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Where do international board members come from? Country-level antecedents of international board member selection in European boards



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ABSTRACT

In this paper, it is argued that boards internationalize by recruiting international directors in order to increase companies' performance. However, increasing nationality diversity on a board can be costly considering that it potentially creates cooperative problems on a board due to fault-lines and separation processes. As a result, boards will prefer international candidates who are more similar to themselves on a variety of 'distances'. Based on data collected regarding 5683 board members of 361 companies from 15 countries in 2005–2007, we discover that the greater the distance (cultural, institutional and geographical) between the candidates' and the companies' country-of-origin, the lower the fraction of board members of that nationality on boards. Subsequently, it is argued that historical ties between countries play a 'distance compressing' role and partially compensate for the effects of distance. A colonial tie between countries will make recruitment of these particular nationalities more likely than others.

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1. Introduction

The emerging global economy has led to an increase in the number of foreign board members originating from different markets (Staples, 2007; van Veen & Marsman, 2008). This increase in the variety of nationalities on boards tends to enrich the supply of ideas, unique approaches, and knowledge available within a group, which subsequently enhances creativity, quality of decision making and performance (Harrison & Klein, 2007; Williams & O'Reilly III, 1998). The presence of international directors on boards can enhance the market value of listed companies because it signals commitment to different corporate governance standards (Oxelheim & Randoy, 2003). A number of studies have shown that companies with higher nationality diversity in their upper echelons have a greater propensity to enter foreign markets, resulting in greater performance (Carter, Simkins, & Simpson, 2003; Masulis, Wang & Xie, 2012; Miller & Carmen Triana, 2009; Nielsen, 2010). Hence, companies have begun adapting their board recruitment strategies to ensure a sufficient level of 'board capital' in terms of international knowledge, experience and relations

(Hillman, Cannella, & Paetzold, 2000; Nielsen, 2009; Rivas, 2012b; Sanders & Carpenter, 1998).

New environmental complexities outside a companies' country-of-origin demand a more heterogeneous team with a broader knowledge base (Cannella Jr, Park, & Lee, 2008; Carpenter, 2002). Previous research suggests that boards have a few recruitment strategies to meet this emerging requirement. One such strategy is that boards can increase their knowledge base by recruiting internationally experienced members in the upper echelons (e.g. Carpenter & Fredrickson, 2001; Tihanyi, Ellstrand, Daily, & Dalton, 2000). A related strategy, and the focus of this study, is to recruit individuals from other countries for vacant board positions (van Veen & Elbertsen, 2008). Recruiting candidates from several foreign countries leads to an increase in the variety of nationalities present on a board. The company can then reap the advantages of nationality diversity on the board such as a further internationalization of the company (see also Hitt, Tihanyi, Miller, & Connelly, 2006). As a result, nationality diversity correlates with a variety of internationalization indicators (e.g. Caligiuri, Lazarova, & Zehetbauer, 2004; Sullivan, 1994) which suggests a self-enhancing process between internationalization of the company and the recruitment of foreign members (see also Greve, Nielsen, & Ruigrok, 2009).

These studies highlight the importance of nationality diversity on boards and its significant impact on firm performance and shareholder returns, but they do not help us understand where

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new international board members come from. In this paper, we focus on this latter issue for the reason that this increasing diversity is not without risks and can be seen as a ‘two-edged sword’ (e.g. Milliken & Martins, 1996; van Knippenberg, De Dreu, & Homan, 2004). Increasing diversity can also lead to social categorization processes which foster conflict and turnover and can diminish morale, cohesion and group performance (Harrison & Klein, 2007). It creates strong fault-line settings when sub groups differ on a variety of demographic characteristics at the same time (Lau & Murnighan, 2005) which can negatively affect team functioning (Earley & Mosakowski, 2000). Fault-line situations can hamper constructive debate and negatively affect – for instance – the capacity of a team to enter new foreign countries and regions (Barkema & Shvyrykov, 2007). Thus, nationality diversity can also lead to ‘separation’ dynamics on a board which has a negative effect on performance indicators of companies.

We claim that companies develop recruitment strategies for their boards which make it possible to reap the benefits of nationality diversity while simultaneously reducing the possible negative consequences (see Dahlin, Weingart, & Hinds, 2005). As a result, companies will recruit board members from abroad but simultaneously attempt to minimize the differences. In particular, we argue that companies attempt to minimize institutional and cultural distances between their own country-of-origin and the home country of the candidate. Following this logic in board recruitment strategies, cross-border mobility of board members will reflect that some borders between countries become much more porous than others. In addition, we extend this theoretical framework by examining how history impacts board recruitment strategies (Jones & Khanna, 2006). We argue that history matters in two different ways. First, there is a direct effect of historical ties which affects contemporary perceptions of familiarity between countries during the recruitment process (e.g. Makino & Tsang, 2011). Our theory suggests that history, in particular colonial ties, has an indirect ‘distance-compressing’ effect. Second, we hypothesize that the impact of institutional and cultural distance on board member choice is influenced by whether or not a shared history exists between the company’s country-of-origin and the country-of-origin of the potential board member.

We test these ideas using a unique set of data that contains information on 5683 board members from 361 companies that are headquartered in fifteen European countries in the period between 2005 and 2007. This database creates a possibility to study cross-border mobility patterns of board members within the European context. To test the hypotheses, a fractional logit regression analysis has been used to examine the mobility patterns of international boards by combining characteristics of the sending country (*s*) and the receiving country (*r*). The results confirm our expectations. Boards within a country (*r*) have a tendency to recruit international board members from countries (*s*) that are culturally and institutionally more similar to the existing board. Additionally, these cultural and institutional distances interact with closer historical ties between countries. Colonial ties decrease the perceived differences and increase the likelihood of recruiting board members from those particular countries. This demonstrates that companies have a tendency to recruit international board members to benefit the increase in nationality diversity on a board but do so in countries that are familiar to them.

Although past studies have shown that nationality diversity on boards provides many benefits to companies, these studies do not help us understand where this diversity comes from. We argue that the origin of international board members does matter considering that some countries are more similar than others. These (dis)similarities affect diversity levels within boards which impacts

company performance. Therefore, boards will adapt their recruitment strategies accordingly. In this paper, we first contribute toward that direction by developing and testing a theory which explains in which countries companies recruit new board members. Second, we theorize and find an important effect of historical ties between countries. Overall, our results show that companies attempt to increase the diversity on the board in order to reap the benefits that international diversity can provide while minimizing the related risks by recruiting international board members that are at least somewhat similar.

2. Theory and hypotheses

In the globalizing economy, boards of large companies have been recruiting an increasing number of international board members (Staples, 2007). This is important for companies in order to reap the advantages of nationality diversity by matching the global environmental complexities to the right level of board capital. Simultaneously, companies will attempt to decrease the risks of diversity by recruiting international board members that are not too unlike themselves. Thus, the country-of-origin of both the director as well as the recruiting company seems to be important.

Our contribution is that we go beyond the analyses of different levels of diversity (Ruigrok & Greve, 2008; van Veen & Marsman, 2008). We argue that it is not only whether or not there are international members on the board or how many there are that matter but also *where* these international members come from that is relevant. The starting point of our arguments is that companies strive for an optimal level of ‘board capital’ which consists of the right combination of the members’ knowledge, experience and other resources. Companies that internationalize will experience a growing need to integrate international aspects into their boards as well. This need for international board recruitment strategies expresses itself in two different ways. First, there is a potential direct effect of international board members on internal *board dynamics*. As mentioned before, nationality diversity itself can bring advantages to decision making and company performance. However, when diversity becomes too high, it can be costly since it potentially frustrates cooperation and can lead to negative board dynamics. According to this argument, boards will recruit new members which are different but are not too unlike themselves, as similarity-attraction, and other homophily related arguments would predict (Nielsen & Nielsen, 2010; Westphal & Zajac, 1995).² Second, there is an indirect effect which relates to the internationalization strategy of the company and its geographic posture. According to the classic Uppsala model of internationalization (Johanson & Vahlne, 1977), companies internationalize step-by-step in which they gain experience in host-countries that are more similar to the home-country before moving on to more dissimilar countries. From a board recruitment perspective, the internationalization process has consequences in terms of how companies’ external resource dependencies develop over time. Resource dependency theory suggests that recruiting international board members is necessary in order to safe-guard important

² One of the reviewers rightfully pointed out that there is an alternative way of theorizing about board member migration patterns. Here we essentially opt for a combination of optimal board capital with respect to diversity levels, and the internationalization of the firm. Alternatively, one could introduce ‘similarity-attraction’, or other homophily enhancing arguments (Nielsen & Nielsen, 2010; Westphal & Zajac, 1995). Although this is very relevant, we choose to leave out details of the latter arguments because these focus on the antecedents of *similarities* between board members. We argue, however, that there are good reasons for boards to decrease similarities and look for *diversity*. However, once this need for diversity is incorporated in the recruitment process, a search for more similar board members reappears. Although interesting in its own right, we consider the precise relation between these arguments in this context as an issue for further research.

external resources outside the country-of-origin (Pfeffer & Salancik, 1978; Rivas, 2012a). As a result, international board members from countries or regions where a company is most active can bring the most valuable resources to the board. Considering that companies are first active in more similar countries, their international candidates have a higher chance of being recruited than candidates from less similar countries in which companies are less active. Both the direct and the indirect argument suggest that board recruitment strategies are heavily influenced by the notion, or metaphor, of ‘distances’ between countries.

Over the years, the notion of distance has been specified in both physical as well as intangible dimensions. The more intangible dimensions began with the concept of ‘psychic distance’ and have a long history (Sivakumar & Nakata, 2001). It was first coined in the 1950s by Beckermann (1956) in his empirical research on intra-European trade flows. In the 1970s, it gained prominence in management literature with the same Uppsala model which explains how companies internationalize (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). These authors defined it as “the sum of factors preventing the flow of information to and from the market”, a key issue in the internationalization of companies. As mentioned, this argument was originally focused on how and when (multinational) companies might cross which border (Kogut & Singh, 1988) or to trade flows (Dow & Karunaratna, 2006). Here, we extend it to the movement of board members across borders. Similar to studies on FDI flows (Disdier & Head, 2008) in international business and international economics, we suggest that the greater the ‘distance’ between countries, the lower the chances of finding board members from a specific country (s) in a receiving country (r).

More, in particular, we combine a set of distance measures to predict the chance of finding certain nationalities in boards of certain countries. We first focus on the importance of a few classic distance dimensions: cultural distance, institutional distance, and geographical distance. Subsequently, we argue that these distances are also affected by the historical relationships between countries and focus on the role of historical ties in the recruitment of international board members. Below, we develop hypotheses for each of the distance measures.

Cultural distance. Cultural distance has been widely used in the international business literature since Kogut and Singh (1988) linked cultural distances between the home-country of a multinational to the mode it chooses for entering a specific host country (Beugelsdijk & Maseland, 2011). It suggests that cross-border investment decisions depend on cultural distances because these affect contextual and behavioral uncertainties and gives rise to increasing transaction costs. This argument has been applied to phenomena such as FDI location, investment sequences, entry mode choices, affiliate success (Shenkar, 2001) or expatriate related issues (i.e. Manev & Stevenson, 2001). This last set of studies is particularly relevant when examining nationality diversity issues, especially from the perspective of board diversity. The home country company in the role of the principal (from principal-agent theory) uses expatriates as agents to increase ‘cultural control’ over foreign subsidiaries. In this context, cultural distance increases transaction costs, which creates challenges for the home country to exert control via this mechanism (Colakoglu & Caligiuri, 2008; Gong, 2006). However, expatriation is a phenomenon that occurs at hierarchical levels below the board. Applying the same arguments to the ‘principal’ – which is the board itself – creates a rather peculiar theoretical twist. ‘Cultural friction’ between the different nationalities is not moved away from the board toward foreign subsidiaries where

expatriates and host country employee work together (Shenkar, Luo, & Yeheskel, 2008). Instead, the cultural friction is internalized in the board itself and would suggest that boards have a tendency to recruit board members who are culturally more similar. Recruiting international directors has advantages as long as they are not too different from the existing board.

Hypothesis 1a. The cultural distance between the sending and the receiving country has a negative effect on the proportion of board members from the sending country on the boards of the receiving country.

A second dimension of psychic distance consists of the institutional differences between home and host country. Differences in institutional environments have been defined in a variety of ways and a number of dimensions such as the regulative, normative and cognitive pillars (Scott, 2008). Institutional distance is assumed to affect a variety of cross-border activities of multinational companies. For instance, it is suggested that institutional distance affects the location and entry mode strategy of MNEs (Xu & Shenkar, 2002). Additionally, it has been argued that it increases difficulties that MNEs face in establishing and maintaining legitimacy abroad (Kostova & Zaheer, 1999). It is also suggested that it relates to the transfer of organizational practices (Kostova, 1999), expatriate adjustment to the host country (Ramsey, 2005), and subsidiary staffing strategies (Gaur, Delios, & Singh, 2007).

When applying institutional theoretical arguments to international board recruitment, we expect that candidates from institutionally more similar countries will be more attractive as potential board members. The regulative, normative, and cognitive experiences of a candidate from an institutionally similar country of origin are likely to lead to the perception that this candidate is a better match. This is due to similarity-attraction that leads to a preference for candidates who are similar to the recruiting board. Also, recruiting candidates from institutional environments that are not too different leads to new knowledge and experience in a board, while still keeping the risk of friction and the resulting cooperative problems low. Therefore, we hypothesize that companies would be more interested in candidates from more similar institutional environments than in candidates from very different institutional environments.

Hypothesis 1b. The institutional distance between the sending country and the receiving country has a negative effect on the proportion of board members from the sending country on the boards of the receiving country.

In line with the extensive literature on trade flows in international economics (i.e. Anderson & Wincoop, 2003), we include geographical distance as a factor in determining from which countries companies will be most likely to recruit. First, transportation costs rise with geographical distance not only in terms of monetary costs, but also in psychological costs and the costs involved in moving families (Sanchez, Spector, & Cooper, 2000). Second, and in line with our main argument, close proximity of countries is likely to promote the exchange of information between countries (Ghemawat, 2001; Ghemawat, 2011). The farther away a country, the less knowledgeable people are about the local cultural and institutional specificities; hence, the more they are seen as ‘different’ which affects the diversity within a board. So we hypothesize:

Hypothesis 1c. Geographical distance between the sending and the receiving country has a negative effect on the proportion of

board members from the sending country on the boards of the receiving country.

The novelty of our approach is to apply these three dimensions of distance to board recruitment to show that these explain recruitment patterns. On top of that, we argue that history matters as well in the likelihood of some nationalities being recruited in favor of others because a shared history brings countries closer. The importance of history for the internationalization of companies has recently been stressed (Jones & Khanna, 2006), and the role of historical ties is increasingly seen as important for cross-border activities of companies (i.e. Dow & Karunaratna, 2006; Makino & Tsang, 2011). We take this argument one step further by arguing that history matters for board recruitment both in a direct and an indirect way. The *direct* effect of historical distance is the result of the *familiarity perceptions* of both individuals and companies in the sending and receiving countries (see especially Hotho, 2009). So it is argued that the perceived distance between countries does not just depend on *actual* knowledge about the other country, for instance, due to similarities in the institutional environment. It is also dependent on beliefs, assumptions and generalizations that are held to be true which have a more collective dimension. Brewer (2007) argues that this happens directly since an historical tie results in a more detailed knowledge of the other country. Historical ties are described as country-level psychic distance stimuli that positively affect perceptions of familiarity with a particular country based on more or less collectively shared beliefs about that country. Related, Makino and Tsang (2011) argue that informal ties following colonization shape shared values, norms and beliefs and continue to reduce the gap in expectations and understanding between home and host countries. Following these arguments, we claim that historical ties decrease the psychological distance between two countries. More in particular, we argue that colonial relations are relevant in this respect due to their long term and intensive relations between the two countries involved (see also Brewer, 2007; Dow & Karunaratna, 2006).

Hypothesis 2. The presence of a colonial past between the sending and the receiving country has a positive effect on the proportion of board members from the sending country on the boards of the receiving country.

Besides this direct perceptual effect as a result of historical ties, we also argue that history plays a role in an *indirect* way. Historical linkages not only familiarize people in countries that share historical ties but can also change the country characteristics themselves over time and make countries more similar in reality. In fact, we argue that historical ties are a ‘distance-compressing’ factor (Child, Sek, & Christine, 2002) that also affects other distance measures. In countries that are physically close to each other, such assimilation processes seem sufficiently captured by the classical arguments about cultural, institutional and geographical distances (Hypotheses 1a, 1b and 1c). However, countries that are farther apart but have strong historical linkages might also affect each other in terms of their culture and institution building. In its strongest form, such as between a colonizer and a colonized, the effect can be substantial. For example, the relationship between the UK and India cannot be understood without referring to their colonial past. The second official language of India is English, and the effect of the English language alone has wide-spread effects on Indian culture; take, for instance, the genre of English language literature from authors of Indian origin (Salman Rushdie being a notable example). Historical ties, therefore, could ‘shrink’ cultural distances and affect the likelihood of recruitment. Therefore, we hypothesize:

Hypothesis 3a. The presence of a colonial past weakens the negative effect of cultural distance between sending and receiving countries on the proportion of board members of the sending country on the boards of the receiving country.

A similar argument can be developed for the institutional distance between countries. In colonial relations, institution building is often strongly dependent on the forced importation of institutional characteristics of the colonizer into the colony. For example, India’s educational system which reflects similarities to the system in the UK also effectively reduces institutional distances. Another example is present day Indonesian law which has been affected by the Dutch law system due to the Dutch colonial relations with Indonesia for over 350 years. Thus, we argue that there is also an interaction effect between institutional distance and historical ties:

Hypothesis 3b. The presence of a colonial past weakens the negative effect of institutional distance between sending and receiving countries on the proportion of board members of the sending country on the boards of the receiving country.

Finally, we argue that the effect of geographical distance is also affected by historical, and, in particular, colonial ties. The argument in favor of the direct role of geographical distance – see Hypothesis 1c – hinges on differences in costs related to transportation and information exchange. It makes a distinction between neighboring countries and countries far away. Neighboring countries are usually not colonies, so former colonies are usually geographically distant. Having colonial ties (or not) particularly stresses differences among certain far away countries and can be separated from the direct geographical distance effect on board recruitment. In this context, colonial ties reflect historically well-developed transportation routes and easier information exchange between these countries (Frankel & Rose, 2002) which affects the ‘distance’ between countries. Therefore, we argue that historical relations and, particularly, colonial ties may affect geographic distances between countries by incorporating path dependencies in long-term economic and social relations. Therefore, we hypothesize a third interaction effect:

Hypothesis 3c. The presence of a colonial past weakens the negative effect of geographic distance between sending and receiving countries on the proportion of board members of the sending country on the boards of the receiving country.

3. Data and methods

3.1. Data collection

To test these hypotheses, we constructed a stratified sample of large companies from 15 European countries. Companies were chosen on the basis of their listing in the most important stock market in their country of origin. In total, the sample covers 361 companies in the years 2005–2007. The company’s country of origin is defined as the place where its headquarters are situated.

The total number of board members across these companies is 5683. Information on the nationality of the board members of the company was hand-collected from the companies’ annual reports, additional reports and their websites. If these were not available, other secondary sources were used such as Zoom Information and Forbes.com. If the nationality of a board member was not explicitly mentioned, an indirect approach was used based on information about earlier education and/or career steps. We include the board

of directors in companies with a one-tier structure or the combined supervisory and executive boards for two-tier companies.³

3.2. Variable construction

Dependent variable. The hypotheses focus on the effect of country differences and characteristics on the representation of different nationalities in boards from different European countries. Therefore, the dependent variable is a measure of the flow of individuals from the home country (sending country) s on boards of country (receiving country) r . The dependent variable is operationalized as the fraction of individuals on boards of country r that have nationality s when $s \neq r$. We measure this for all foreign nationalities present on the boards of each country in our data. This dependent variable is similar to the one used in the gravity model from international trade studies which is typically used to model the flow of goods and services from one country to another (Anderson & Wincoop, 2003). However, since the theoretical gravity model was, in fact, developed to account for both capital and labor flows, we can argue that the flow of board members from one country to another can be included in the category of labor flows (Anderson, 2011).

This approach can be used not only to calculate proportions for 'existing' country couples (the cases that we observe in the data; when a nationality s is in fact observed in the board of country r) but also for country couples that we do not observe on the boards of our sample of European companies. That is, we account for country couples that could have existed but we do not observe in the data. For instance, we do not find any Japanese on Italian boards, but there are Japanese on boards of other European countries. Given the nature of the models we estimate later, we construct the country couple 'Italy-Japan' and set its value to zero. Intuitively, if we can explain the presence of different nationalities with country differences and characteristics, then these factors also explain the absence of other nationalities. The DV can thus take values between 0.0 and 1.0.

Over the period 2005–2007, a total of 58 nationalities are represented on the European boards in our database. For the year 2005, 227 country-couples can be observed, and for both 2006 and 2007, there are 234 existing country-couples. Since we also include hypothetical country couples (those that were not observed), we

³ Underlying this choice, there is an issue of defining what exactly a board is, especially in the European context. To answer our research question in a proper way, it is necessary to do a multi-country study. However, comparing boards between different European countries creates a challenge. Countries have different corporate governance traditions and regulations which affect issues as the kind of boards in place (one or two tier), the position of the CEO and other top management team members, the presence of employee representatives, etc. (Aguilera & Jackson, 2003; La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1998). So the precise roles and responsibilities of functional positions as the CEO, the (non)executives and the supervisory board members varies. We formulated our main argument in terms of the benefits of variety and the costs of separation within boards. However, a similar line of argument could be applied to the upper echelons of companies in general. In fact we see the boards in different countries as a kind of 'supra'-top management teams which makes the precise distinction between different subgroups less relevant for our purposes (Finkelstein, Hambrick, & Cannella, 2009). For instance, both executives and non-executives/supervisory board members are involved in strategic decision making so carry the ultimate responsibility for the performance of the company together. Consequently, we decided to collect data on boards of European corporations and follow the board definition as reported in the Annual Reports of companies themselves. The resulting country-level variety in board composition is accepted as an inherent characteristic of this phenomenon. As a result of our approach, there are both non-executives as well as executives included. For instance, the 'Raad van Bestuur' in the Netherlands is part of the board, but is defined as the Top Management Team in other studies (for instance Barkema & Shvyrkov, 2007). Considering the European situation and the necessity to do a multiple country study, we follow the conclusion of Finkelstein et al. (2009, p. 127): "...it is not possible to unequivocally favor one operationalization over another. Rather the operationalization used should correspond to the research questions that guide a particular study".

have an equal number of country-couples entered in the dataset for all three years, resulting in a balanced panel dataset.

Since we study boards from 15 different countries, and there are 58 nationalities represented across these boards, our dataset will ultimately contain $(15 \times 58) - 15 = 855$ country-couples per year. We exclude the 15 country-couples when $r = s$ since our research focus is on the representation of foreign nationalities. This implies that we have 2565 country couples over the three years.

3.3. Independent variables

Cultural distance. To test Hypothesis 1, it is necessary to measure cultural distance between country couples. In line with earlier research, we use Hofstede's (1980) cultural indices and Kogut and Singh's (1988) formula in measuring cultural distance. The four main dimensions of Hofstede's measures: power distance, individualism, masculinity, and uncertainty avoidance were used.

Institutional distance. We measure the institutional distance between countries by using information regarding countries' institutional environments from the Global Competitiveness Report (GCR) published by the World Economic Forum. We use the GCR for three reasons. First, it includes country data on a wide range of institutional characteristics. Second, the survey questions on which the country scores are based are standardized, which facilitates systematic comparison between countries. Third and most important, as the GCR is based on the World Economic Forum's annual Executive Opinion Survey, it reflects the perceptions of business leaders on the most important issues affecting their working environment. Therefore, the sample of individuals used by the GCR matches the profile of individuals in our data.

In this study, we use the GCR 2005–2006 to find a measure of the quality of private and public institutions.⁴ The institutional construct in this edition is based on 27 factors (which were all awarded equal weights in calculating the general construct scores). We measure the institutional distance between two countries by the absolute difference in their scores on their institutions indices. We use the absolute difference since institutional practices are usually not assumed to be good or bad practice; differences in institutional environments are more an indicator of differences rather than an indicator of quality differences.

Colonial ties. We measure the presence of a colonial past between two countries by including an indicator variable that is 1 for pairs of countries that have ever had a colonial relationship and 0 for those who have not. Colonial ties have also been used in explaining international trade flows (Anderson & Wincoop, 2003; Frankel & Rose, 2002). This data was been obtained from the CEPII dataset (Head, Mayer, & Ries, 2010).

Geographical distance. We measure distance based on the geographic coordinates of the most important cities or agglomerations (in terms of population) of the country of the company and that of the board member. Since our study focuses on business headquarters and movement of people, we choose to report results based on this measure rather than the distance between the capital cities of both countries. Distances are calculated in thousands of kilometers and are also derived from the CEPII database (Head et al., 2010).

3.4. Control variables

Population size. We include population size of both sending and receiving country. Both the management as well as labor migration literature suggests that the size of a company's home market is

⁴ Given three year time frame of our data and because the composition of the institutional construct of the GCR changes each year, we use the 2005–2006 values for all three years of our data.

Table 1
Descriptive statistics and bivariate correlations.

	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1 Fraction board members on board of <i>r</i>	0.004	0.01												
2 Population (<i>r</i>)	2.56	2.62	-0.04											
3 Population (<i>s</i>)	7.90	22.43	0.06**	0.00										
4 OECD dummy	0.47	0.49	0.23**	-0.00	-0.16**									
5 GDP per capita (<i>r</i>)	4.17	1.67	0.14**	-0.32**	0.00	0.00								
6 GDP per capita (<i>s</i>)	2.16	2.06	0.20**	0.00	-0.20**	0.67**	0.01							
7 Average board size (<i>r</i>)	15.86	3.84	0.01	0.39**	-0.00	0.00	0.21**	-0.00						
8 Year dummy 2005	0.33	0.47	-0.00	0.00	-0.00	0.00	-0.16**	-0.07**	-0.01					
9 Year dummy 2006	0.33	0.47	-0.00	-0.00	0.00	-0.00	-0.05	-0.02	0.02	-0.50**				
10 Cultural distance	2.07	1.42	-0.18**	-0.21**	0.13**	-0.11**	-0.03	-0.10**	-0.12**	-0.00	0.00			
11 Institutional distance	0.98	0.73	-0.18**	-0.05	0.10**	-0.43**	0.09**	-0.59**	0.04	-0.00	0.00	0.15**		
12 Geographic distance	0.45	0.41	-0.10**	-0.01	0.16**	-0.17**	-0.02	-0.20**	-0.02	-0.00	0.00	0.13**	0.06**	
13 Colony	0.05	0.22	0.13**	0.15**	0.00	-0.04*	-0.03	-0.01	-0.02	-0.00	-0.00	-0.11**	-0.01	0.02

Population is scaled by 10 million, distance by 10,000 km and GDP per capita values by EUR 10,000.

* Correlation is significant at the 0.05 level (two-tailed).

** Correlation is significant at the 0.01 level (two-tailed).

relevant for executive labor markets. According to the management literature, the size of a company's home market determines the size of the domestic executive labor market whose members constitute the competitors of foreign (non-) executives (Ruigrok & Greve, 2008). Companies with large domestic markets usually have a larger and more specialized pools of managerial talent to draw their board members from, reducing the need to search in foreign executive labor markets. Additionally, when the executive labor market in a country is relatively large, the chance to find board members from this country in foreign boards is higher. Recent studies show that the size of both home and destination countries is important when examining labor migration between them (Belot & Ederveen, 2012). This information is obtained from the World Development indicators database.

GDP per capita. We include GDP per capita as control as it measures the economic opportunities available in a country. Also, GDP is a standard covariate in gravity models (Anderson & Wincoop, 2003). This is also obtained from the World Development indicators database.

OECD dummy. The second control variable measures a country's membership in the OECD (Organisation for Economic Co-operation and Development). As discussed in the labor migration literature (Belot & Ederveen, 2012), highly skilled foreign labor in OECD member countries is most likely to come from other OECD member countries. Therefore, we include a dummy if both country's *s* and *r* are OECD members. Since all company home countries are OECD members, this variable depends on the board member's country of origin.

Average board size. We include average board size per country per year as a control variable. Ruigrok and Greve (2008) suggest that larger TMTs need to fill vacancies more frequently than smaller ones and are, therefore, more likely to experiment with atypical board member profiles, such as foreign nationals.

Year dummy. We control for time effects by including two dummy variables for 2005 and 2006, with 2007 being the reference group.

3.5. Econometric methodology

Ordinary Least Square (OLS) estimation is not appropriate in our setting as the dependent variable is a proportion, and its values are constrained to lie between 0 and 1. Among other problems, OLS is likely to predict values outside this range. Therefore, we use a fractional logit model (FLM) (Papke & Wooldridge, 1996).⁵ This approach addresses both the issue of a fractional dependent

variable and the presence of the boundary value of zero. The advantage of the FLM model over a standard logit model is that it allows not only for the boundary values of 0 and 1 but also all values in between.

Since we have a panel dataset, standard panel data techniques would imply a Hausman test to choose between fixed and random effects estimation techniques. However, our data are, in panel data terms, short and wide as we have 361 companies and only three years of data. Cameron and Trivedi (2005) point out that, in such cases, fixed effects models are often not estimable given the incidental variables problem. Also, in our case, many of our right hand side variables are time-invariant (geographic and cultural distance, for example) and others only change slowly during this time period (such as population size). In our setting, fixed effects are likely to absorb much of the explanatory power of relatively time-invariant explanatory variables. As a result, these variables may show as being statistically insignificant even when they are conceptually important. Taking these methodological constraints into account, we estimate the model using year dummies for 2005 and 2006 to control for year effects and report robust (heteroscedasticity and auto-correlation corrected) standard errors.

4. Results

Examining the data on boards across countries in Europe reveals that boards differ substantially in their internationalization levels. The five most internationally diverse boards in 2007 (with the average number of nationalities on the board stated in parentheses) are Luxembourg (5.3), The Netherlands (5.0), The United Kingdom (4.3), France (3.9) and Germany (3.8). The five least international boards in the same year were Spain (1.6), Greece (1.9), Portugal (1.9), Italy (2.2) and Denmark (2.2). Table 1 presents standard summary statistics and correlations for the sample of country-couples that we have constructed for our analyses. The statistics do not indicate any anomalies in the data. The table shows no signs of multicollinearity; the largest value is 0.67 between the OECD dummy and the GDP per capita of the sending country. Note that the distance measures are not very strongly correlated. Countries that are geographically close are not necessarily institutionally or culturally similar. This is, however, in line with earlier findings (e.g. Berry, Guillén, & Zhou, 2010).

4.1. Model Interpretation

We next interpret the results from our fractional logit regression models presented in Table 2. We present our results in sequential logic. Model 1 is the model with only the control

⁵ All estimations were done using the procedure `glm, link(logit)` in STATA 11.

Table 2
Share of board members from a sending country (s) on the board of a receiving country (r).

	(1)	(2)	(3)	(4)	(5)	(6)
Population (r)	0.122 [*] (0.068)	0.035 (0.046)	0.111 ^{**} (0.047)	0.029 (0.058)	0.038 (0.052)	−0.030 (0.032)
Population (s)	0.072 ^{***} (0.007)	0.065 ^{***} (0.005)	0.068 ^{***} (0.006)	0.205 ^{***} (0.013)	0.064 ^{***} (0.005)	0.174 ^{***} (0.015)
OECD dummy	9.551 ^{***} (0.980)	7.460 ^{***} (1.156)	9.291 ^{***} (0.885)	22.793 ^{***} (1.365)	8.449 ^{***} (0.872)	18.730 ^{***} (1.540)
GDP per capita (r)	0.252 ^{***} (0.060)	0.155 ^{***} (0.045)	0.221 ^{***} (0.044)	0.114 [*] (0.063)	0.223 ^{***} (0.049)	0.032 (0.059)
GDP per capita (s)	0.102 ^{***} (0.014)	0.053 ^{***} (0.014)	−0.004 (0.020)	0.087 ^{***} (0.016)	0.091 ^{***} (0.015)	0.037 (0.025)
Average board size (r)	−0.079 [*] (0.044)	−0.072 ^{***} (0.028)	−0.078 ^{***} (0.028)	−0.019 (0.029)	−0.058 (0.036)	−0.009 (0.020)
Year dummy 2005	0.397 (0.272)	0.258 (0.226)	0.284 (0.220)	0.192 (0.221)	0.352 (0.251)	0.059 (0.193)
Year dummy 2006	0.276 (0.220)	0.166 (0.197)	0.214 (0.186)	0.133 (0.204)	0.230 (0.207)	0.031 (0.185)
Cultural distance		−0.536 ^{***} (0.151)				−0.244 ^{***} (0.077)
Institutional distance			−1.045 ^{***} (0.180)			−0.436 ^{***} (0.153)
Geographic distance				−8.118 ^{***} (0.778)		−6.902 ^{***} (0.874)
Colony					0.813 ^{***} (0.249)	0.468 ^{***} (0.150)
Constant	−15.687 ^{***} (0.983)	−11.917 ^{***} (1.272)	−14.279 ^{***} (0.926)	−28.007 ^{***} (1.409)	−14.475 ^{***} (0.952)	−22.755 ^{***} (1.597)
R ²	0.21	0.24	0.24	0.36	0.23	0.38
Number of observations	2520	2250	2340	2520	2520	2115

Fractional logit model; robust standard errors in parentheses.

- ^{*} $p < 0.1$.
- ^{**} $p < 0.05$.
- ^{***} $p < 0.01$.

variables. Models 2–5 add each of the independent variables corresponding to Hypotheses 1–3 to the controls only model. We present the results of these models so as to allow the examination of the effects of these distance measures individually. Model 6 presents the results from including all independent variables together. The number of observations differs across the models as Hofstede's cultural indices and the quality of institutions measures are unavailable for the country of origin of some of the board members such as Azerbaijan, Afghanistan, Cyprus and Lithuania. Unlike standard linear regression models or logistic regression models, for which there is an array of readily available measures of fit, this is not the case for fractional logit models. Papke and Wooldridge (1996) suggest that “r-squared is the most appropriate goodness-of-fit measure (p. 629)” even in this case. Therefore, we calculated an R² measure based on predicted and actual values of the dependent variable based on the fractional logit model. These R² values are presented in the tables and show an improvement of the model fit across the models with the best fit for the complete model.

Examining the effects of our independent variables, we find across all specifications that the distance measures are negative and significant ($p < 0.01$). Similarly, colonial ties have the expected positive and significant sign ($p < 0.05$). Therefore, we find strong support for Hypotheses 1a, 1b, 1c and 2.

When examining the control variables, we note that there are more board members internationally recruited from more populous countries compared to less populous countries ($p < 0.01$). The

effect of the population of the receiving country is, however, not robust and is insignificant in the complete model. This seems likely because larger home countries have a larger pool of domestic candidates. There is no overall dominant effect to be discerned from the data. The effect of the OECD membership dummy is robust and positive across specifications ($p < 0.01$). Individuals whose country of origin is also an OECD country are more likely to be recruited for European boards. The effect of GDP per capita is generally positive but insignificant in the complete model suggesting that this overall measure of country wealth is not a significant determinant of cross border flows of board members. The effect of board size is not consistently significant across specifications. Similarly, the two year dummies (for 2005 and 2006) are insignificant as board composition did not change very much over this time frame.

We now turn to a discussion of the evidence for Hypotheses 3a–3c which is presented in Table 3. Here, too, we present our results in sequential logic adding interaction effects to the models corresponding to those in Table 2. In these models, we wish to examine if colonial ties indeed moderate the effect of distance on the fraction of international board members. If we examine columns 1–3, we find that the interaction effect is statistically significant in the case of cultural distance and geographical distance but not in the case of institutional distance. In the complete model, all interaction effects are significant. As this is a non-linear model, it is difficult to assess the effect of the interaction terms solely from an examination of the sign and significance of

Table 3
Share of board members from a sending country (*s*) on the board of a receiving country (*r*) with interaction terms included.

	(7)	(8)	(9)	(10)
Population (<i>r</i>)	-0.127*** (0.035)	-0.008 (0.066)	-0.001 (0.040)	-0.096*** (0.032)
Population (<i>s</i>)	0.060*** (0.004)	0.060*** (0.005)	0.206*** (0.013)	0.182*** (0.013)
OECD dummy	7.188*** (1.031)	8.077*** (0.865)	22.785*** (1.418)	20.049*** (1.358)
GDP per capita (<i>r</i>)	0.076** (0.032)	0.172*** (0.045)	0.103* (0.055)	-0.019 (0.072)
GDP per capita (<i>s</i>)	0.071*** (0.017)	-0.013 (0.021)	0.092*** (0.019)	0.030 (0.019)
Average board size (<i>r</i>)	0.011 (0.022)	-0.053 [†] (0.029)	-0.012 (0.025)	0.023 (0.021)
Year dummy 2005	0.096 (0.130)	0.201 (0.233)	0.179 (0.208)	-0.013 (0.150)
Year dummy 2006	0.035 (0.125)	0.138 (0.200)	0.116 (0.194)	-0.036 (0.149)
Colony	1.618*** (0.233)	0.998** (0.439)	0.526* (0.285)	0.986*** (0.206)
Cultural distance	-0.384*** (0.106)			-0.176** (0.076)
Cultural distance × Colony	-0.888*** (0.255)			-0.722*** (0.108)
Institutional distance		-0.857*** (0.168)		-0.294** (0.125)
Institutional distance × Colony		-0.779 (0.771)		-2.180*** (0.794)
Geographic distance			-8.453*** (0.878)	-7.526*** (0.931)
Geographic distance × Colony			0.074 (0.746)	1.504** (0.661)
Constant	-12.441*** (1.135)	-12.898*** (0.989)	-28.015*** (1.485)	-24.214*** (1.388)
R ²	0.29	0.26	0.37	0.42
Number of observations	2250	2340	2520	2115

Robust standard errors in parentheses.

* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

the coefficients. For this reason, we present a graphical illustration of the interaction effects. We plot the predicted value of the fraction of representatives from country *s* on the board *r* as a function of cultural distance separately by the colony dummy in Fig. 1. Following usual practice, we present these graphs for observations between the first and third quartile (for cultural distance) where the bulk of the observations lies. First, we note that as we originally surmised, colonial ties do indeed shrink cultural distance. Countries with colonial relations appear to the left of those who do not along the cultural distance scale. There are more directors from former colonies on European boards. We also note that cultural distance has a far stronger effect among countries with colonial ties than those who do not. As cultural distance increases, the colony effect decreases, and the effects appear to approach each other. A different picture emerges from Fig. 2 which illustrates the interaction effect between colonial ties and geographical distance. Here, we see that colonial ties shrink

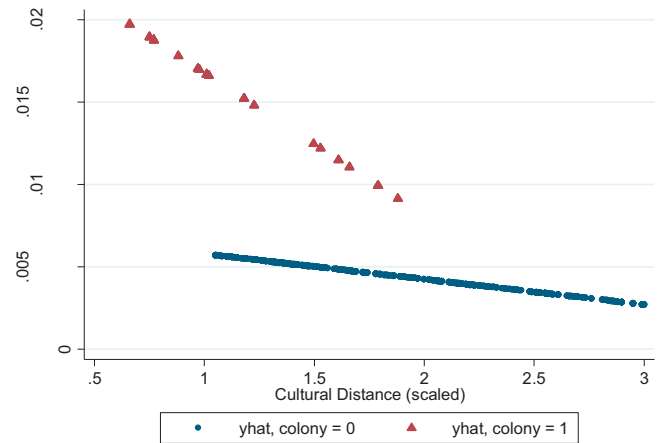


Fig. 1. Interaction effect between cultural distance and colonial ties.

the effect of geographic distance, making it almost insignificant for directors from former European colonies.

To corroborate the inferences from the graphs, we calculated marginal effects based on the complete model (column 10). That is, we calculated the change in the fraction of international directors from country *s* on the boards of country *r* when a distance measure changes by 1% (we use percentage changes as the units of each distance measure differs) with all other right hand variables kept at their respective means. From this, we see that the effect of geographic distance on board recruitment is most significant, followed by the cultural distance effect, and, lastly, the institutional distance effect. Colonial ties have almost the same effect as geographic distance in magnitude but of opposite sign. Therefore, it appears that colonial ties have a strong compensatory effect on the influence of geographic distance. Since linguistic similarities can drive flows from one country to another, in robustness tests, we experimented with including a measure of shared language. The inclusion of the shared language variable reduces the magnitude of the influence of the cultural, institutional and geographic distance variables but is insignificant in the presence of colonial ties.

To explore if the effect of distance and colonial ties on the flow of board members is reflected via an internationalization process that is already in place, we included the lagged value of FDI flows between the country pairs as an additional control variable. We found that while a past international trade relationship between countries only slightly reduces the influence of cultural distance and geographic distance, it does not affect the role of institutional

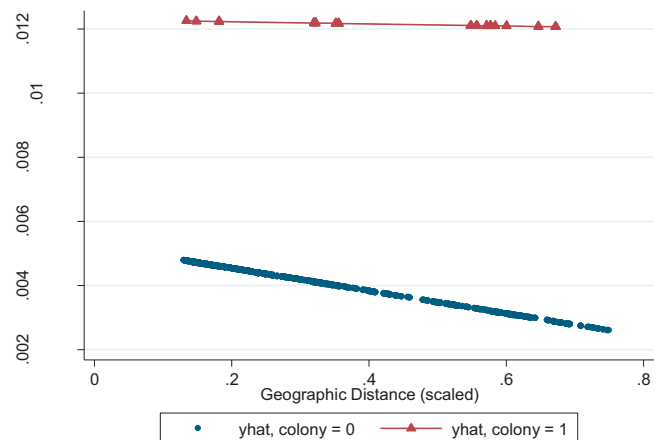


Fig. 2. Interaction effect between geographic distance and colonial ties.

distance and colonial ties on flows of board members. Distance measures and colonial ties have a significant effect on flows between countries even in the presence of a past bilateral international relationship. Our empirical exercise also demonstrates that historical ties do not only imply that firms are more inclined to invest in countries with past economic ties (Hotho, 2009; Makino & Tsang, 2011). Historical ties incorporate both a historical element and a familiarity aspect. Even in the presence of a past bilateral international relationship, historical ties remain a positive and significant determinant of board membership.

5. Discussion and conclusions

The emerging global economy has led to an increase in the number of board members originating from other countries. This increase in the variety of nationalities on boards tends to have a positive effect on company performance. Nationality diversity matters and is relevant for company performance and the successful international development of companies. However, diversity is a 'two-edged sword' and can have negative effects as well. Increasing diversity can lead to separation processes and fault-lines within a board and can negatively influence its performance. To balance these two opposing forces, we argue that boards have an incentive to recruit international directors. However, when recruiting, boards will attempt to keep the potential risks of nationality diversity low and will look for international directors that are rather similar to themselves. As argued, an important recruitment strategy is to keep the 'distance(s)' short between the country-of-origin of the company and of the candidate. This recruitment strategy will generate a specific mobility pattern of international directors across borders. In this paper, we modeled these mobility patterns using a fractional logit model. Our results show that national borders in Europe vary in their porousness to international board members with different nationalities. Following our theoretical argumentation, we find that geographical, cultural and institutional distances between countries do indeed matter. Boards tend to recruit international directors that are culturally, institutionally and geographically similar to the country in which the company is situated. Moreover, the presence of a colonial past between two countries influences recruitment. For instance, when we examine one of the most well-known colonial relationships, our model predicts – *ceteris paribus* – that if India and the United Kingdom did not have colonial ties, the proportion of Indians on UK boards in 2007 would be 30% lower than it otherwise would be. Colonial ties are so strong that the proportion of Germans on French boards and the proportion of Germans on Dutch boards (examples of two contiguous countries) are almost identical in magnitude to the proportion of Indian representatives on UK boards.

Although European boards recruit internationally, they have a tendency to select candidates that are rather similar to themselves on a number of dimensions. Cultural and institutional differences, geographical distance and historical relations all determine the likelihood of a candidate from one country to be recruited on the board of another. Clearly, our model is a new step in our understanding of how boards recruit internationally. The number of related (sub) questions, the extensive theoretical perspectives and the resulting methodological complexity turn this into a field with a promising area for future research.

Exploring avenues for future research also highlights some of the limitations of our study. To start with, our analyses focused on country-level determinants of recruitment processes. Considering the complexities of the analyses, this is a logical first step. However, future research could explore combining country-level with detailed company-level hypotheses about the international recruitment of board members (see for instance Greve et al., 2009;

Nielsen & Nielsen, 2010; van Veen & Marsman, 2008). For instance, integrating detailed measures of the Degree of Internationalization of companies and relating this directly to the nationalities on the board of the company would link company internationalization strategies to international board recruitment. This would improve our understanding of the composition of boards and goes beyond the focus on the *level* of internationalization of boards (Caligiuri et al., 2004; Ruigrok & Greve, 2008).

Second, we focused strictly on the recruitment of international board members and defined this in terms of different nationalities present on boards. However, companies can also internationalize their board by recruiting locals but choose those with extensive international working experience. Our fractional logit analyses involved putting together an enormous hand-collected dataset of 5683 individual board members in order to deliver interesting results. However, collecting even more detailed career information, and especially the incorporation of international experience of national board members, would be a valuable next step.

Finally, while 'gravity' type models – as the one we used here – are helpful in understanding the (relative) numbers of international board members within countries, it leaves questions open about the precise *direction* of the movements of directors. Our results show that former colonies deliver board members to European boards but we do not yet know to what extent are these flows reciprocal. Do former colonial powers deliver board members to their former colonies outside Europe? Are there differences in flows, in that there are some 'favored' pairs? We leave the exploration of such alternative approaches (and the extensive data collection exercise they entail) to board internationalization from a global rather than European perspective for future research.

From a managerial perspective, our study has implications for the understanding of the international labor market for board members and other top executives. Most importantly, it corroborates that this labor market has an international dimension. However, our results suggest that the internationalization process does not develop uniformly but that some countries are much better linked to each other than others. While boards do seem to be open to international members, countries seem to have a preference for board members from some countries over others. As a result, our study shows that the labor market for international board members is segmented which is relevant both from recruitment and an individual career perspective. Recruitment companies and candidate board members should be aware of the fact that boards may claim the desire to be more international in general; their final recruitment depends on a variety of cultural, institutional and historical features. Both from a board perspective (recruitment), as well as from an individual perspective (career development), it makes sense to further explore these emerging boundaries.

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Appendix A

A.1. Additional justification for econometric methodology

While OLS is known to yield reasonable predictions when the values range from 0.2 to 0.8, a number of observed values in our data are lower than the lower range of this interval or equal to zero. This is because some nationalities are not observed on the boards

of some countries. This is identical to the problem of zeroes faced in the international economics literature when estimating gravity models. Some countries do not 'trade' in board members. One approach taken in international economics is to simply omit the zero observations. This approach is acceptable as long as the zeroes are randomly distributed, but this is usually not the case. Recent work in the applied econometrics adopts an approach where these zeroes can be accounted for. This approach is discussed in the international economics context (e.g. Silva & Tenreyro, 2006; Westerlund & Wilhelmsson, 2011).

A.2. Robustness tests

To make our study comparable and in line with recent studies examining such issues using both GLOBE and Hofstede measures (Brock, Shenkar, Shoham, & Siscovick 2008; Sarala & Vaara, 2010), we re-estimated our model with cultural distance based on the GLOBE cultural indices. The signs and significance of our main variables and, in particular, the interaction term between the cultural distance and the colonial ties dummy changed very little. These results can be partially explained by the fact that in our data the Hofstede cultural distance and the GLOBE cultural distance have a correlation of 0.6. This outcome is similar to the findings by Sarala and Vaara (2010) who arrive at similar results using alternative cultural distance measures. As an additional robustness test for the countries for which it was available, we also included distance measures taking into account the fifth and sixth dimensions of the Hofstede index, long term orientation and indulgence vs. restraint. The distance measures with the usual four dimensions and the one with six are, as expected, highly correlated with a correlation of 0.92. Our results did not differ much between the case when we included the distance measure based on four dimensions and when we included the distance measure based on six dimensions. Also, we estimated our model with the GLOBE 'should be' measures although we are interested in actual business practice rather than values and perceptions. In this case, our results for cultural distance and the interaction term between the distance measures and colonial ties are far weaker but of the same sign.

An examination of VIF values resulted in values of the VIF factor for average board size to be greater than 10, we decided however to retain it in the model given our theoretical reasoning and also given that its exclusion did not change the sign or magnitude of the other coefficients. We also examined the data for influential observations using Cook's distance measures and did not find any significant influential observations in our data.

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