An American in Paris

National Director Foreign Experience, Firm Internationalization and Financial Performance

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Abstract

This paper argues that board members who are from the same country as the company, but who have been abroad, that is, they are home-country-based (or national) board members with international experience, may create value for the company by bringing experience and knowledge of foreign markets and regulations and by having valuable international networks. At the same time, they are closer to the company as compared to foreign directors, that is, they are more familiar with the local institutional and cultural setting. These attributes make national board members with international experience, at least potentially, valuable in terms of their contribution to both the monitoring and advisory role of the board. Our analysis is based on data from 3,068 American listed firms for the period 2003-2015, resulting in a sample of 18,434 firm-year observations. In our data, American board members have experience in 43 countries. We show that firms with national directors having accepted board positions in firms in code law countries have lower foreign assets as a share of their total assets. This is not true when they have accepted board positions in firms in common law countries. Firms appointing national directors who have accepted executive board positions in firms outside the US also do not experience lower levels of foreign assets. Finally, we show that the negative association between national directors with foreign experience and internationalization does not negatively affect firm performance.

Keywords: National Director International Experience, Foreign Assets, Foreign Income, Code versus Common Law, Deglobalization

JEL Codes: F23, G15, G34, K15, M16

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1. Introduction

Since the financial and corporate crises and scandals of the early 2000s, attention for corporate governance of companies has increased. This is particularly true for the role of boards and the non-executive directors who sit on these boards. Non-executive directors are appointed to make sure decisions are taken in the interest of the share- and stakeholders of the company. These non-executive directors have two main tasks, that is, monitoring and controlling decision making by executive directors and providing resources and advice to executives to help them improving their decision making outcomes (Hillman and Dalziel, 2003). By performing these tasks, non-executives can make a significant contribution to organizational actions and outcomes. This is why boards are generally seen as an important determinant of organization-level performance. The better they perform their monitoring and advice tasks, the more effective they are in influencing company decisions and outcomes. This triggers the question what determines the effectiveness of boards in performing their tasks.

Research into the role that boards have in determining company outcomes generally takes the view that various attributes of boards, and of individual non-executive directors sitting on these boards, may contribute to carrying out their main tasks and to determining their effectiveness. Several attributes have been considered and have been found important, such as board size (Yermack, 1996; Coles et al., 2008; Harris and Raviv, 2008), meeting frequency (Vafeas, 1999), gender (Adams and Ferreira, 2009; Post and Byron, 2015) and independence (Bhagat ad Black, 2001; Duchin et al., 2010).

Part of this research has investigated the contribution board internationalization makes to the performance of the company (Oxelheim and Randøy, 2003; Masulis et al., 2012; Oxelheim et al., 2013; Estelyi and Nisar, 2016; Miletkov et al., 2017; Hooghiemstra et al., 2019). Most studies focus on the role of foreign directors. Some of the research suggests that these directors may bring experience and specific knowledge of foreign markets and regulations and may have international networks that connect the company to valuable resources. They are also assumed to be more distant from the executives, making them, at least potentially, more efficient in monitoring and controlling the decision-making by these executives. Other studies, however, suggest that boards with foreign directors, while bringing valuable resources and connections to the board, are distant from the company, which may reduce their monitoring efficiency. Because of their physical distance, foreign board members may not be able to attend all board meetings and be regularly present in the company. Moreover, as foreigners they may be less familiar with the local institutional, regulatory and cultural context in which the company has to work.

Yet, board members who are from the same country as the company, but who have been abroad, that is, they are home-country-based (or national) board members with international experience, may also bring experience and knowledge of foreign markets and regulations and may have valuable international networks. At the same time, however, they are closer to the company as compared to foreign directors, that is, they are more familiar with the local institutional and cultural setting. These attributes make national board members with international experience, at least potentially, valuable in terms of their contribution to both the monitoring and advisory role of the board, and ultimately also valuable in term of creating firm value.

Interestingly, there is hardly any research into the value-creating capabilities of this class of board members. Oxelheim et al. (2013) are one of the few that have looked into this issue. Their work is closest to what we aim at in this paper. They investigate the internationalization of boards and its impact on firm outcomes using a sample of Nordic companies. They find that, whereas the share of foreign directors on the board is primarily linked to the financial internationalization of the firm, the share of national board members is associated with its foreign sales. A different but related study by Conyon et al. (2019) focuses on the relationship between a CEO's foreign experience and his/her compensation. Conyon et al. find that foreign CEOs and national CEOs with foreign working experience receive significantly higher levels of total compensation compared to similar CEOs without this experience, suggesting that foreign expertise of CEOs is valuable to the firm.

In this paper, we contribute to the literature on the impact boards may have in determining company outcomes by investigating whether and to what extent national board members influence company decisions and whether they may positively contribute to company outcomes. In particular, we investigate whether and to what extent they are associated with increased international activities of the company, measured in terms of their foreign assets and foreign income as a percentage of their total assets and income. Although inspired by Oxelheim et al. (2013), we expand their work in a number of ways. First, we focus on the experience board members have obtained by holding positions as executives or non-executives at companies in foreign countries. This type of experience may be highly relevant for their board work in the home-country company. Second, we differentiate between different locations where board members may have obtained their experience. In particular, we differentiate between having obtained foreign firm board experience in common law versus code law countries. One of the main drivers of differences in the corporate governance of companies in different countries is the type of law system of the country in which they are located. By being member of a board of a foreign company, directors obtain relevant information about and experience with relevant determinants of differences in corporate governance across countries. This experience may make them better capable in advising executives when decisions related to the internationalization strategy have to be made.

Our analysis is based on data from 3,068 American listed firms for the period 2003-2015, resulting in a sample of 18,434 firm-year observations. In our data, American board members have experience in 43 countries. Based on this dataset we find that the majority of American board members with foreign experience have obtained this experience in English speaking countries and in countries with similar financial and legal institutions. Most importantly, we show that firms with national (American) directors having accepted board positions in firms in code law countries have lower foreign assets as a share of their total assets. This is not true when they have accepted board positions in firms in common law countries. Firms appointing national directors who have accepted executive board positions (CEO, CFO, etc.) in firms outside the US also do not experience lower levels of foreign assets. We find similar results when we focus on total income from foreign activities, instead of foreign assets. Finally, we show that the negative association between national directors with foreign experience and internationalization does not affect firm performance negatively.

We explain these findings by pointing out that national directors who have been non-executives in countries with a code law legal system have experienced the difference between corporate governance practices in code law countries and the practices in the United States, which is a common law country. They have experienced how these difficulties may hinder business practices of American companies in these countries. They therefore advice American companies on which boards they are to deglobalize and reduce foreign activities in these countries. National directors having foreign experience in common law countries do not experience the difference in governance practices between these foreign countries and the United States, which means they are not expected to advice the company to deglobalize. National directors who have been executives of foreign companies are also not expected to advice the company to reduce their activities, even if their experience is from code law countries. As they have managed a foreign company in such a country on a day-to-day basis, they have learned to overcome the differences in corporate governance practices between common law and code law countries.

The remainder of this paper is organized as follows. In section 2 we provide an overview of the relevant literature and derive our hypotheses. Section 3 discusses the data and methodology. In section 4 we present the results of the empirical analysis. Section 5 concludes and discusses practical implications.

2. Literature review

Boards of directors have been discussed extensively in the corporate governance literature. Central to discussions about boards is the role of non-executive directors with respect to monitoring and advising executive directors. Studies focus on determining the characteristics of non-executives as a team or group, as well as of the individual non-executives, that correlate with better monitoring performance and higher quality of advice provided to the executives, which ultimately should contribute to better decision-making and higher firm performance. In most cases, these studies use data from listed firms. Most of these listed firms are active in global input and output markets, as well as in global financial markets. As these global markets generally are more complex than domestic markets, experience with, and specialized knowledge about, the global context may be crucial for executives to take the right decisions and create value. Monitoring these decisions and advising executives on how to come to value enhancing decisions in a global environment therefore seems important.

Non-executive directors originating from foreign countries may be expected to contribute positively to the monitoring and advising of executives in a global context. They have the knowledge and experience to monitor managerial decisions and their global implications because they bring their experience as non-executive directors from abroad. In particular, they bring knowledge and experience about governance standards of the countries from which they originate. Sometimes, these standards may differ significantly from the standards of the country in which they act as a board member (Miletkov et al., 2017). This may be helpful when advising the executive board in taking decisions that relate to activities of the company across borders.

Moreover, since they come from abroad they are expected to have specific knowledge from countries and regions they originate from. Thus, a Brazilian non-executive director has knowledge of Brazilian markets and institutions and of the culture and the norms and values that prevail in this country. Moreover, this director is expected to also have valuable knowledge and expertise about markets, institutions and culture of Brazil's neighbouring countries, and perhaps even of the Latin American content as a whole. Again, this knowledge may be helpful for advising managers on decisions regarding the international operations of the firm.

In addition, foreign directors are usually not part of the domestic network of directors (also referred to as the old-boys network), which means they are more distant from the executives of the firm on which board they sit. Being more distant means they can act more independently from management, making them potentially better monitors.

The fact that they have been offered and accepted a position as non-executive director outside their home country signals they may have specific skills to monitor and advise executives who are confronted with global market challenges.

Several studies have focused on the contribution foreign non-executive directors can make to the monitoring and advising role of boards. Oxelheim and Randøy (2003) is one of the earliest studies investigating the role of foreign non-executive directors. Using data from a random sample of 253 Norwegian and Swedish firms for the period 1996-1998, the authors examine the association between foreign (more specifically Anglo-American) board members and firm financial performance. They show that firms with foreign directors have a significantly higher financial performance than firms without such directors. Oxelheim and Randøy (2003) explain this result by arguing that firms have imported the Anglo-American corporate governance system the moment they appoint foreign (Anglo-American) directors. By appointing these directors, they signal a willingness to expose themselves to a higher level of corporate governance practices as the corporate governance practices of the US are generally seen as superior to those of most Continental European countries. This, they argue, has positive repercussions for the reputation of these firms in (international) financial markets.

Masulis et al. (2012) use data from US firms listed on the S&P 1500 index for the years 1998 to 2006 to analyse the contribution foreign non-executive directors make to decision-making and value creation of the firms on which boards they sit. They first show that firms with foreign directors show better performance with respect to cross-border acquisitions, but only when targets are located in the home region of the foreign directors. At the same time, firms with foreign directors show significantly lower financial performance. They argue that this is largely due to the fact that having foreign directors reduces the effectiveness of the board in monitoring management. Masulis et al. (2012) conclude that the overall contribution of foreign directors is not positive, at least in the case of US-based firms.

Estelyi and Nisar (2016) analyse the role of foreign non-executive directors based on data from UK firms listed on the FTSE index for the period 2001-2011. They specifically focus on board nationality diversity and show that firms that have diverse boards have higher financial performance. Thus, they point out that foreign directors individually may not contribute to better performing the monitoring and advisory roles of the board. Rather, it is the diversity of national backgrounds of directors that positively affects the effectiveness of boards in performing their main roles.

Miletkov et al. (2017), using data from a large sample of global non-US firms (resulting in 60,000 firm-year observations for the period 2011-2011), first of all analyse why firms appoint foreign board members and find that the degree of internationalization, firm size, the supply of qualified domestic directors and the extent to which a firm has a foreign shareholder based are important determinants. Next, they find no relationship between foreign directors and firm performance, but once they take into account the quality of the legal institutional environment in the home and host countries, the picture changes. In particular, they show that the relationship is positive for firms in countries with a low quality of legal institutions, as well as for firms that have foreign non-executive directors in their board who come from a country with higher quality legal institutions than the firm's host country.

Hooghiemstra et al. (2019) investigate the association between having foreign non-executive directors in the board and earnings management. Using a sample of 3,249 firm-year observations representing 586 non-financial listed Nordic firms during 2001-2008, the authors find that the presence of non-Nordic foreign directors on the board is associated with significantly higher levels of earnings management. Hooghiemstra et al. conclude that this relationship is due to differences in language, posing problems with communication in the boardroom, as well as due to the lack of knowledge of foreign directors with respect to local accounting standards.

Experience with, and specialized knowledge about the global context in which firms operate may not only reside with foreign directors. Also national directors may have collected this experience and knowledge during their past life and career. For example, national directors may have lived abroad during their youth; they may have studied in a foreign country; or may have worked in foreign countries. Arguably the strongest source of getting experience with and knowledge of the global context of firms relevant for their role as a board member is by being, or having been, executive or non-executive in a firm in a foreign country. Holding one or more positions as board members in foreign firms provides them hands-on experience with, and knowledge about, how the national and global context affects firms and how decision-making may best cope with this context to create value. They have advised management and participated in decision-making about how to deal with the challenges of the national and global context and how they affect firms in different constituencies. They have experience in monitoring management and their behaviour when confronted with these challenges in different countries and have seen how their behaviour and decisions may affect value creation. Monitoring decisions and advising executives on how to come to value enhancing decisions in different national and global settings is an important skill valuable to the effectiveness of boards in performing their roles.

National directors with international experience thus resemble foreign non-executive directors as they bring similar valuable skills to the board when it comes to being able to monitoring and advising management. Yet, we argue that national directors may be different from foreign directors when it comes to their ability to monitor management. As previous studies analysing the contribution of foreign directors have shown, these directors may be less effective monitors when they are less present in the firm and at board meetings due to high transaction costs, and are less active in committees. In addition, their monitoring abilities may be compromised once they have less knowledge of local legal and accounting regulations, and are less aware of local norms and values that may affect governance practices. National directors with international experience may differ from foreign directors on both dimensions. They are geographically closer to the firm and thus have lower transaction costs to be present in the firm and attend board meetings. They may also be better informed about local legal and accounting rules and will be familiar with local norms and values affecting governance practices. This makes national non-executive directors with international experience, at least potentially, more valuable than foreign directors as board members fulfilling their monitoring and advisory roles.

We are not aware of studies that explicitly deal with the contribution national non-executives with international experience can make to the monitoring and advisory role of boards. The study that comes closest to what we do in this paper is Oxelheim et al. (2013). In their study, the authors investigate the impact of what they call the *internationalization of corporate boards* on the internationalization of the firm. Using a sample of 346 non-financial listed Nordic firms for the period 2001-2008 they study the international expertise of board members by taking into account foreign non-executive directors as well as national directors with foreign experience. They find that, whereas the percentage of foreign directors is positively related to financial internationalization (that is, the share of foreign loans and foreign shareholders, foreign listings, etc.), foreign sales is positively associated with extent to which boards have national directors with international experience. Based on these findings, they conclude that foreign directors contribute mostly to the monitoring role of boards, while national directors with international experience seem more important for the advisory role of boards.

Another study that is related to ours is that of Conyon et al. (2019). In this paper, the authors investigate whether foreign experience of CEOs matters for their compensation. Using data from firms listed on the UK FTSE 350 index for the period 1999-2015, Conyon et al. find that foreign CEOs and national CEOs with foreign working experience have higher levels of total compensation compared to similar national CEOs without this experience. Based on these findings, they conclude that the differences in compensation are due to the international experience and networks of national and foreign CEOs.

We elaborate on the findings by Oxelheim et al. (2013) and Conyon et al. (2019). Oxelheim et al. (2013) show that national directors with international experience are particularly helpful when it comes advising the executive board in taking decisions that affect the international activities of the company. Conyon et al. (2019) argue that indeed international experience and networks are considered to be valuable by the stakeholders of the company. We also emphasize the advising role national directors with international experience and its potential value to the company. In particular, we stress that a national director, by being on the board of a company in a foreign country, is confronted and has to deal with the corporate governance practices of the host country. For example, the director will learn about shareholder rights, board governance regulations, and accounting and disclosure rules of the host country. She also has to deal and work with the country's code of corporate governance, which specifies the country's way of dealing with shareholder rights, the role of boards, remuneration contracts and practices of transparency and disclosure. Apart from these formal corporate governance practices, by being member of the board, she will also experience informal governance practices, such as the importance and extent of trust, hierarchy and power relations, and norms and values among board members and within society.

Corporate governance practices may differ significantly between countries. In particular, research has shown that there are substantial differences in practices between common and code law countries. The difference between these two types of law systems was first studied by La Porta et al. (1998) in the context of shareholder rights. Their research shows that in common law countries rights of shareholders are better protected than in code laws countries. Related to this, ownership structure differs substantially between common and code law countries (La Porta et al., 1999), that is, whereas in code law countries family ownership is dominant, widespread ownership is more common in common law countries. Other studies show that in common law countries financial disclosures are generally of higher quality than in code law countries (Jaggi and Low, 2000; Hope, 2003). In addition, research shows that board practices such as independence and CEO duality differ between common and code law countries. Finally, some studies show that countries differ in terms of how corporate governance practices are clustered and how clusters of practices affect company outcomes (Haxhi and Aguilera, 2017). These studies thus point out that usually corporate governance practices are complementary. This means that certain clusters of practices can be observed in common law countries, which may differ from clusters developed in code law countries.

International business research argues that institutional distance between the home and host country may act as a barrier to the success of multinational companies. Kogut and Singh (1988) show that foreign firms have less acquisitions in the United States the more distant the culture of the foreign firm's home country is from the American culture. Culture is part of the informal institutions of a country (North, 1994). Kogut and Singh (1988) support their finding by pointing out that the costs of managing culturally distant acquisitions may be more substantial because of differences in culture between the home and host country. The larger these differences, the higher the costs. Higher costs may ultimately compromise the success and performance of companies. Similarly, they point out that cultural differences may also increase uncertainties about international activities and their outcomes. Since cultural settings of foreign countries may not be known, it is more difficult to judge how activities should be organized and managed and what outcomes may be expected. This raises the costs of managing international operations, especially if the cultural distance between the home and host country is large.

Similar to informal institutional differences, formal institutional differences, such as differences in law systems and related differences in corporate governance practices, may bring high costs and uncertainty, which may compromise company performance. Having business activities in countries with different shareholder rights, disclosure rules, remuneration policies and board practices may put a burden on organizational processes. It may lead to having activities in different countries more complex, particularly when institutional distance between the host and home country is substantial. For example, remuneration policies in the United States differ from those in code law countries such as Sweden and Germany, that is, in the United States it is generally more accepted to have large dispersion between top and bottom salaries, whereas in Sweden or Germany salary policies are generally more egalitarian. This type of differences may raise the costs, as well as the uncertainty, of managing international activities of the company. Research on the relationship between the degree of internationalization and firm performance indeed provides mixed results and shows that outcomes depend on contextual variables, such as institutional differences between the home and host country (Glaum and Oesterle, 2008; Ruigrok and Wagner, 2004).

The above conclusions about the existence of institutional distance and the consequences for company decisions and performance may also apply to our study of national directors with international experience and their contribution to advising executives of home country companies. National directors who have been non-executives in countries with a code law legal system have experienced the difference between corporate governance practices in code law countries and the practices in a common law country. They have experienced how these difficulties may hinder business practices of common law country companies in these countries. Based on these experiences, they may advice common law country companies on which boards they sit to reduce activities foreign activities in countries from which they have board experience. In particular, they are inclined to provide this type of advice for countries with clearly distinct governance practices. In the setting of our analysis, this specifically relates to code law countries whose corporate governance practices are different from those in a common law country. Thus we hypothesize that:

H1: Having national non-executive directors with international experience in code law countries who sit on the board of a company in a common law country is associated with lower levels of internationalization of the firm.

In contrast, national non-executive directors having foreign experience in common law countries do not experience a difference in governance practices. These practices are fairly similar among different common law countries. The costs of having international operations with these countries and the uncertainties surrounding them are manageable, because the institutional distance between the home and host country is relatively small. This also means they are not expected to advice the company to reduce activities in these foreign countries. Given the small institutional distance between home and host country and given their knowledge of the foreign common law country they have been sitting on the board of a company, these non-executive directors may actually advice to increase activities in these countries. We therefore hypothesize that:

H2: Having national non-executive directors with international experience in common law countries who sit on the board of a company in a common law country is associated with higher levels of internationalization of the firm.

National directors who have been executives (that is, CEO, CFO, etc.) of foreign companies are also not expected to advice the company to reduce their activities, even if their experience is from code law countries. As they have managed a foreign company in such a country on a day-to-day basis, they have learned to overcome the differences in corporate governance practices between common law and code law countries. They have become familiar with the specific characteristics of the corporate governance practices in different countries and have learned to lift the barriers institutional differences may put on having international activities. Given their expertise and deeper knowledge of these institutional differences and their skills to get around them, they may advice the board of company in their home country to increase international activities, also in countries for which the institutional distance between the home and host country is relatively large. We thus hypothesize that:

H3: Having national non-executive directors with international experience as executive directors who sit on the board of a company in a common law country is associated with higher levels of internationalization of the firm.

3. Data and methodology

Sample selection

Our study uses data from companies headquartered in the United States, which is a common law country. We retain all U.S. headquartered American firms listed on NASDAQ and the New York Stock Exchange (NYSE). We exclude all firms with negative book-to-market ratio. We also exclude financial and utilities sector firms using standard two-digit SIC codes, which means we only have industrial sector firms in our sample. Our sample begins in the year 2003, as the quality of the BoardEx database in the first few years is relatively low, and ends in the year 2015. We exclude all firm-year observations with missing foreign asset data and other control variables. This results in a sample of 3,068 American listed firms for which we have 18,434 firm-year observations.

We start our data collection from the BoardEx database. We first collect data on boards of companies across the globe to verify in which boards American citizens are present. In particular, we identify all American directors within our sample and then trace them to all the listed foreign firms available in the BoardEx global sample using the director's unique identification code.[1] The directors for this search process have to be American citizens.[2] We do not make a distinction between natural born U.S. citizen and naturalized Americans. We use the timing of a foreign appointment of an American citizen to classify her as a national director with international

[1] A corollary of this process is that we leave out all American directors who have accepted an executive or board position in a non-listed foreign firm or a firm that is outside BoardEx database's coverage.

[2] In several instances BoardEx had missing citizenship information. For most directors the missing citizenship information was because of data recording error in one particular firm-year observations. For such cases we used the citizenship information from previous years to fill in the gaps. For several directors the citizenship data was completely missing. For these directors we hand-collected the director's citizenship information from several reliable online sources such as online SEC filings, Bloomberg, MarketScreener.com, CompaniesHouse.gov.uk, annual reports, etc.

experience. That is, an American director holding a board position in a US firm is classified as having international experience after the first year she has received her first appointment in a listed firm abroad. This means that directors classified as a foreign experienced American director have at least one year of international experience.[3] We disregard the possibility that the foreign firm is a listed subsidiary of the home firm in a foreign country, as such instances as fairly rare. The procedure as described above produces a dataset of 575,830 director-firm-year observations of foreign firms with American directors in their board.

Description of the data

Table 1 provides information about the directors in our dataset and shows in which foreign countries American directors hold board positions. The table reveals that we have 13,719 director-firm-year observations that relate to American directors holding board positions in foreign countries. Most foreign board positions are held in common law countries: only 27 per cent of board positions are held in companies in code law countries. Most foreign board positions are being held in three common law countries, that is, in the UK (3,490 firm-year observations), Canada (3,037) and Ireland (1,695). Of the code law countries, most positions are held in Switzerland (744 observations), the Netherlands (613) and France (541).

<Insert Table 1>

[3] We do not make a distinction between American directors who continuously hold a concurrent foreign position and directors who have served a single term abroad.

Table 2 shows that more than 30 per cent of the sample of US listed firm-year observations relate to American directors having acquired foreign board experience. The table also shows that 12 per cent of the firm-year observations relate to directors who have experience in Code law listed firms. Six percent of the firm-year observations relate to American directors having executive (CEO, CFO, etc.) experience and nearly one percent of the observations relate to American directors having CEO experience in a Code law country.

<Insert Table 2>

On average, American directors with foreign experience make up 16 per cent of the boards of American firms. American directors with experience in Common Law (Code Law) countries represent 14 per cent (12 per cent) of American boards.[4] Figure 1 (panel A) shows that by 2015 around 45 per cent of all American firms have at least one foreign experienced American director in their board; for American directors with experience in Common law (Code law) countries this is 35 (20) per cent. The figure also shows that the proportion of American directors with foreign experienced has increased over the sample period, particularly after the financial crisis of 2008-2009. Table 2 also provides information about the international activities of American firms. According to the table on average firms hold 8 per cent of their total assets in foreign countries; 14 per cent of their income is generated outside US borders from foreign operations.

<Insert Figure 1>

[4] The percentages for American directors with experience in Common and Code law countries do not sum up to the percentage of American directors with foreign experience, because directors may have experience in both Common and Code law countries.

Our sample includes 239,789 director-firm-year observations for the 3,068 American firms for which we have data. 12,604 observations relate to American directors having foreign work experience as executives or non-executives in firms located outside the US; 4,105 observations relate to American directors having foreign work experience in boards of firms in code law countries. Note, once again, that a director's firm is counted as foreign experienced (or code law country experienced) only after the year the director has acquired an executive or board position abroad. Panel A of table 3 shows that 85 per cent of the observations are for American directors holding a non-executive position in a board abroad. The same is true for American directors holding board positions in Code law country firms. Panel B of table 3 shows that if we compare American non-executive directors with foreign experience with other non-executives on American boards, foreign experienced directors are more likely to be board chair, have lower board tenure, have more qualifications, are older and have a higher number of outside affiliations. If we compare Code law country experienced American directors with all foreign experienced American directors we find that the first group are less likely to hold a board chair position, have less tenure and are older than second group of directors.

<Insert Table 3>

Research design

We estimate the following model:

$$y_{i,t} = \alpha + \beta Director\ Foreign\ Experience_{i,t} + \gamma Controls_{i,t} + YearFE + IndustryFE + FirmFE + \varepsilon \quad (1)$$

In equation (1) the dependent variable y is measured as the percentage of foreign assets or foreign income to total assets. These are standard measures of the extent to which firms have international activities (Sullivan, 1994). *Director foreign experience* is our variable of interest and is measured as a dummy variable with the value of 1 if a national director has experience as a board member in a firm abroad and zero otherwise. Alternatively, we use a measure taking the share of national directors with foreign experience in the total number of board members. *Controls* is a vector of control variables that includes standard variables in models explaining the degree of internationalization of firms. Subscript i relates to the firm; t refers to time. We perform fixed-effect OLS regressions (Reeb, Mansi, & Allee, 2001; Adams, Akyol, & Verwijmeren, 2018). In additional analyses we use instrumental variable regression techniques to take into account potential endogeneity (Laeven & Levine, 2009; Adams, Akyol, & Verwijmeren, Director skill sets, 2018; Ye, Deng, Liu, Szewczyk, & Chen, 2019).

4. Results

Table 4 shows the results of estimating the model expressed in equation (1). In particular, panel A of this table suggests that national directors with foreign experience are not associated with the share of foreign assets to total assets of American firms (see columns [1] and [4]). The results in panel A also show there is negative association between national directors with foreign experience in code law countries. This holds for both measures of code law country experience (that is, the dummy variable and the share of experienced directors to total directors on the board of an American firm; see columns [3] and [6]). There is no association with the share of foreign assets when national directors have foreign experience in Common law countries (columns [2] and [5]).

<Insert Table 4>

To control for reverse causality, we take into account different lags of the foreign experience variable. Panel B of table 4 shows that when we increase the time lag of the variable measuring whether national directors having experience in code law countries, the negative association with foreign assets remains and actually becomes stronger. This is not the case when directors have foreign experience in common law countries (not reported). We also address reverse causality by estimating a 2SLS model. Panel B reports the results of this analysis. In the first stage of the analysis, the independent variable is the industry-average proportion of foreign and code law experienced national directors. The outcome of the first stage is used as an instrument in the second stage, which is reported in columns [4]-[6]. The instrument appears to be highly significant. Our main result, that is, national directors with Code law experience have a negative association with foreign assets, still holds (see column [6]).

Table 5 presents the results when we use foreign income, instead of foreign assets, as the dependent variable. Again, we apply firm fixed-effect and 2SLS regression analyses to investigate the relationship between the proportion of national directors with foreign experience and the firm's level of foreign income. The results show that foreign experience is largely negatively associated with foreign income. However, this result is mainly driven by Code law experienced national directors on the board of American firms. This result holds for both the fixed-effect and 2SLS estimations and is consistent with the results for the models in which we use foreign assets as our dependent variable.

<Insert Table 5>

Next, we investigate whether the type of foreign board experience obtained in Code law countries matters. That is, we separate the sample of national directors with foreign experience into those having experience as CEO and those having experience as executives in general. We create two new variables. One variable is coded as all observations where a national director has experience as a CEO in a firm listed in a Code law country. The second variable is coded as all observations related to national directors having experience as executives in a listed firm in a Code law country. The results in table 6 (column [1]) show that both these variables are positively associated with foreign assets. The interaction measuring the incremental effect of having both national directors with experience as CEO and as executive in a firm in a Code law country on the board of an American firm does not offer additional support towards increased internationalization strategy in terms of foreign assets. These results are similar when we use foreign income instead of foreign assets as our dependent variable (column [3]). In both models, the relationship between national directors having board experience in a firm in a Code law country (which both includes experience as non-executive and experience as an executive) remains statistically significant and negative. When we interact our variable measuring experience as an executive in a Code law country firm with the variable measuring experience as a board member in a Code law country firm in general, we find a negative and significant result (columns [2] and [4]). In these specifications, the direct effect of board experience in Code law country firms becomes insignificant. These result suggest that whereas experience of national directors as a non-executive in a Code law country firm reduces international activities of American firms, the opposite is true for experience as an executive. Yet, the former effect seems to dominate the latter.

<Insert Table 6>

Until now, the analysis has focused on the role institutional diversity and how director's board experience abroad may affect the impact of institutional diversity on firm decisions such as the degree of internationalization. Next, we investigate whether foreign board experience may affect the impact of cultural diversity on the firm's internationalization. In the international business literature the impact of cultural differences between countries and its impact on the internationalization of the firm has been investigated (Leung et al., 2005). In this literature, it has been argued that the more culturally diverse countries are, the more difficult and costly it becomes to develop business relations between two countries. If norms and values are rather different, it is more difficult to communicate and conclude on business deals and set up contracts and agreements. We test whether cultural diversity may impact decisions of American firms with respect to the international extent of their business by positing that having national directors on the board who have foreign experience may act as a channel through which the importance and impact of cultural diversity on outcomes is translated into decision making. In particular, directors with experience in culturally very different foreign countries may express their experience with cultural diversity and its impact on business relations. Non-executive directors may thus be sceptical on developing relationships with countries that have a large cultural distance with the home country culture. In contrast, executives may be less sceptical, and may even advice positively about such relations, since they have managed a foreign company in a culturally distant country on a day-to-day basis. This may mean they have learned to overcome the differences in culturally determined norms and values, that is, they have become familiar with the specific norms and values of these countries and have learned to lift the barriers cultural differences may put on having international activities. In other words, given their expertise and deeper knowledge of these differences and their skills to get around them, they may advice the board of company in their home country to increase international activities, also in countries for which the cultural distance between the home and host country is relatively large.

We analyse the role of foreign board experience in culturally diverse countries on the internationalization of the firm by using data from the World Values Survey. This survey contains information about the level of trust people in a country have. Trust is seen as an important dimension of the culture of a country and has been used in economic studies before (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997; Johnson & Mislin, 2012). Data on levels of trust are available over a long period (1988-2014). In the survey trust is measured by asking participants from a large number of countries the following question: "Would you say that most people can be trusted?" Participants can answer this question by giving a score anywhere from 0 (low trust) to 10 (high trust). The survey is not carried out every year but is carried out in waves. More specifically, waves have been carried out for the years 2010-2014, 2005-2009, 1999-2004, 1995-1998, 1990-1994 and 1981-1984. This means that we use data from the survey from a particular year and then backdate the data until the year in which the previous wave has been carried out. In our sample we have 43 countries in which American directors have gained experience in boards in listed firms. For each of these 43 countries we have data on the level of trust for the sample period (2003-2014) using the data from the World Value Survey.

Figure 3 presents the results of a fixed-effect regression analysis using data from the sub-sample of firms that have national directors on their board with board experience in Code law countries. We split the data into four quartiles based on the level of trust of the country in which national directors have board experience. We find that firms having national directors with board experience in Code law firms with low levels of trust also have lower levels of foreign assets. At the same time, firms with national directors who have board experience in countries with high levels of trust are associated with significantly higher levels of foreign assets. Following the logic of Algan & Cahuc (2010) these results are fairly causal in nature. These results seem to support the idea that directors with board experience in Code law countries advice negatively on developing activities with countries for which the level of trust is low, because they have experienced the difficulties low trust may raise for doing business in these countries.

<Insert Figure 3>

Finally, we investigate whether foreign board experience and its impact on the internationalization of the firm has an impact on the value of the firm. Does the advice national directors with foreign board experience give on developing international activities show up in terms of higher of lower firm financial performance? We measure financial performance by using Tobin's Q and operating ROA. We follow an instrumental variable approach, using the industry-level average proportion of directors' foreign experience as our instrument. The results of our analysis are reported in table 7.

<Insert Table 7>

We find that having national directors with board experience in firms in Code law countries is associated with higher firm value and better accounting performance. The association between foreign assets and foreign income on the one hand and firm financial performance is weak to non-existent. Yet, the interaction between having national directors with board experience in firms in Code law countries and foreign assets is strongly negative. This suggests that firms that have directors with foreign board experience in Code law countries and that have high levels of foreign assets experience a market discount, which reduces the direct positive association between Code law experienced national directors and financial performance. Put differently, firms that invest less in foreign assets, which they may have done on the basis of the advice of national directors who have board experience in Code law countries, may suffer less from valuation discount due to having invested in foreign assets. We find similar results when we use foreign income instead of foreign assets as our measure of the internationalization of the firm. When we use measures of the accounting performance of the firm (such as operating ROA), the results are weaker but in the same directions. The incremental F-test confirms these inferences.

We end the empirical analysis by carrying out two additional tests to check for endogeneity problems that may cloud the interpretation of our outcomes. In particular, we perform reverse causality and falsification tests. The results for these additional tests are reported in table 8. To test for reverse causality, we create a new variable, which gets the value of 1 if the firm in the future or in the past has employed Code law experienced national directors, but not in the present year. Using this variable allows us to see if Code law experienced national directors self-select in firms with low levels of internationalization. We find that our variable measuring the presence of a Code law experienced board member is significantly and positively associated with both foreign assets and foreign income. This suggests that these board members do not self-select in firms with low levels of internationalization. In contrast, their presence has an impact on future levels of internationalization of the firm.

<Insert Table 8>

For the falsification test, we create a new variable, which is randomly coded 1 any year for a firm that at one point has employed a national director with board experience in a firm listed in a Code country. This variable is not significantly associated with any of the two internationalization measures.

5. Discussion and conclusions

In this paper we have investigated whether and to what extent national board members influence company decisions and whether they may contribute to firm outcomes. In particular, we have investigated whether the level of a firm's international activities is associated with having national directors with board experience in foreign countries. To the best of our knowledge, we are the first investigating this, highlighting the specific role foreign board expertise of nationals may play in decision making in the board of listed firms. We use data from 3,068 American listed firms for the period 2003-2015, resulting in a sample of 18,434 firm-year observations. In our data, American board members have experience in 43 countries.

In the analysis, we specifically focus on board experience in Common law versus Code law countries. We use this separation of countries into two groups, because we argue that directors with foreign board experience may provide advice on firm-level decisions, such as policies relating to the internationalization of the firm. Their experience in boards abroad may provide useful information about business practices and corporate governance arrangements in different country settings. From the international business literature, we know that institutional diversity, that is the difference in institutional settings of the home and the host country, may adversely affect the success of international activities. Since the United States is a Common law country, we postulate that having national directors on the board who have board experience in firms in Code law countries may adversely affect the level of internationalization of the firm. In particular, these board members may advice to reduce activities in (Code law) foreign countries, because they have experienced the barriers and costs institutional diversity across countries may generate. We do not expect that national directors with board experience in firms in Common law countries will advise negatively on developing international activities as the institutional diversity between the United States and other Common law countries is relatively small.

Generally speaking, our empirical analysis finds supporting evidence for our hypothesis. That is, we show that firms with national directors having accepted board positions in firms in code law countries have lower foreign assets as a share of their total assets. This is not true when they have accepted board positions in firms in common law countries. Firms appointing national directors who have accepted executive board positions (CEO, CFO, etc.) in firms outside the US also do not experience lower levels of foreign assets. We find similar results when we focus on total income from foreign activities, instead of foreign assets. Finally, we show that the negative association between national directors with foreign experience and internationalization does not affect firm performance negatively.

We explain these findings by pointing out that national directors who have been non-executives in countries with a code law legal system have experienced the difference between corporate governance practices in code law countries and the practices in the United States, which is a common law country. They have experienced how these difficulties may hinder business practices of American companies in these countries. They therefore advice American companies on which boards they are to deglobalize and reduce foreign activities in these countries. National directors having foreign experience in common law countries do not experience the difference in governance practices between these foreign countries and the United States, which means they are not expected to advice the company to deglobalize. National directors who have been executives of foreign companies are also not expected to advice the company to reduce their activities, even if their experience is from code law countries. As they have managed a foreign company in such a country on a day-to-day basis, they have learned to overcome the differences in corporate governance practices between common law and code law countries.

Our results are in line with Miletkov et al. (2017) who find that foreign non-executive directors coming from countries with legal institutions of lower quality than the firm's host country the impact on firm performance is negative. The experience these directors bring to the board about governance practices elsewhere does not positively contribute to the performance of the board in terms of their monitoring and advisory role, resulting in no or even a negative effect on firm performance. The governance practices in these countries are of lower quality than those of the host country of the firm. This argument also holds for our analysis. We use data from firms located in the US, which is a common law country and it is generally acknowledged that the legal institutions of this country are of higher quality than those of code law countries. Our study thus confirms the conclusion drawn by Miletkov et al. (2017) that the quality of institutions in both the foreign directors' home country and the firm's host country matter when assessing the impact of foreign directors on firm performance. That is, our analysis shows that this conclusion also holds for national directors with international experience. More specifically, when assessing the contribution national directors with international experience can make to affecting firm performance, it is important to take into account where they have obtained their international experience.

Our analysis holds interesting policy recommendations for human resource policies of large multinational companies. In particular, our study points out the relevance of the skill sets of directors in their board. Having directors with expertise of international business practices and differences between countries regarding these business practices seems extremely relevant. One way to develop a board with skill sets including international business experience is to appoint foreign board members. However, the literature has shown that, whereas these board members may hold valuable knowledge to advise on mergers and acquisitions in foreign countries (Masulis et al., 2012) or attract foreign capital (Oxelheim et al., 2013), they are generally also weaker monitors because of their physical and cultural distance to the firm (Masulis et al., 2012; Hooghiemstra et al., 2019). National directors with foreign board experience are usually less burdened with problems of physical and cultural distance to the firm, making them better monitors, while at the same time they may hold valuable knowledge about foreign markets and business opportunities expertise. Their skill set thus makes them very interesting as board members. We therefore suggest that multinational firms should seriously consider adding this class of board members to their board whenever new board appointments have to be decided on.

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Figure 1: U.S. Firms and Boards with Foreign Experienced American Directors

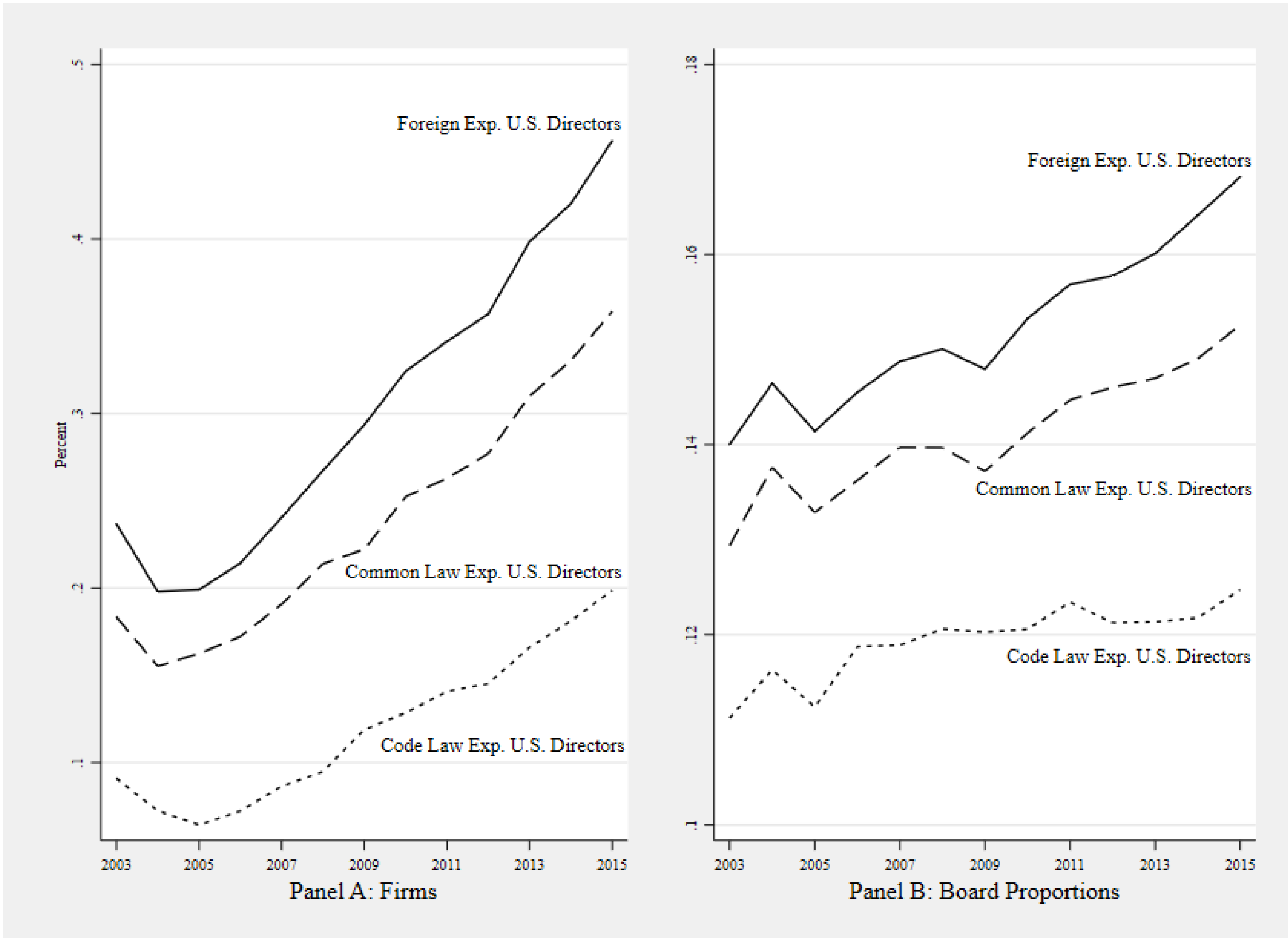
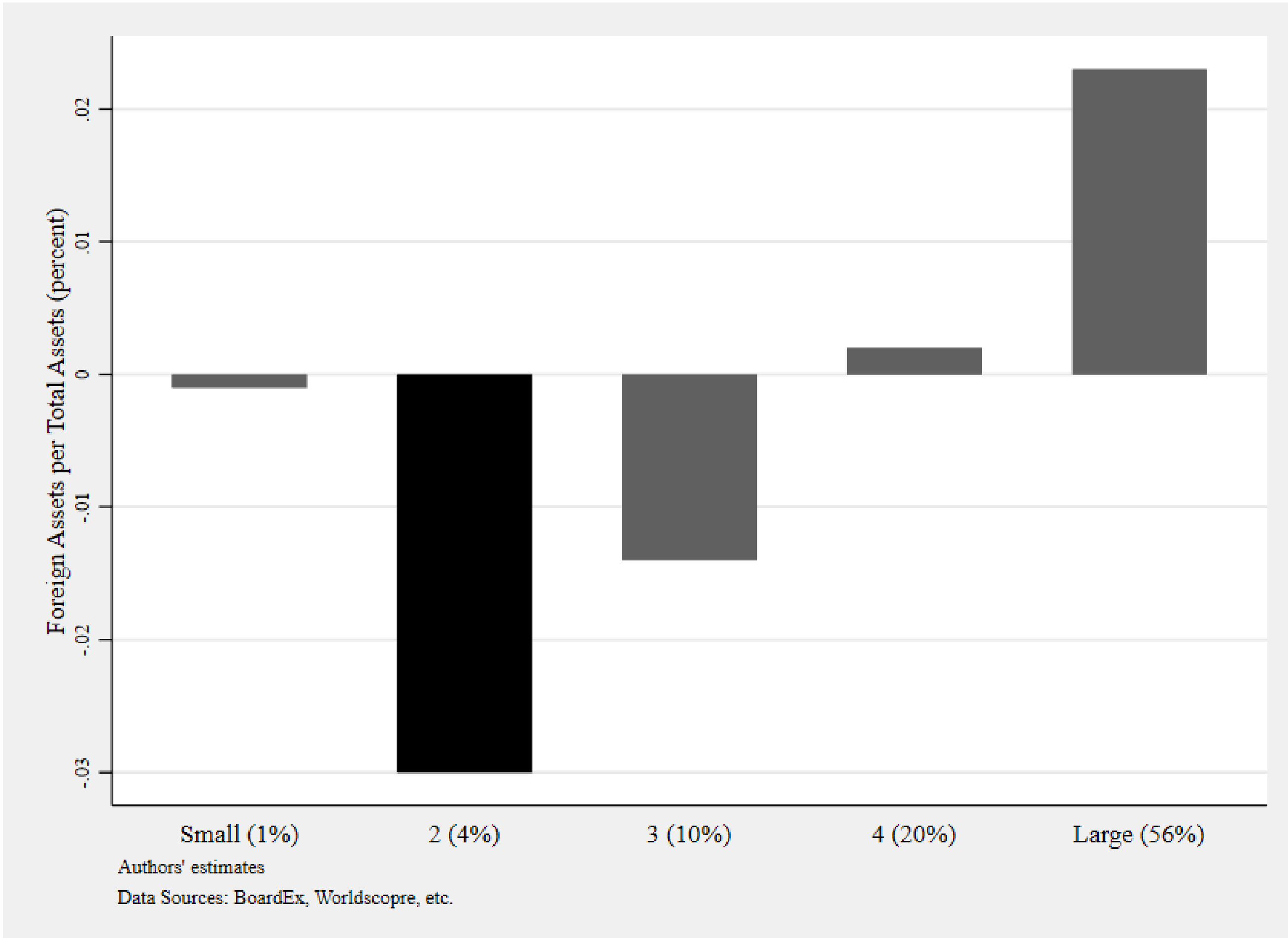
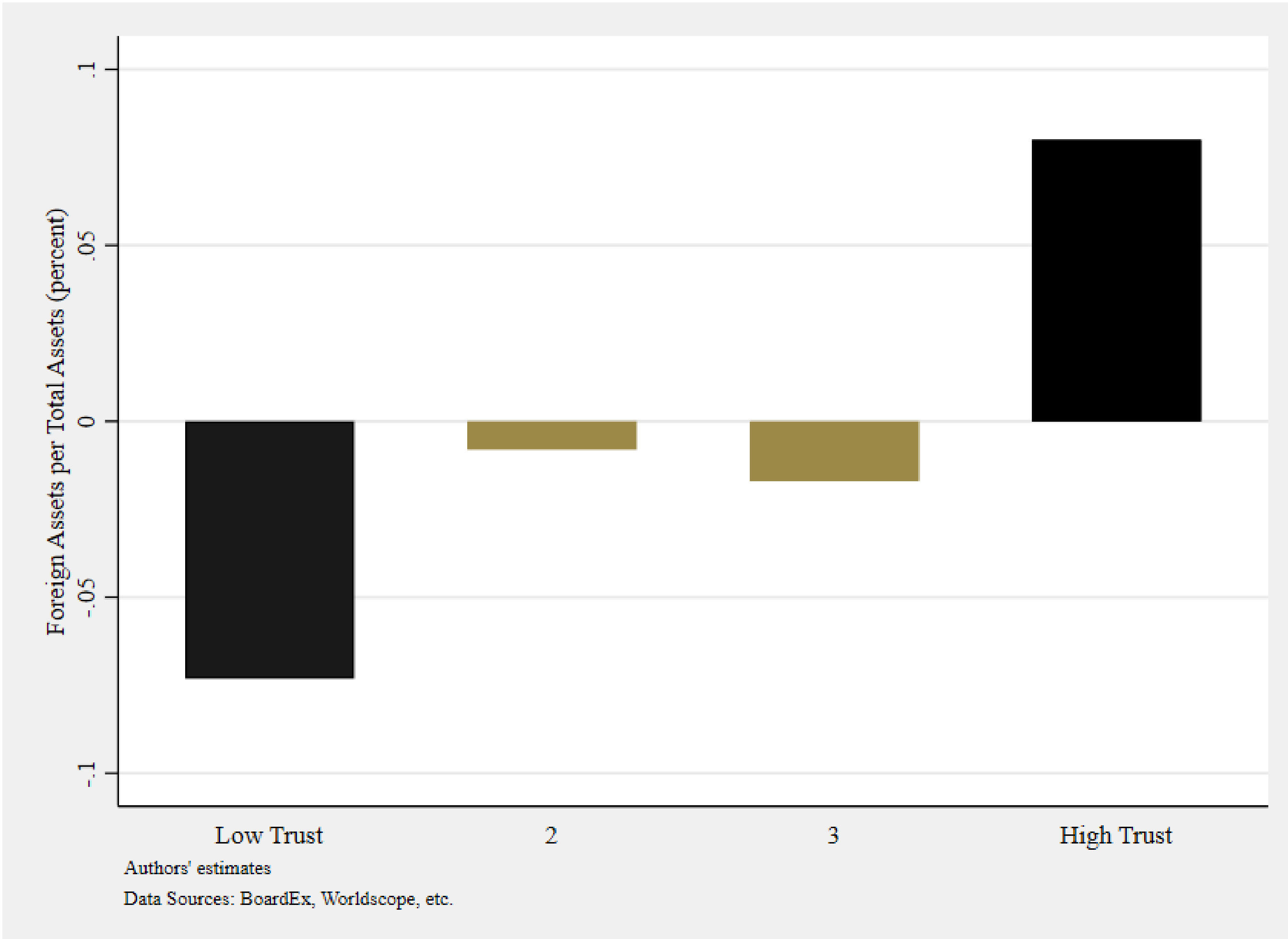


Figure 2: American director's board experience in Code Law countries and its effect on the firm's Foreign Assets across Foreign Asset quintiles



The percent in parenthesis indicates the average proportion of foreign assets invested abroad total assets across each quintile. The dark bar indicates that the coefficient is statistically significant at conventional levels (5 percent).

Figure 3: American director's board experience across Code Law country (WVS) Trust



The dark bar indicates that the coefficient is statistically significant at conventional levels.

Table 1: Where do U.S. directors go?						
Countries	Obs.	Sample Percent	U.S. Dir. (count)	U.S. Dir. (percent)	Code Law	WVS Trust
Argentina	1,210	0.002	30	0.025	1	0.179
Australia	33,508	0.058	508	0.015	0	0.498
Austria	5,907	0.010	6	0.001	1	NA
Belgium	9,837	0.017	140	0.014	1	NA
Brazil	5,560	0.010	26	0.005	1	0.083
Canada	45,782	0.080	3037	0.066	0	0.400
Chile	1,434	0.003	4	0.003	1	0.137
China	17,893	0.031	229	0.013	1	0.534
Colombia	457	0.001	1	0.002	1	NA
Cyprus	983	0.002	11	0.011	0	0.118
Denmark	4,195	0.007	51	0.012	1	NA
Finland	3,883	0.007	83	0.021	1	0.580
France	41,858	0.073	541	0.013	1	0.187
Germany	44,196	0.077	325	0.007	1	0.339
Greece	4,469	0.008	70	0.016	1	NA
Hong Kong	24,450	0.043	282	0.012	0	0.436
Iceland	324	0.001	14	0.043	1	NA
India	23,075	0.040	219	0.009	0	0.270
Indonesia	2,359	0.004	4	0.002	1	0.412
Ireland	9,213	0.016	1695	0.184	0	NA
Israel	8,418	0.015	434	0.052	0	0.230
Italy	15,962	0.028	52	0.003	1	0.283
Japan	14,327	0.025	105	0.007	1	0.364
Luxembourg	2,684	0.005	125	0.047	1	NA
Malaysia	5,341	0.009	7	0.001	0	0.087
Mexico	3,945	0.007	155	0.039	1	0.154
Netherlands	11,969	0.021	613	0.051	1	0.462
New Zealand	1,375	0.002	6	0.004	0	0.536
Nigeria	1,536	0.003	4	0.003	0	0.203
Norway	8,022	0.014	63	0.008	1	0.737
Philippines	1,575	0.003	0	0.000	1	0.062
Poland	3,199	0.006	16	0.005	1	0.196
Portugal	3,925	0.007	0	0.000	1	NA
Russia	3,844	0.007	25	0.007	1	0.260
Singapore	10,703	0.019	271	0.025	0	0.236
South Africa	12,770	0.022	65	0.005	0	0.162
South Korea	1,855	0.003	13	0.007	1	0.298
Spain	13,693	0.024	84	0.006	1	0.253
Sweden	15,253	0.027	157	0.010	1	0.674
Switzerland	11,898	0.021	744	0.063	1	0.494

Turkey	1,776	0.003	12	0.007	1	0.090
United Arab Emirates	1,292	0.002	2	0.002	1	NA
United Kingdom	139,875	0.243	3490	0.025	0	0.300
Total	575,830		13,719			
Average				0.020		

Table 2: Summary statistics							
Variable	Obs.	Mean	Std. Dev.	Min	25 percent	75 percent	Max
Dummy: Foreign Exp. U.S. Dir.	18,434	0.309	0.462	0.000	0.000	1.000	1.000
Dummy: Common Law Exp. U.S. Dir.	18,434	0.235	0.424	0.000	0.000	0.000	1.000
Dummy: Code Law Exp. U.S. Dir.	18,434	0.122	0.328	0.000	0.000	0.000	1.000
Dummy: Code Law Exec. Exp. U.S. Dir.	18,434	0.062	0.241	0.000	0.000	0.000	1.000
Dummy: Code Law CEO Exp. U.S. Dir.	18,434	0.008	0.087	0.000	0.000	0.000	1.000
Foreign Exp. U.S. Dir. (%Board Size)	5,713	0.155	0.067	0.059	0.111	0.200	0.333
Common Law Exp. U.S. Dir. (%Board Size)	4,324	0.141	0.057	0.053	0.100	0.167	0.286
Code Law Exp. U.S. Dir. (%Board Size)	2,261	0.121	0.036	0.053	0.091	0.143	0.200
Code Law Exec. Exp. U.S. Dir. (%Board Size)	1,142	0.109	0.024	0.056	0.091	0.125	0.143
Code Law CEO Exp. U.S. Dir. (%Board Size)	140	0.106	0.023	0.059	0.083	0.125	0.200
Foreign Assets	18,434	0.087	0.177	0.000	0.000	0.084	1.000
Foreign Income	18,434	0.140	0.381	-1.011	0.000	0.147	1.906
Tobin's Q	18,434	2.062	1.481	0.491	1.181	2.340	9.555
Total Assets ($US B)	18,434	4.542	15.977	0.002	0.153	2.405	192.668
Operating ROA	18,434	0.036	0.186	-0.863	0.014	0.124	0.352
Total Liabilities	18,434	0.468	0.219	0.008	0.301	0.624	1.152
R&D	18,434	0.047	0.103	0.000	0.000	0.047	0.753
Cash Holdings	18,434	0.207	0.227	0.000	0.040	0.289	0.936
Insider Ownership	18,434	0.209	0.214	0.001	0.027	0.317	0.934
Firm Age (Years)	18,434	31.100	26.740	1.000	13.000	40.000	116.000
Board Size	18,434	8.265	2.193	4.000	7.000	10.000	17.000
Board Independence	18,434	0.751	0.135	0.000	0.667	0.857	1.000
Board Outside Affil.	18,434	1.712	0.568	0.000	1.286	2.077	3.667
Foreign Dir.	18,434	0.035	0.081	0.000	0.000	0.000	0.857
Certified Board	18,434	0.033	0.073	0.000	0.000	0.000	0.429
Geographic Segments	18,434	2.176	1.655	1.000	1.000	3.000	10.000

Table 3: Foreign experienced director's role within the board
Statistical significances are reported as follows: (Two tailed) * p<0.1, ** p<0.05, *** p<0.01; (One-tailed) § p<0.1, §§ p<0.05, §§§ p<0.01.

Panel A

Variable	Obs.	Mean	Std. Dev.	Obs.	Mean	Std. Dev.	Obs.	Mean	Std. Dev.
	All Directors			Foreign Exp. U.S. Dir.			Code Law Exp. U.S. Dir.		
Board Chair	239,789	0.122	0.327	12604	0.113	0.316	4,105	0.093	0.291
Non-Exec. Dir.	239,789	0.747	0.434	12604	0.865	0.342	4,105	0.857	0.350
Certified Exec. Dir.	239,789	0.041	0.199	12604	0.067	0.251	4,105	0.077	0.267
CEO	239,789	0.119	0.324	12604	0.058	0.234	4,105	0.059	0.236
Dir. Tenure	239,789	7.976	7.388	12604	6.850	6.014	4,105	6.480	5.715
Qualifications	239,789	2.007	1.147	12604	2.304	1.037	4,105	2.290	1.016
Age	239,789	60.197	9.372	12604	61.700	8.162	4,105	61.815	8.255
Outside Affiliations	239,789	1.759	1.101	12604	2.903	1.397	4,105	2.914	1.373

Panel B

	All Indp Dir. – Foreign Exp. U.S. Dir.		Foreign Exp. U.S. Dir. – Code Law Exp. U.S. Dir.	
	Diff.	T-stat	Diff.	T-stat
Board Chair	-0.028	-13.40***	0.027	5.17***
Dir. Tenure	0.515	7.85***	0.414	3.42***
Qualifications	-0.246	-21.43***	0.027	1.24
Age	-1.119	-12.39***	-0.487	-2.99***
Outside Affiliations	-1.157	-100.00***	0.020	0.70

Table 4: Foreign commitment of firms with foreign experienced American directors
Dependent: Foreign Assets
Robust standard errors are reported underneath the coefficients in parenthesis. Statistical significances are reported as follows: (Two tailed) * p<0.1, ** p<0.05, *** p<0.01; (One-tailed) § p<0.1, §§ p<0.05, §§§ p<0.01.

	(1)	(2)	(3)	(4)	(5)	(6)
Panel A						
Dummy: Foreign Exp. U.S. Dir. (t-1)	-0.003					
	(0.00)					
Dummy: Common Law Exp. U.S. Dir. (t-1)		0.001				
		(0.01)				
Dummy: Code Law Exp. U.S. Dir. (t-1)			-0.016**			
			(0.01)			
Foreign Exp. U.S. Dir. (%Board Size) (t-1)				-0.026		
				(0.03)		
Common Law Exp. U.S. Dir. (%Board Size) (t-1)					0.014	
					(0.04)	
Code Law Exp. U.S. Dir. (%Board Size) (t-1)						-0.131**
						(0.06)
Tobin's Q (t-1)	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Total Assets (ln) (t-1)	0.005	0.005	0.005	0.005	0.005	0.005
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Operating ROA (t-1)	-0.004	-0.004	-0.004	-0.004	-0.004	-0.004
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Total Liabilities (t-1)	0.005	0.005	0.005	0.005	0.005	0.005
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
R&D (t-1)	-0.009	-0.010	-0.010	-0.009	-0.010	-0.010
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Cash Holdings (t-1)	-0.026**	-0.026**	-0.026**	-0.026**	-0.026**	-0.026**
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Insider Ownership (t-1)	-0.008	-0.008	-0.008	-0.008	-0.008	-0.008
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Firm Age^2 (t-1)	-0.000*	-0.000*	-0.000*	-0.000*	-0.000*	-0.000*
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Board Size (ln) (t-1)	-0.001	-0.003	0.000	-0.001	-0.003	-0.001
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Board Independence (t-1)	0.039**	0.039**	0.039**	0.039**	0.040**	0.040**
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Board Outside Affil. (t-1)	0.015	0.012	0.019	0.017	0.010	0.019
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Foreign Dir. (t-1)	-0.050	-0.049	-0.053	-0.051	-0.049	-0.053
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Certified Board (t-1)	0.040*	0.040*	0.041*	0.040*	0.040*	0.041*

	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Geographic Segments (ln) (t-1)	0.068***	0.068***	0.068***	0.068***	0.068***	0.068***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
constant	0.010	0.014	0.005	0.009	0.015	0.006
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Year Fixed-Effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed-Effect	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	18061	18061	18061	18061	18061	18061
Firms	3068	3068	3068	3068	3068	3068
Adj. R-sqr	0.029	0.029	0.029	0.029	0.029	0.030
Overall p-value	0.00	0.00	0.00	0.00	0.00	0.00
Estimator	OLS	OLS	OLS	OLS	OLS	OLS
Panel B						
Code Law Exp. U.S. Dir. (t-2)	-0.159**					
	(0.06)					
Code Law Exp. U.S. Dir. (t-3)		-0.191***				
		(0.07)				
Code Law Exp. U.S. Dir. (t-4)			-0.189***			
			(0.07)			
Foreign Exp. U.S. Dir. (%Board Size) (t-1)				-0.034		
				(0.20)		
Common Law Exp. U.S. Dir. (%Board Size) (t-1)					0.230	
					(0.23)	
Code Law Exp. U.S. Dir. (%Board Size) (t-1)						-0.690**
						(0.33)
First Stage - Industry Average Foreign, Common and Code Exp. of U.S. Dir.				0.789***	0.095***	0.802***
				(0.07)	(0.00)	(0.09)
constant	0.025	0.048	0.024	-0.051	-0.015	-0.088**
	(0.04)	(0.05)	(0.06)	(0.05)	(0.04)	(0.03)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed-Effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed-Effect	Yes	Yes	Yes	No	No	No
Obs.	16524	15031	13285	18061	18061	18061
Firms	2919	2711	2511	3068	3068	3068
Adj. R-sqr	0.029	0.031	0.034	0.319	0.312	0.303
Overall p-value	0.00	0.00	0.00	0.00	0.00	0.00
Estimator	OLS	OLS	OLS	2SLS	2SLS	2SLS

Table 5: Foreign Accounting Returns of firms with foreign commitments
Dependent: Foreign Income
Robust standard errors are reported underneath the coefficients in parenthesis. Statistical significances are reported as follows: (Two tailed) * p<0.1, ** p<0.05, *** p<0.01; (One-tailed) § p<0.1, §§ p<0.05, §§§ p<0.01.

	(1)	(2)	(3)	(4)	(5)	(6)
Foreign Exp. U.S. Dir. (%Board Size) (t-1)	-0.177**			-0.919**		
	(0.08)			(0.42)		
Common Law Exp. U.S. Dir. (%Board Size) (t-1)		-0.107			-0.770*	
		(0.09)			(0.44)	
Code Law Exp. U.S. Dir. (%Board Size) (t-1)			-0.356**			-1.639**
			(0.15)			(0.73)
constant	0.106	0.124	0.113	-0.292***	-0.212***	-0.219***
	(0.13)	(0.13)	(0.13)	(0.09)	(0.08)	(0.06)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed-Effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed-Effect	Yes	Yes	Yes	No	No	No
Obs.	18061	18061	18061	18061	18061	18061
Firms	3068	3068	3068	3068	3068	3068
Adj. R-sqr	0.027	0.026	0.027	0.159	0.171	0.161
Overall p-value	0.00	0.00	0.00	0.00	0.00	0.00
Estimator	OLS	OLS	OLS	2SLS	2SLS	2SLS

Table 6: Type of foreign experience of American directors
Robust standard errors are reported underneath the coefficients in parenthesis. Statistical significances are reported as follows: (Two tailed) * p<0.1, ** p<0.05, *** p<0.01; (One-tailed) § p<0.1, §§ p<0.05, §§§ p<0.01.

	(1)	(2)	(3)	(4)
Dependent	Foreign Assets		Foreign Income	
Dummy: Code Law Exp. U.S. Dir. (t-1)	-0.014*	-0.009	-0.042**	-0.019
	(0.01)	(0.01)	(0.02)	(0.02)
Dummy: Code Law CEO Exp. U.S. Dir. (t-1)	0.016**		0.074***	
	(0.01)		(0.02)	
Code Law Exp. U.S. Dir. x Code Law CEO Exp. U.S. Dir. (t-1)	-0.061§§		-0.087	
	(0.04)		(0.08)	
Dummy: Code Law Exec. Exp. U.S. Dir. (t-1)		0.016**		0.075***
		(0.01)		(0.02)
Code Law CEO Exp. U.S. Dir. x Code Law Exec. Exp. U.S. Dir. (t-1)		-0.032**		-0.126***
		(0.02)		(0.04)
constant	0.004	0.006	0.111	0.114
	(0.04)	(0.04)	(0.13)	(0.13)
Other Controls	Yes	Yes	Yes	Yes
Year Fixed-Effect	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes
Firm Fixed-Effect	Yes	Yes	Yes	Yes
Obs.	18061	18061	18061	18061
Firms	3068	3068	3068	3068
Adj. R-sqr	0.030	0.030	0.027	0.027
Overall p-value	0.00	0.00	0.00	0.00
Estimator	OLS	OLS	OLS	OLS
Incremental F-test (baseline, interaction)	3.64	4.56	9.60	10.27
F-test p-value	0.00	0.00	0.00	0.00

Table 7: Foreign experienced American directors and the firm's financial performance (IV results)
Robust standard errors are reported underneath the coefficients in parenthesis. Statistical significances are reported as follows: (Two tailed) * p<0.1, ** p<0.05, *** p<0.01; (One-tailed) § p<0.1, §§ p<0.05, §§§ p<0.01.

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent		Tobin's Q			Operating ROA	
Code Law Exp. U.S. Dir. (%Board Size) (t-1)	3.366***	3.901**	3.189**	0.499§§	0.587§§	0.510§
	(1.29)	(1.53)	(1.38)	(0.34)	(0.40)	(0.36)
Foreign Assets (t-1)	-0.004	0.092§§		0.001	0.016	
	(0.03)	(0.06)		(0.01)	(0.02)	
Code Law Exp. U.S. Dir. X Foreign Assets (t-1)		-4.845**			-0.787§	
		(2.33)			(0.60)	
Foreign Income (t-1)			0.000			0.004
			(0.01)			(0.00)
Code Law Exp. U.S. Dir. X Foreign Income (t-1)			-1.147*			-0.180
			(0.66)			(0.17)
Tobin's Q (t-1)				0.024***	0.024***	0.024***
				(0.00)	(0.00)	(0.00)
Operating ROA (t-1)	0.455***	0.451***	0.457***			
	(0.06)	(0.06)	(0.06)			
constant	1.785***	1.778***	1.781***	0.092*	0.091*	0.085
	(0.18)	(0.18)	(0.19)	(0.05)	(0.05)	(0.05)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed-Effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed-Effect	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	18061	18061	18061	18061	18061	18061
Firms	3068	3068	3068	3068	3068	3068
Adj-R-sqr	0.213	0.206	0.221	0.074	0.072	0.075
Overall p-value	0.00	0.00	0.00	0.00	0.00	0.00
Estimator	2SLS	2SLS	2SLS	2SLS	2SLS	2SLS
Incremental F-test (baseline, interaction)		4.33	3.01		1.73	1.18
F-test p-value		0.03	0.08		0.18	0.27

Table 8: Endogeneity - Reverse causality and falsification tests
Robust standard errors are reported underneath the coefficients in parenthesis. Statistical significances are reported as follows: (Two tailed) * p<0.1, ** p<0.05, *** p<0.01; (One-tailed) § p<0.1, §§ p<0.05, §§§ p<0.01.

	(1)	(3)	(2)	(4)
Dependent	Foreign Assets		Foreign Income	
Dummy: Pre-Code Law Exp. U.S. Dir. (t-1)	0.016**		0.043**	
	(0.01)		(0.02)	
Dummy: Random-Code Law Exp. U.S. Dir. (t-1)		0.001		0.005
		(0.00)		(0.01)
constant	0.001	0.013	0.101	0.134
	(0.04)	(0.04)	(0.13)	(0.13)
Other Controls	Yes	Yes	Yes	Yes
Year Fixed-Effect	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes
Firm Fixed-Effect	Yes	Yes	Yes	Yes
Obs.	18061	18061	18061	18061
Firms	3068	3068	3068	3068
Adj. R-sqr	0.030	0.029	0.027	0.026
Overall p-value	0.00	0.00	0.00	0.00
Estimator	OLS	OLS	OLS	OLS

Appendix A: List of Variables		
Variables	Description	Source
Dummy: Foreign Exp. U.S. Dir.	Dummy coded 1 if American directors with foreign board affiliation, 0 otherwise	BoardEx
Dummy: Common Law Exp. U.S. Dir.	Dummy coded 1 if American directors with Common Law country board affiliation, 0 otherwise	BoardEx
Dummy: Code Law Exp. U.S. Dir.	Dummy coded 1 if American directors with Code Law country board affiliation, 0 otherwise	BoardEx
Dummy: Code Law Exec. Exp. U.S. Dir.	Dummy coded 1 if American directors with Code Law country executive experience, 0 otherwise	BoardEx
Dummy: Code Law CEO Exp. U.S. Dir.	Dummy coded 1 if American directors with Code Law country CEO experience, 0 otherwise	BoardEx
Foreign Exp. U.S. Dir. (%Board Size)	Number of American directors with foreign affiliation per Board Size	BoardEx
Common Law Exp. U.S. Dir. (%Board Size)	Number of American directors with Common Law country board affiliation per Board Size	BoardEx
Code Law Exp. U.S. Dir. (%Board Size)	Number of American directors with Code Law country board affiliation per Board Size	BoardEx
Code Law Exec. Exp. U.S. Dir. (%Board Size)	Number of American directors with Code Law country executive experience per Board Size	BoardEx
Code Law CEO Exp. U.S. Dir. (%Board Size)	Number of American directors with Code Law country CEO experience per Board Size	BoardEx
Foreign Assets	Total Foreign Assets per Total Assets	Worldscope
Foreign Income	Foreign Income per Pre Tax Income	Worldscope
Tobin's Q	Total Assets minus Book Value of Equity plus market value of Equity divided by book value of Total Assets	Worldscope
Total Assets ($US B)	Total Assets	Worldscope
Operating ROA	Operating Income per Total Assets	Worldscope
Total Liabilities	Total Liabilities per Total Assets	Worldscope
R&D	Research and Development Expenditure per Total Assets	Worldscope
Cash Holdings	Cash Holdings per Total Assets	Worldscope
Insider Ownership	Percentage of shares held by insiders, which includes Cross Holdings, Corporations, Holding Companies, Government, Employees, and other Individuals	Worldscope
Firm Age (Years)	Present Year minus Year of Incorporation	Worldscope
Board Size	Total number of directors	BoardEx
Board Independence	Total number of non-executive directors per Board Size	BoardEx
Board Outside Affil.	Firm average number of listed boards on which directors currently serve per Board Size	BoardEx
Foreign Dir.	Foreign Directors per Board Size	BoardEx
Certified Board	Total number of outside affiliated (listed board > 1) Non-CEO executive directors per Board Size	BoardEx
Geographic Segments	Total number of geographies within which a firm has physical presence (identified using Total Assets across geographies)	Worldscope