directors in the UK gather on an irregular basis, often only a few times per year (Pass, 2004). Furthermore, non-execs often hold more than one non-executive position. Executive directors, on the other hand, are often more committed to one firm and are

arguably the most influential people in the firm. Given this information, if a firm is to appoint a foreign director for symbolic reasons, it makes more sense to give him/her a non-executive position, since they have less power in the firm. On the other hand, if a firm is in dire need of the management resources that are unique to foreign directors, it makes more sense to appoint them as an executive director, so that these resources can be further exploited. Finally, given the fact that non-execs only meet a few times per year, it may be easier to recruit a foreign non-exec than it is to recruit a foreign executive director. After all, the need to move abroad is not that high if there are only a few meetings per year. Because of the aforementioned differences between execs and non-execs, I conduct a second robustness test in which I split my dataset into execs and non-execs.

3.2 Independent variables

Firm internationalization

A very common measure of a firm's degree of internationalization (DOI) is to divide foreign sales by total sales (FSTS) (Sullivan, 1994). More comprehensive however, is to measure DOI as a composite measure, which consists of the following three components: (a) FSTS; (b) foreign production dependence, indicated by foreign assets divided total assets; and (c) geographic dispersion of foreign sales (e.g.: Kunisch et al., 2019; Nielsen & Nielsen, 2013; Sanders, 1998). However, due to data availability for the less exposed firms in my dataset I stuck with FSTS as a measure for firm internationalization. FSTS will be lagged by one year, since the process of analyzing the firm's current international activity and then hiring a director in response to it is likely to cause a delay between an increase in international activity and the appointment of a foreign director. As a third robustness test, I run all models with foreign assets divided by total assets (FATA). This however reduces the dataset by another 40%.

Firm performance

Many ways have been established to measure firm performance, including Return on Assets (ROA), Profit Margin (PM), Tobin-Q, Earnings Per Share (EPS), Return on Equity (ROE), etc. None of which is perfect. However, since an important aim of this paper is to allow new interpretation of existing literature on the effects of foreign directors on firm performance, I use the same measure for performance as the authors of such papers, namely Return on Assets (ROA) (e.g. Nielsen & Nielsen, 2013; Cannella et al., 2008; Erhardt et al., 2003). Besides being the measure most commonly used papers similar to this study, ROA explicitly takes into account the assets the firm has used to generate the resulting profit. It is thus a rather direct reflection of the firm's management skills. To see if the results of this study hold, I run the same regression models using a market-based measure, namely ROE. In both cases, the performance measure will be lagged by one year.

Firm visibility

Despite the fact that firm visibility enjoys far less academic attention than concepts such as internationalization and performance, there are still various ways to measure it. For instance, academics have used media mentions, firm size or the number of public affairs personnel per firm as proxies for firm visibility (Hansen & Mitchell, 2000; Meznar & Nigh, 1995; Chiu & Sharfman, 2011). Since modern day databases provide easy access to media mentions, I decided to follow the example of Meznar & Nigh (1995) and Chang et al. (2019) by using newspaper mentions as a proxy for visibility. I decided to use newspaper mentions rather than firm size for two reasons: first of all, firm size will already be included as a control variable. Secondly, firm size is not a precise enough measure for firm visibility; many industries are far less visible to the public because the public is generally not interested in certain industries, despite the size of their businesses (Chiu

& Sharfman, 2011). Newspaper mentions on the other hand, give a precise and responsive measure of the firm's visibility to the public. I retrieved newspaper data from NexisUni, where it is indicated how many newspaper mentions a firm receives annually. Since this data is skewed, I take the logarithm of the firm's annual newspaper mentions to counter this issue. This variable is also lagged by one year.

Currently present foreign directors

For my final hypothesis, I retrieve data from BoardEx of a firm to determine the proportion of foreign directors that are already on the board during every year in the dataset. Since the proportion of foreign directors in year *t* has already taken into account any changes in the board in year *t*, I lag this variable by one year.

Control variables

I use multiple control variables to account for potentially confounding effects of firm-level and industry-level characteristics. Following the example of existing literature on the topic of TMT diversity, I first of all include firm size, measured as the log of the number of employees (Nielsen & Nielsen, 2013) and the log of annual sales (Estélyi & Nisar, 2016). I expect firm size to correlate with both my dependent variable, since larger firms tend to be more diverse (Carpenter & Fredrickson, 2001), and with my independent variables, namely internationalization (Dunning, 2000) and visibility. Moreover, I include industry as a control variable, since industry has been found to be associated with board characteristics, firm performance and firm visibility (Rajagopalan & Datta, 1996; Nielsen & Nielsen, 2013; Chiu & Sharfman, 2011). I use the first digit of a firm's SIC code to measure industry. Using more than 1 digit in my model leads to a large number of omitted variables. I also include board size as a control variable, measured as the total number of board members. This is valuable because larger boards have greater odds of being

more demographically diverse (Estélyi & Nisar, 2016)**.** Finally, I control for the availability of foreign directors by including a) a dummy variable indicating whether the firm's head office is located in London and b) the percentage of foreign-born citizens in the region where the firm's head office is located.

Estimation method

Since I am using panel data to estimate predictors for a dummy variable (appointment of a foreign director yes/no), I decided to use a panel logit regression. I opt for a model with random effects, following the advice of Zhou (2011), who pointed out that by relying on within variation, fixed effects estimators may not detect a relationship between slowly changing variables such as ownership & board composition and organizational outcomes such as performance & visibility, even if such a relationship exists.

Since time is an important factor in the model, I use the option to lag the first three predicting variables, internationalization, poor performance and visibility by one year. If these variables have predicting value for the dependent variable, the one-year lag will bring this out more clearly. For robustness purposes, all models are bootstrapped (50 replications).

This brings me to the following equation for my complete model:

$$log\left[\frac{likelihood\ of\ appointing\ a\ foreign\ director}{1-likelihood\ of\ appointing\ a\ foreign\ director}\right]$$

$$= \beta_1 EmployeesLog + \beta_2 SalesLog + \beta_3 BoardSize + \beta_4 \%ForeignBorn$$
$$+ \beta_5 London + \beta_6 IndustryDummies + \beta_7 L.ROA + \beta_8 L.NewsLog$$
$$+ \beta_9 L.Proportion + \beta_{10} L.FSTS + \beta_{11} L.FSTS\#L.ROA$$
$$+ \beta_{12} L.FSTS\#L.NewsLog + \beta_{13} L.FSTS\#L.Proportion$$

4. RESULTS

In this section, I start by discussing the descriptive statistics. Then in section 4.2, I lay out the results of main logistic regression. Significant findings are further elaborated upon through the use of visualization. Finally, in section 4.3, I describe relevant results from the robustness tests.

4.1 Descriptive statistics

Table 1 displays the mean, standard deviations and correlations among the study variables. I decided to leave out SalesLog because of its high collinearity with EmployeeLog (0.92). Furthermore, I decided to leave out the London dummy because of its high correlation with %ForeignBorn (0.85).

As predicted, FSTS shows a positive correlation with the number of foreign directors that are appointed during the panel period. It is also interesting to note that the proportion of foreign directors that were present before the panel period is positively related to the number of newly appointed foreign directors. ROA initially had a mean of 1.29 and a standard deviation of 24.94. It turned out that this data was heavily skewed, so I decided to Winsorize ROA at the 5^{th} and 95^{th} level.

Table 1, descriptive statistics

Pairwise correlations

Variables	Mean	Sd	-1	-2	-3	-4	-5	-6	-7	-8
(1) NewFD	0.148	0.355	1,000							
(2) FS/TS	42.646	36.979	0.257*	1,000						
(3) ROA	3.304	10.137	0.008	0.013	1,000					
(4) NewsLog	5.086	2.459	0.232*	0.090*	0.239*	1,000				
(5) Proportion FD	0.18	0.239	0.419*	0.454*	0.057*	0.366*	1,000			
(6) EmpLog	6.795	2.446	0.237*	0.207*	0.305*	0.671*	0.369*	1,000		
(7) BoardSize	7.196	2.372	0.275*	0.151*	0.187*	0.647*	0.454*	0.657*	1,000	
(8) %foreignborn	19.08	13.866	0.113*	0.159*	-0.037	0.110*	0.238*	0.060*	0.246*	1,000

* shows significance at the 0.05 level

4.2 Main results

Table 2, Logistic regression models

	Effect on appointing a foreign director in year *t*					
VARIABLES	1.Controls	2.FSTS	3.FSTS#ROA	4.FSTS#News	5.FSTS#Proportion	6. All terms
EmployeesLog	0.071**	0.055	0.054	0.051	0.054	0.048
	0.035	*0.046*	*0.049*	*0.052*	*0.042*	*0.046*
BoardSize	0.134***	0.145***	0.146***	0.150***	0.146***	0.154***
	0.041	*0.043*	*0.056*	*0.043*	*0.044*	*0.040*
%foreignborn	0.006	0.000	0.000	-0.000	0.000	-0.001
	0.005	*0.006*	*0.005*	*0.007*	*0.006*	*0.006*
L.ROA	-0.017*	-0.017*	-0.035**	-0.017**	-0.017**	-0.026
	0.009	*0.010*	*0.014*	*0.007*	*0.009*	*0.017*
L.NewsLog	0.065	0.072*	0.072	-0.068	0.072*	-0.078
	0.044	*0.042*	*0.054*	*0.069*	*0.039*	*0.095*
L.Proportion	2.335***	1.511***	1.455***	1.362***	1.856**	2.141***
	0.314	*0.397*	*0.418*	*0.421*	*0.773*	*0.808*
L.FSTS		0.015***	0.014***	0.003	0.016***	0.004
		0.003	*0.002*	*0.006*	*0.002*	*0.007*
L.FSTS#ROA			0.000			0
			0.000			*0*
L.FSTS#NewsLog				0.002**		0.003**
				0.001		*0.001*
L.FSTS#Proportion					-0.005	-0.013
					0.009	*0.010*
Constant	-3.450***	-4.301***	-4.267***	-3.467***	-4.363***	-3.525***
	0.644	*0.914*	*0.729*	*0.801*	*0.835*	*0.774*
Log-likelihood	-874.03	-851.57	-850.38	-847.32	-851.36	-845.80
Wald chi-squared	240.18	483.82	504.01	475.5	483.26	468.06
Observations	2,309	2,309	2,309	2,309	2,309	2,309
Number of id	304	304	304	304	304	304

For the sake of readability, industry dummies are not included in the table.
Wald chi-squared included as goodness-of-fit statistic, as suggested by Haans (2020)
Standard errors in Italic
*** p<0.01, ** p<0.05, * p<0.1

Model 1 includes only the control variables. It points out that board size and the proportion of foreign director that are already present in the board have a positive effect on the appointing an FD. Furthermore, ROA is negatively associated with the dependent variable.

To test hypothesis 1, model 2 includes the FSTS of *t-1*. Hypothesis 1 predicts that a firm's degree of internationalization positively influences its likelihood to appoint a foreign director. As predicted, as firms get a higher DOI, their likelihood of appointing a foreign director increases ($\beta = 0.015, p = 0.000$, 95% CI [0.0096, 0.0202]). The plot in figure 2 captures this effect neatly. It is tempting to draw conclusions from the slight curvilinearity in the graph, but that would in fact require further statistical analysis.

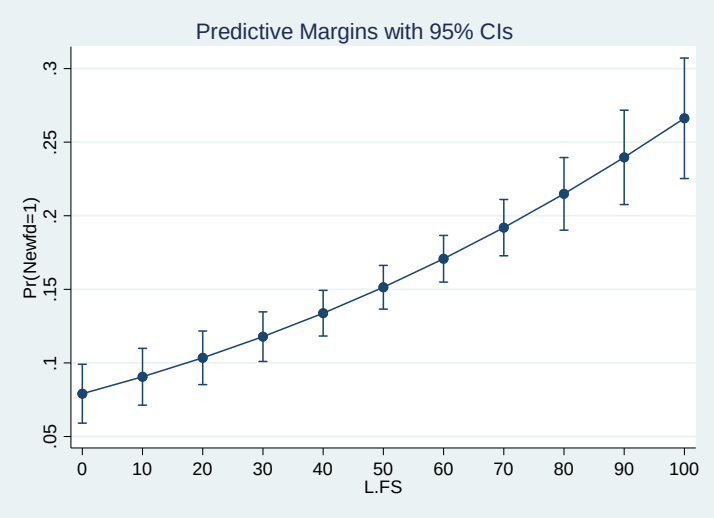

Figure 2, effect of FSTS on the likelihood of appointing a foreign director

In order to test hypothesis 2, model 3 includes the interaction term between a firm's ROA and its FSTS. Hypothesis 2 predicts that a firm's performance negatively moderates the effect that DOI has on appointing a foreign director. The model shows no support for an interaction effect between a firm's ROA and its FSTS ($\beta = 0.000\ , p = 0.147$, 95% CI [-0.0001, 0.0006]).

In hypothesis 3, I predicted that firm visibility positively moderates the relationship between a firm's DOI and the likelihood of appointing a foreign director. In model 4, I included the logarithm of the newspaper mentions a firm received in *t*-1. As predicted, the effect of FSTS on appointing a foreign director is moderated by the log of newspaper mentions a firm receives in *t*-1 ($\beta = 0.0024, p = 0.019$, 95% CI [0.0004; 0.0045]) therefore showing support for hypothesis

3. Furthermore, adding the interaction term makes the standalone effect of FSTS no longer significant.

The marginal effects of interaction plots in a logistic regression can best be analyzed by calculating the marginal effect of the main relationship at a low, medium and high value of the moderating variable (Wiersema & Bowen, 2009). Table 3 shows the marginal effect of FSTS on appointing a foreign director when NewsLog is a) one sd below the mean, b) at the mean and c) one sd above the mean. The marginal effect of FSTS is statistically significant at all three levels and are stronger as NewsLog increases. This effect is visually presented in figure 3.

Table 3, Marginal effects

Value of NewsLog	*Marginal effect of FSTS**	*Z-statistic*
-1sd	0.00098 (p=0.002)	3.16
mean	0.0017 (p=0.000)	6.60
+1sd	0.0026 (p=0.001)	3.46

**Computed at sample mean value of FSTS*

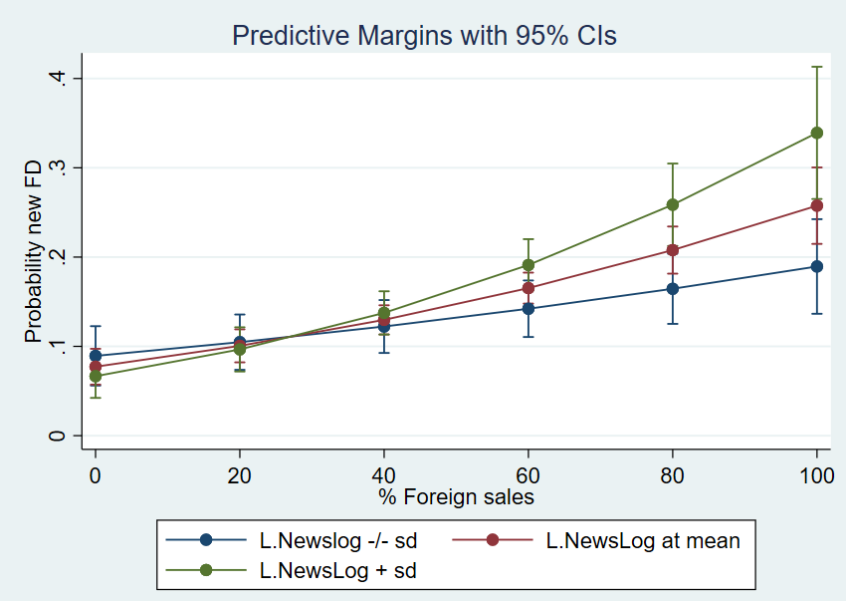

Figure 3, Margins FSTSxNewsLog

What this graph points out is that the logarithm of newspaper mentions does not influence the effect of FSTS on prob FD much if the firm has little foreign activity. However, firms that are

more internationally active are more affected by NewsLog. The two-way contour graph in appendix 6 points this out more clearly. Specifically, firms with <20% FSTS have a chance between 0.05 and 0.10 to appoint a foreign director in the following year, nearly regardless of how many newspaper mentions they receive at *t* - 1. However, a firm with 90% FSTS can either have a probability of 0.15 to appoint an FD in the following year or one of 0.4, depending on NewsLog. It is important to note, however, that the confidence intervals at high levels of FSTS are quite wide, as can be seen in figure 3. Thus, one should take caution with drawing conclusions based on the contour graph presented in appendix 6.

In model 5, I included the proportion of foreign directors on the board in *t*-1 in order to test hypothesis 4. This hypothesis predicts that the proportion of foreign directors on a board negatively moderates the effect of DOI on the likelihood of appointing a foreign director. Though there appears to be a standalone effect of Proportion of the dependent variable ($\beta = 1.856, p = 0{,}016$), the model shows no support for the existence of an interaction between FSTS and Proportion ($\beta = -0.005, p = 0.571$, 95% CI [-0.0235; 0.0130]). Hence hypothesis 4 is not supported. Finally, model 6 includes all interaction terms. In model 6, there are no notable changes compared to models 3-5 where I only included one interaction term per model.

4.3 Robustness tests

To test the robustness of these results. I began by using the Poisson regression to see if the results hold if I use the number of foreign directors appointed in a given year, rather than the dummy variable that was used in the logit models. The concern that might be alleviated by this analysis is that a small number of highly internationalized boards actually account for most of the effects that we see in the main analysis. The results of this test can be found in appendix 1. In this robustness test, results are similar to those in the main logit regression. One notable difference however, is

that model 6 in the Poisson model shows that when all interaction terms are included, the interaction term between FSTS and Proportion is actually significant and negative ($\beta = -0.015$, $p = 0{,}022$), which shows support for hypothesis 4.

As a second robustness test, I ran models 1-6 twice, where the first rotation had the appointment of one or more foreign non-executive directors (NED) as the dependent dummy variable and the second rotation had the appointment of one or more foreign executive directors (FED) as the dependent dummy variable. The problem that this robustness test addresses is that execs and non-execs are quite different from one another and might be subject to a different selection process. For NEDs, there is a total of 288 cases where a firm appointed one or more foreign NEDs in a given year, whereas for FEDs, there is a total of 181 such cases.

In the NED regression (appendix 2), only the result of hypothesis 1 from the original regression holds, showing a significant effect from FSTS ($\beta = 0.016, p = 0{,}000$). The results for executive directors are quite different however. The results in the regression table in appendix 3 show support for hypothesis 1 ($\beta = 0.012, p = 0{,}000$), hypothesis 2 ($\beta = 0.001, p = 0{,}000$) and hypothesis 3 ($\beta = 0.005, p = 0{,}000$). Furthermore, in model 6, when all interaction terms are included, there is also weak support for hypothesis 4 ($\beta = -0.023, p = 0.064$). These results indicate that execs and non-execs are indeed treated differently in the selection process. If one were to draw the conclusion based on my main regression that firm visibility moderates the DOI-FD appointment relationship, he or she should keep in mind that this finding is a consequence of executive-appointments rather than non-executive appointments.

As a third robustness test, I ran models 2-6 by using Foreign Assets divided by Total Assets (FATA) rather than FSTS. FSTS indicates the dependence of a firm's sales on foreign countries, but it does not cover commitment to them. FATA, on the other hand, is a better indicator of the

degree to which a firm has financially invested in its foreign activities. Running the same models with FATA instead of FSTS can further strengthen the results from the FSTS analysis.

The results can be found in appendix 4. Hypothesis 1 is still accepted when using FATA rather FSTS to measure DOI ($\beta = 0.016, p = 0{,}000$). Similar to when I use FSTS, the direct effect of FATA also disappears when I include the interaction term with the logarithm of yearly newspaper mentions. However, in the FATA model, this interaction term is not significant. Other than that, results are similar. Because there is less data available on FATA than on FSTS, the number of observations is roughly 40% lower in the FATA model.

As a final robustness test, I ran models 1-6 by using ROE as a measure for firm performance, rather than ROA (appendix 5). Doing so will provide extra robustness to the performance-related results. The results are similar to those of the main regression. FSTS still has a significant effect on the likelihood of appointing a foreign director ($\beta = 0.015, p = 0.000$), and this effect diminishes when the interaction term with NewsLog enters the model, which is significant ($\beta = 0.002, p = 0.004$).

5. DISCUSSION

The original aim of this paper is to identify the antecedents of appointing a foreign director. Specifically, I argue that the effect of firm internationalization on a firm's likelihood of appointing a foreign director is moderated by contextual factors. By analyzing nine years of data from 304 publicly listed UK firms, I came to the findings that I discuss in the following.

First of all, this study finds support for the positive relationship between a firm's DOI and its likelihood of appointing a foreign director. This finding is consistent with the existing body of literature on this topic (e.g.: Greve et al., 2015; Estelyi & Nisar, 2016). It's interesting to note that Estelyi & Nisar also analyzed UK firms, but the DOI-FD appointment relationship that was found

in this paper is different in the sense that I looked at foreign sales whereas Estelyi & Nisar analyzed the effect of foreign subsidiaries. The difference here is that foreign subsidiaries are often established long after a firm is already operating internationally, based on the Uppsala model (Johanson & Valhe, 1977; Johanson & Valhe, 1999). Overall, the findings of my first hypothesis further confirm a relationship that is commonly taken for granted, namely that firms are more likely to appoint foreign directors when they internationalize.

It is important that such relationships become more clearly understood and receive more academic attention. This is because research on director-characteristics have largely focused on the effect of certain director-characteristics on organizational outcomes, even though the causal direction may very well point the other way (Hambrick & Mason, 1984; Hambrick, 2007). Adams et al. (2010) aptly capture the problem as follows: "Governance structures arise endogenously because economic actors choose them in response to the governance issues they face." Identifying the causal mechanisms in the process of appointing directors with certain characteristics is key in order to interpret the results that have emerged from previous research on the relationship between board diversity and organizational outcomes.

Where Greve et al. (2015) and Estelyi & Nisar (2016) implicitly assumed that DOI was one of the many predictors for the appointment of a foreign director, I decided to treat DOI as a key predictor of appointing a foreign director. I regard internationalization as a process that gives rise to a need for certain resources which can be provided by foreign directors. That being said, not all internationalizing firms experience these needs to the same degree, explaining why so many MNE's have so little diversity in nationality on their boards. Drawing primarily from Similarity-Attraction theory, I argue that even internationalizing firms are hesitant to appoint foreign

directors. However, if the context in which the firm internationalizes increases the need for the resources of foreign directors, then this firm will become more likely to appoint foreign directors.

I predicted that the relationship between DOI and the likelihood of an FD appointment is negatively moderated by a firm's performance. The results suggest that firm performance has no such moderating effect, however the results do suggest that well performing firms are less likely to appoint a foreign director in general. This negative relationship complements the findings of Greve et al. (2015), who found that ROA at $t - 1$ negatively predicted the appointment of a foreign director in Swiss firms. Before drawing any conclusions about this finding, it is important to consider that firms are less likely to make changes in the board in times of prosperity in general (e.g.: Wagner, Pfeffer and O'Reilly, 1984; Arthaud-Day et al., 2006).

The negative relationship between ROA and appointing an FD also further confirms the working of Performance feedback theory in the boardroom. Similarly to Zhang (2019), I also find support for the notion that bias (or at least the effect of which) diminishes as performance drops.

I also predicted that firm visibility positively moderates the main relationship. The results show significant support for this prediction, especially for firms that are highly internationalized. This finding fits in well with the work of Puck et al. (2012), who explored the moderating role of visibility in internationalized firms undertaking political strategies. This result also adds to a growing body of literature suggesting that firms are more likely to engage in CSR-related activities such as diversity as their visibility to the public grows (e.g.: Bear, Rahman, & Post, 2010; Chang, et al., 2019). This result finally contributes to the work of Krause et al. (2016), who explored the boundary conditions of using the board for legitimacy purposes. One such boundary appears to be the visibility of the firm.

Finally, I predicted that the proportion of foreign directors that are already present on the board has a negative effect on whether firms appoint an FD in response to a high DOI. Even though the results from the main regression find no significant support for this interaction, it is interesting to note that in all models the standalone effect of Proportion is positive, but the interaction term is always negative. Furthermore, in the Poisson model and in the executive model, there is significant support for the aforementioned interaction. Indicating that as firms internationalize, the probability of appointing a new foreign director in response to internationalization decreases. One could argue that this is the result of reaching a certain 'saturation point' of foreign directors once firms have reached a high DOI. After all, such a dynamic has been found in previous studies (e.g. Chang et al., 2019; Dahlin et al., 2005). However, when plotting the interaction between FSTS and Proportion on the probability of appointing a foreign director (see appendix 7), no such saturation point seems to be present.

As for the robustness tests, it is interesting point out that there are large differences between the results for executive directors and non-executive directors. The results suggest that with regard to appointing non-executives, firms are only guided by their DOI. However, in the case of executive directors, the effects of the interaction terms are stronger and significant. One can only speculate why this is so. A reason could be that firms add much more weight to their executive directors, hence the recruiting process for appointing one is more comprehensive and thus takes into account contextual factors that are not considered for non-executive appointments. Another possible explanation is that non-executives are primarily recruited through the "old-boys network", as was found to be the case in Ireland by O'Higgins (2002). O'Higgins found that the homogeneity among non-executives in Ireland was striking, in terms of their occupational backgrounds and their way of thinking. Further research could explore the nature of these differences.

6. LIMITATIONS

Some cautionary notes are in order. First of all, despite the fact that a dataset of 304 firms is reasonable in this field of study, much information got lost during the process of data collection. I started with 936 very large firms but ended up with 304. Given that it is highly likely some of the missing firms do in fact operate internationally, one must admit that important information got lost here.

Secondly, it would have been interesting to consider CEO-specific effects. For example, if a CEO is domestic but has international experience, then the need for foreign directors may diminish. Similarly, CEO's may have an especially strong voice in who gets to enter the board.

Furthermore, my dataset is country-specific. It may very well be that my results would have been different in Germany, where they speak a language that is not as universally spoken as English, creating another barrier for foreign directors. I also did not consider the degree to which foreign directors from certain countries would be considered almost domestic directors when compared to other foreign directors. E.g. an Irish director on a UK board vis-á-vis a potential Vietnamese director on a UK board.

Moreover, a key independent variable in this study, DOI, was not operationalized using state of the art measures. A more comprehensive measure would have been the one proposed by Sullivan (1994).

Another limitation concerns the notion of causality. Even though I used panel data with lagged independent variables, one cannot conclude that for example increased visibility indeed causes a shift in the board's mindset regarding foreign directors.

Finally, even though I attempted to hypothesize specifically around foreign directors, some of the arguments I made in favor of appointing a foreign director could also be made for increasing

board diversity in general. Especially the argument that firms appoint foreign directors for CSR purposes.

CONCLUSION & FUTURE RECOMMENDATIONS

As firms internationalize, so does the probability that they appoint a foreign director. However, many highly internationalized firms have little to no diversity in nationality on their boards. In this paper I built a contingency model around this relationship. I argue that it is positively moderated by firm visibility and negatively moderated by performance and the proportion of foreign directors that are already present on the board.

I found consistent support for the moderating effect of firm visibility. Some support is also found for the moderating effect of the number of foreign directors that are already present on the board. No support is found for the moderating effect of firm performance. Finally, firms appear to take these contextual factors more in consideration for executive directors than for non-executive directors.

Future research could build on this paper by making both the dependent and key independent variable more extensive. Rather than using a dummy variable as dependent variable, one could use the cultural distance between a new foreign director's domestic country and the firm's country as dependent variable. As I mentioned earlier, DOI also deserves a more extensive measure. Furthermore, future research could build on this paper by including other moderators of the relationship between DOI and the likelihood of appointing a foreign director.

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APPENDICES

Appendix 1, Poisson regression

Effect on appointing a foreign director in year *t*

VARIABLES	Controls	FSTS	FSTS#ROA	FSTS#News	FSTS#Proportion	All terms
EmployeesLog	0.051	0.037	0.036	0.033	0.036	0.030
	(0.038)	(0.034)	(0.034)	(0.034)	(0.033)	(0.033)
BoardSize	0.114***	0.111***	0.110***	0.109***	0.112***	0.113***
	(0.036)	(0.031)	(0.031)	(0.032)	(0.031)	(0.031)
%foreignborn	0.004	-0.001	-0.001	-0.001	-0.001	-0.001
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
L.ROA	-0.020***	-0.018***	-0.033***	-0.018***	-0.018***	-0.022**
	(0.006)	(0.005)	(0.011)	(0.005)	(0.005)	(0.011)
L.NewsLog	0.075**	0.080**	0.081**	-0.038	0.080**	-0.065
	(0.037)	(0.033)	(0.033)	(0.051)	(0.033)	(0.055)
L.Proportion	1.664***	0.980***	0.942***	0.881***	1.502***	1.923***
	(0.264)	(0.248)	(0.250)	(0.256)	(0.501)	(0.516)
L.FSTS		0.016***	0.015***	0.006	0.017***	0.006*
		(0.002)	(0.002)	(0.004)	(0.002)	(0.004)
FSTS#ROA			0.000			0.000
			(0.000)			(0.000)
FSTS#NewsLog				0.002***		0.002***
				(0.001)		(0.001)
FSTS#Proportion					-0.007	-0.015**
					(0.006)	(0.007)
Constant NewFD	-3.039***	-3.952***	-3.924***	-3.199***	-4.058***	-3.252***
	(0.415)	(0.402)	(0.402)	(0.468)	(0.412)	(0.463)
Wald chi-squared	267.37	422.16	421.63	443.66	417.1	471.58
Observations	2,330	2,330	2,330	2,330	2,330	2,330
Number of id	305	305	305	305	305	305

For the sake of readability, industry dummies are not included in the table.

Wald chi-squared included as goodness-of-fit statistic, as suggested by Haans (2020)

*** p<0.01, ** p<0.05, * p<0.1

Appendix 2, non-executives

	Effect on appointing a foreign director in year *t*					
VARIABLES	Controls	FSTS	FSTS#ROA	FSTS#NewsIS#Proport		All terms
EmployeesLog	0.078	0.069	0.068	0.067	0.068	0.066
	(0.049)	(0.049)	(0.050)	(0.050)	(0.049)	(0.050)
BoardSize	0.098**	0.109**	0.109**	0.110**	0.109**	0.111**
	(0.045)	(0.046)	(0.047)	(0.046)	(0.046)	(0.047)
%foreignborn	0.007	0.002	0.002	0.002	0.002	0.001
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
L.ROA	-0.011	-0.011	-0.035**	-0.010	-0.010	-0.033*
	(0.008)	(0.008)	(0.016)	(0.008)	(0.008)	(0.017)
L.NewsLog	0.078	0.086*	0.087*	0.032	0.087*	0.044
	(0.048)	(0.048)	(0.048)	(0.075)	(0.048)	(0.080)
L.Proportion	1.990***	1.038***	0.977***	0.986***	1.194	1.284*
	(0.320)	(0.359)	(0.361)	(0.364)	(0.727)	(0.738)
L.FSTS		0.016***	0.015***	0.012**	0.017***	0.013**
		(0.003)	(0.003)	(0.006)	(0.003)	(0.006)
FSTS#ROA			0.000*			0.000
			(0.000)			(0.000)
FSTS#NewsLog				0.001		0.001
				(0.001)		(0.001)
FSTS#Proportion					-0.002	-0.005
					(0.009)	(0.010)
Constant	-3.851***	-4.855***	-4.793***	-4.510***	-4.882***	-4.586***
	(0.535)	(0.586)	(0.586)	(0.690)	(0.597)	(0.692)
Wald chi-squared	216.76	230.81	232.28	235.92	229.86	234.16
Observations	2,330	2,330	2,330	2,330	2,330	2,330
Number of id	305	305	305	305	305	305

For the sake of readability, industry dummies are not included in the table.
Wald chi-squared included as goodness-of-fit statistic, as suggested by Haans (2020)
*** p<0.01, ** p<0.05, * p<0.1

Appendix 3, executives

Effect on appointing a foreign director in year *t*

VARIABLES	Controls	FSTS	FSTS#ROA	FSTS#News	FSTS#Proportion	All terms
EmployeesLog	0.033	0.019	0.021	0.014	0.018	0.009
	(0.065)	(0.065)	(0.064)	(0.066)	(0.065)	(0.066)
BoardSize	0.098	0.100	0.097	0.101	0.101	0.109*
	(0.062)	(0.062)	(0.062)	(0.065)	(0.062)	(0.064)
%foreignborn	0.008	0.005	0.004	0.001	0.005	0.001
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
L.ROA	-0.032***	-0.032***	-0.066***	-0.032***	-0.031***	-0.046***
	(0.009)	(0.009)	(0.015)	(0.009)	(0.009)	(0.015)
L.NewsLog	0.060	0.066	0.070	-0.221**	0.067	-0.234**
	(0.061)	(0.060)	(0.060)	(0.090)	(0.060)	(0.096)
L.Proportion	1.340***	0.683	0.544	0.287	1.002	1.701*
	(0.439)	(0.477)	(0.476)	(0.505)	(0.904)	(0.907)
L.FSTS		0.012***	0.012***	-0.012**	0.013***	-0.010
		(0.003)	(0.003)	(0.006)	(0.004)	(0.006)
FSTS#ROA			0.001***			0.000
			(0.000)			(0.000)
FSTS#NewsLog				0.005***		0.006***
				(0.001)		(0.001)
FSTS#Proportion					-0.005	-0.023*
					(0.012)	(0.012)
Constant	-3.792***	-4.343***	-4.354***	-2.803***	-4.383***	-2.932***
	(0.716)	(0.738)	(0.733)	(0.802)	(0.744)	(0.805)
Wald chi-squared	61.36	72.7	76.52	87.29	72.56	91.03
Observations	2,330	2,330	2,330	2,330	2,330	2,330
Number of id	305	305	305	305	305	305

For the sake of readability, industry dummies are not included in the table.
Wald chi-squared included as goodness-of-fit statistic, as suggested by Haans (2020)
*** p<0.01, ** p<0.05, * p<0.1

Appendix 4, Foreign assets / Total assets

	Effect on appointing a foreign director in year *t*					
VARIABLES	Controls	FATA	FATA#ROA	FATA#News	FATA#Proportion	All terms
EmployeesLog	0.071	0.032	0.032	0.029	0.034	0.028
	(0.044)	(0.050)	(0.051)	(0.051)	(0.050)	(0.051)
BoardSize	0.134***	0.169***	0.170***	0.171***	0.172***	0.176***
	(0.042)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
%foreignborn	0.006	0.003	0.003	0.003	0.002	0.001
	(0.005)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
L.ROA	-0.017**	-0.004	-0.007	-0.004	-0.004	-0.004
	(0.007)	(0.010)	(0.014)	(0.009)	(0.010)	(0.014)
L.NewsLog	0.065	0.102**	0.102**	0.058	0.105**	0.039
	(0.042)	(0.050)	(0.050)	(0.063)	(0.050)	(0.066)
L.Proportion	2.335***	1.587***	1.577***	1.540***	2.001***	2.138***
	(0.297)	(0.356)	(0.358)	(0.360)	(0.511)	(0.517)
L.FATA		0.015***	0.014***	0.008	0.018***	0.009
		(0.003)	(0.003)	(0.007)	(0.004)	(0.007)
L.FATA#ROA			0.000			0.000
			(0.000)			(0.000)
L.FATA#NewsLog				0.001		0.002
				(0.001)		(0.001)
L.FATA#Proportion					-0.011	-0.017
					(0.010)	(0.011)
Constant	-3.450***	-5.208***	-5.184***	-3.900***	-4.491***	-3.962***
	(0.484)	(1.437)	(1.442)	(0.718)	(0.651)	(0.727)
Wald chi-squared	245.88	209.85	209.97	212.42	208.03	204.06
Observations	2,330	1,633	1,633	1633	1,633	1,633
Number of id	305	264	264	264	264	264

For the sake of readability, industry dummies are not included in the table.
Wald chi-squared included as goodness-of-fit statistic, as suggested by Haans (2020)
*** p<0.01, ** p<0.05, * p<0.1

Appendix 5, Return On Equity

Effect on appointing a foreign director in year *t*

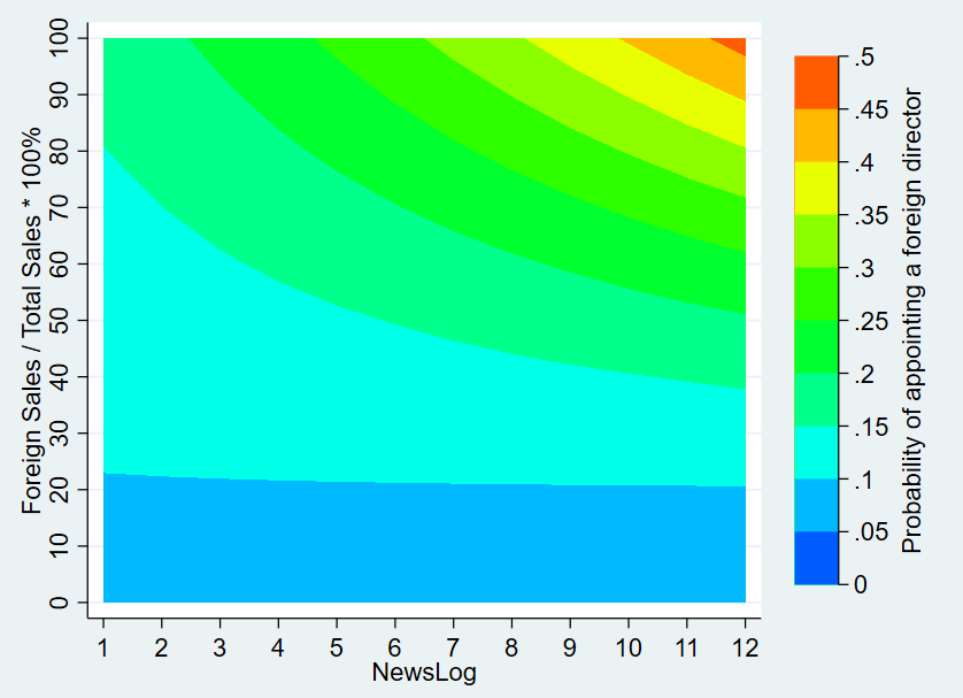
VARIABLES	Controls	FSTS	FSTS#ROE	FSTS#News	FSTS#Proportion	All terms
EmployeesLog	0.058	0.042	0.042	0.037	0.041	0.034
	(0.044)	(0.042)	(0.042)	(0.043)	(0.042)	(0.043)
BoardSize	0.136***	0.147***	0.147***	0.153***	0.149***	0.157***
	(0.042)	(0.040)	(0.040)	(0.041)	(0.040)	(0.041)
%foreignborn	0.007	0.001	0.002	0.000	0.001	0.000
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
L.ROE	-0.001	-0.001	-0.001	-0.001	-0.001	0.001
	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)
L.NewsLog	0.058	0.066*	0.067*	-0.072	0.067*	-0.100
	(0.041)	(0.040)	(0.040)	(0.062)	(0.040)	(0.064)
L.Proportion	2.345***	1.508***	1.519***	1.363***	1.924***	2.276***
	(0.296)	(0.308)	(0.309)	(0.327)	(0.602)	(0.614)
L.FSTS		0.015***	0.015***	0.003	0.016***	0.003
		(0.002)	(0.002)	(0.005)	(0.003)	(0.005)
FSTS#ROE			-0.000			-0.000
			(0.000)			(0.000)
FSTS#NewsLog				0.002***		0.003***
				(0.001)		(0.001)
FSTS#Proportion					-0.006	-0.014*
					(0.008)	(0.008)
Constant	-3.413***	-4.260***	-4.275***	-3.423***	-4.336***	-3.419***
	(0.482)	(0.499)	(0.501)	(0.571)	(0.510)	(0.573)
Wald chi-squared	245.18	286.43	286.37	280.22	283.81	283.09
Observations	2,330	2,330	2,330	2,330	2,330	2,330
Number of id	305	305	305	305	305	305

For the sake of readability, industry dummies are not included in the table.

Wald chi-squared included as goodness-of-fit statistic, as suggested by Haans (2020)

*** p<0.01, ** p<0.05, * p<0.1

Appendix 6, Two-way contour FSTSxNewsLog



Appendix 7, two-way contour FSTSxProportion