The case of multionationals finance essay

Finance

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Abstract:

Based on a sample of the world’s top 100 non-financial transnational corporations as of 2011, the paper aims to examine the relationship between the international board diversity and corporate performance in case of multinational companies. Moreover the study also investigates whether the composition of the board reflects the level of the corporate transnationalisation. The methods used include descriptive statistics, correlation and regression analysis, where return on assets (ROA) is the performance measurement. We find that on average 94% of firms in the sample have at least one foreign director, while the mean level of foreigners in the board is around 30%. The findings suggest that the degree of the boardroom globalisation reflects the level of the international expansion of the firm, measured by the Transnationality Index. The analysis revealed also that the impact of international board diversity on firm performance within

the MNCs is observed only at the 10% significance level. We also find that for the U. S. companies separately we can’t report any sufficient statistical evidence of the foreign directors’ influence on firm performance. Keywords: board of directors, board diversity, TNCs, MNCs, foreign director, corporate performance, corporate governance, globalisationcontents

World’s 25 Largest Corporations with the GDP of Selected Countries (2010)7INtroductionBackground and motivation of the studyNowadays the internal corporate governance mechanisms are challenged by the existence of the best global practices, various legislative and cultural backgrounds, organisational, behavioural, industrial and marketing characteristics of the company, etc. With the globalisation of the economy, the multinational companies (MNCs) turn to be a specific group, where these features, as well as the corporate governance concepts can be observed with regard to its international orientation and thus effects on performance. The key motivation behind this study is that the MNCs are among the main money-creators in the world and the examination of heterogeneity within their boards can help to assess whether future globalization will be accompanied by the internalization of the boardrooms. Moreover, while such aspects of board diversity as gender, for example, are largely studied for now, the place of non-residents and their correlation with the performance lacks research with regard to different contexts. In addition, in an ever-more-global business environment, the international dimension of diversity plays a particularly important role (Marcus, 2012). Having an international member on the board is now almost a standard for Europe’s top companies as reported by Egon Zehnder International (2012) in " European Board Diversity Analysis 2012"[1] (see Table 1). Boards with non-national board members in Europe, %

Country

2008

2010

2012

Austria50. 085. 766. 7Belgium77. 880. 087. 5Denmark66. 7100. 087. 5Finland100. 085. 7100. 0France82. 187. 792. 7Germany84. 197. 292. 7Greece11. 183. 383. 3Italy56. 566. 760. 0Luxembourg100. 0100. 0100. 0Netherlands94. 785. 796. 0Norway83. 383. 385. 7Portugal100. 083. 383. 3Republic of Ireland100. 0100. 091. 7Spain51. 961. 966. 7Sweden87. 585. 080. 0Switzerland100. 0100. 094. 1United Kingdom91. 493. 287. 8Europe Overall80. 988. 287. 8Boards with no non-national board members19. 111. 812. 2Source: Egon Zehnder International, 2012Moreover, Heidrick & Struggles (2011) also support the importance of international diversity for globalization and broadening the corporate horizons, provoking the discussions on the assurance of such evidence worldwide. As MNCs are the drivers of globalization, the question of whether boards which are governing these companies are becoming more global is worth consideration (Staples, 2007). Purpose of the studyIn this paper the author will concentrate on the heterogeneity of the Board of directors as one of the essential internal corporate governance tools. More specifically, the thesis will address the issue of Board’s international diversity. The purpose of the research is to examine the relationship between the internationality of the board and corporate performance in the context of MNCs. Research questionThe research question of this study is as follows: Is there a relationship between the internationality of the board members and performance of the multinational company? The research question can be thus targeted by the examination of the following sub-questions: Whether the composition of the Board reflects the level of the international expansion of the firm? How does the international diversity affect the corporate performance of the MNCs? The major claim of the research is: The international diversity within the boardroom of a company with the substantial international operations makes a positive impact on firm performance. Structure of the paperThe paper will be organized as follows. Section 2 provides an overview of previous research in the field, following by the theoretical framework description in Section 3. The research strategy and methodology, including data selection, are introduced in Section 4. The analyses of the data with the empirical findings are reported in Section 5. Section 6 summarizes the study with interpretation of results and suggestions for further research. literature reviewBoard diversityThe board of directors, being one of the most important internal corporate governance mechanisms, has being attracted the attention of researches for many years, including the assessment of boards' composition influence on firm performance. The correlation between the board diversity in the designing the boardroom and the company's performance is among the commonly discussable topics nowadays in the area of corporate governance. Despite the increasing acceptance of the importance of diversity and benefits it can bring, the empirical evidence on the issue is mixed (Rhode & Packel, 2010) and the relationship between heterogeneity and firm value depends highly on the choice of the performance variables (Smith et al., 2005). For example, Erhardt, Werbel, and Shrader (2003) find a positive relationship between board diversity and various measures of firm performance for the U. S. companies, reporting the positive correlation between gender and minority representation and such performance measure as return on assets and return on investment. Carter et al. (2002) also explore the positive effects of diversity within the boardroom and Tobin's Q, and emphasize that board diversity contributes to creating shareholder value through the better understanding of the diverse market needs, evaluation of more alternatives and more effective global relationships. At the same time, the negative correlation is also reported by the existing studies. For instance, Zahra and Stanton (1988) investigate that the ratio of board member minorities, including women, was inversely related to the company's performance in terms of profitability and reported no significant relationship between diversity and such indicators as ROE, sales to equity, earnings per share, or dividends per share for Fortune 500 firms. Another study concerning non-American companies finds that for Norwegian firms there is a negative relationship between diversity and market-to-book ratio (Bøhren and Strøm, 2006). Even though the diversity includes a number of attributes, as this is".. the combination of the different qualities, characteristics and expertise of the individual members in relation to decision-making and other processes within the board" (Van der Walt and Ingley, 2003)meaning background, experience, education, age, nationality etc., the huge mass of research and public interest concentrate often on the gender diversity. Nevertheless, even though there is little academic research existing beyond gender diversity (Anderson et al., 2011) certain interesting conclusions concerning the specific component of diversity, which is the representation of the foreigners, start to appear recently. Moreover, there is an observed trend of increasing board diversity on dimensions other than gender. For example, Egon Zehnder International (2012) in its report " European Board

Diversity Analysis 2012" emphasizes that: Boards are simultaneously becoming more diverse in other ways too [besides gender diversity], as is evident in the sharp increase in non-national directors since 2010. In 2012, 32% of the board members of Europe’s top companies were non-nationals, against 27. 8% in 2010 – reflecting an increasingly international outlook. The Egon Zehnder International report (2012) also shows that one in three board members across Europe is non-national to the date, claiming that that’s the sign of the European boards awareness of the value of diversity, especially taking into account that boards are becoming smaller, while companies go far beyond the borders and thus need a wider range of individual board member skills. To conclude, the issue of board composition and effects on performance has the mixed evidence; however as Ferreira (2010) highlights the main conclusions from the academic literature in the field of board diversity can be stated as follows: Different types of companies (in terms of industry, region etc.) tend to choose different levels of director heterogeneity. Firms select directors as a tool to deal with the external environment. CEOs and top executives appear to prefer directors with the similar characteristics as they have. Social networks and backgrounds affect director appointments in dynamic and complex environments. Directors from minority groups very often perceive their status as a barrier. International diversity of the boardOne of the most up-to-date and grounded multinational studies in the field of international board diversity is presented by Miletkov et al. (2012). Miletkov et al. (2012) examine the within- and cross-country determinants of having the foreign independent directors and their influence on performance, using a data from 98 countries. They conclude that the decision of importing the foreign director is determined by the trade-off between the costs and benefits associated with the appointment. They found no significant relation between the international diversity and firm performance in countries, which seem to benefit from the internalisation the most (i. e. less wealthy countries with smaller population and lower levels of human capital development) and reported negative relation for countries with developed equity markets and higher legislative and educational levels. Masulis et al. (2011) examine the impact of foreign directorship from the position of costs and benefits associated with it among the U. S. firms. They find a negative relation between foreign independent directors and firm performance for the U. S. companies, especially in those cases, when the foreign director’s home region is not represented significantly in firm’s operations. Nevertheless, they emphasise that with the companies having sufficient ratio of sales in the foreigner’s region or aiming at cross-border acquisitions with the targets from director’s region, the impact of having foreign directors is determined by the positive effects on performance due to their international background and expertise. Both studies by Masulis et al. (2011) and by Miletkov et al. (2012) evaluate the effects of international diversity on performance taking into account the country-specific characteristics. They claim that basically for countries with weak investor protection and poorly-developed equity markets the benefits of having a non-resident director (especially when he/she is imported from the country with the higher corporate governance levels) outweigh costs associated with it, while for wealthy countries with high-quality legal and educational systems, such as the USA, for instance, the net impact on performance is significantly negative. Although Masulis et al. (2011) and Miletkov et al. (2012) address the similar concept as the research idea of this paper, their assumptions concerning the reverse difference of trade-offs between costs and benefits associated with the foreign directorship in developed and less developed economies can be questioned. Moreover, besides the direct tradeoff between costs and benefits of importing the foreigner to the board, there are other reasons for such decisions – for example, as Knyazeva et al. (2011) empirically find the local supply of potential directors has an important effect on board design among other factors. Anderson et al. (2011) investigate the heterogeneity of the board and its efficacy impact relative to more homogeneous board composition by dividing the " diversity" into 2 groups of components: occupational and social. The occupational heterogeneity refers mainly to education, experience and profession, while the social group, except for gender and age, includes ethnicity. They conclude that greater board heterogeneity commonly makes a positive impact on firm performance, bringing the variety of perspectives, talents and skills, especially in the context of complex environments. According to Giannetti, Liao, and Yu (2012), who studied the Chinese perspective of foreign board members, hiring such directors usually leads to higher firm valuation, productivity and profitability. Moreover, companies with international board diversity are more likely to make cross-country acquisitions and raise of capital through the direct private placements abroad (Giannetti et al., 2012). The recent literature offers insight towards the particular benefits and costs which the appointment of the international board member can bring to the company. The observed benefits are highly important for the companies which operate globally and dependent on international environment and decisions; however, on the contrary of the advantages of the globalization of the board room, there are a number of costs due to this heterogeneity. A brief summary of them is presented in the table 2. Costs and benefits of foreign directorship for the firmBenefitsCostsExpertiseReduced communication due to cultural and language differenceNetworking and connectionsLack of physical proximity to the companiesImproved monitoring of owners, managers and other directorsDemand of higher compensationVariety of backgrounds, views and experiencesCoordination problemsThus, the decisions towards the heterogeneity of the board are determined by the trade-off between costs and benefits of the certain components of diversity, which emphasizes the importance of the optimal choice of composition. To conclude, as Staples (2007) summarizes, based on the previous research in the field of board globalization (Singh, 2004; Heijltjes et al., 2003; Alexander & Esser, 1999; Mandl, 2003; Gillies & Dickinson, 1999), the board globalization has increased in the past decades, requiring deeper understanding and analysis, especially concerning the TNCs, where the issue of foreign directors looks to be the most evident. Theoretical frameworkMultinational corporationsMultinationals play a crucial role in globalisation and international economics nowadays. A multinational corporation (MNC) is a company, which owns a significant stake of another firm operating abroad, thus is registered in more than one country or/and has operations in other than host countries. MNCs concept can include not only modern corporate giants as Nike, General Motors, Intel etc., but also small firms such as a shoemaker Calzaturificio Carmens, which divides its workers between Italy and Serbia. Hence, investing abroad and, as a result, becoming a multinational turns to be a strategy applied by many types of firms (Navaretti and Venables, 2005). In other words, multinational corporation is a global firm, which has extensive international business operations abroad and gain an essential share of its sales and profits from the international dealings (Schermerhorn, 2009). Navaretti and Venables (2005) state also that in order to create, acquire or expand foreign subsidiaries, multinationals use foreign direct investment (FDI), which in the past 20 years resulted in a colossal growth of activity by multinationals. The term MNC is often associated with another term - the transnational corporation (TNC). As Schermerhorn (2009) explains a transnational corporation is a MNC, which operates worldwide and is not identified with single national home. Thus, the main difference between MNC and TNC is the attitude towards strong national identification and global perspective and integration. At the same time both of the company types employ the " internationality" as the crucial factor of their activities. Hence, in this paper the author will also follow the common simplification of the terms MNC and TNC being used interchangeably. United Nations Conference on Trade and Development (UNCTAD), one of the leading sources concerning the issues of globalisation, international trade and investment, defines a transnational corporation (TNC) as: an enterprise comprising entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy; the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the others and, in particular, to share knowledge, resources and responsibilities with the others (UNCTAD, 2013). The definition provokes the discussion concerning the potential benefits of global approach such as shared knowledge and resources, for example. However, the final opinion concerning the positive or negative role of global corporations is still debatable, as there are mixed feelings and evidence of their impact on the global economy: they are either perceived as the foreign wealth and knowledge bearers, which are more productive than national firms or, on the other hand, threats to national wealth and identity (Navaretti and Venables, 2005). Nevertheless, as Bracken (2004) emphasizes, the multinational corporation nowadays is the most vital organism of economic development, social change, technology and knowledge promotion and new ideas, being indeed central for global economy, even taking into account the criticism of anti-globalists. So, the globalisation has led to the globalisation of business, when companies set up or buy operations in other countries via foreign investment, and thus are called multinational or transnational corporations. Board of directors as a value-adding toolBoard of directors is among the main corporate governance mechanisms. Huse (2007) defines corporate governance as the interaction between external, internal actors and board members who aim at directing the company to the value creation. Thus, as he explains it, the board effectiveness is closely connected with the corporate value creation. Moreover, the value creation in this regard is not only the firm's values distribution among the numerous stakeholders, but rather the process which occurs throughout the whole value chain, where board members perform a large set of various tasks (Huse, 2007). As Demb and Neubauer (1990) emphasise there are at least three main areas in which boards of directors can add value to their corporation. More specifically, they name monitoring management, helping and assisting to formulate corporate strategy and responsibility for identifying and prioritising standards for company among them. They argue also that the last aspect, which reflects the external vision and judgment as the result of board's participation as the main adding-value factor. As there is a large descriptive set of literature on boards and how they can benefit the company via their advising, disciplining, networking etc. roles (Adams et al., 2009), one of the principal issues is whether the board exercises its task as an " active body" or as a passive rubber stamp. Globalisation of the boardStaples (2007) defines the globalisation (or internationalisation) of the boards as the process of appointing the board members who are not the citizens of the parent enterprise country. Thus, a " non-national director" is an individual whose citizenship (or alternatively the nationality) is different from the home country of the company. Another measurement of board globalisation, which is used in the studies, is the number of different countries represented on the board. The reasons for picking up the non-national board members could cover a number of aspects. The globalisation of the boardroom could lead to the increased awareness of the cultural and social norms, business environment, political connections etc. in the countries other than the home one. Moreover, it can also provide the knowledge of the foreign markets, ensure networking and better monitoring (Ryan, 2013). At the same time, board globalisation can be associated with the increased costs and coordination problems. The effects of the international diversity still remain questionable and the evidence is mixed. Some of the recent findings concerning the possible impacts of international heterogeneity are presented in Table 3. International diversity: key findings

Study

Main findings

Giannetti, Liao, and Yu (2012)Foreign experience is an important source of knowledge sharing; improves performance, valuation and involvement in international activitiesMasulis, Wang, and Xie (2012)International diversity leads to better cross-border acquisitions, but weaken the monitoringMiletkov, Poulsen, and Wintoki (2012)The presence of foreigners within the countries with developed equity markets, legal institutions and education is negatively related to the corporate performanceAccording to Palmer & Varner (2007) national composition of the board could be determined by the country national views and patterns. For example, as Palmer & Vamer (2007) claim the U. S. boards are less international than the European ones with the U. S. MNCs focusing a lot on the headquarters country. U. S. firms have more homogenous boards, because of the common worries about scheduling conflicts, legal risks, time-consuming travelling and differences in accounting and securities laws provisions (Lublin, 2005). Masulis et al. (2012) also supports the fact that the American boards import foreign directors less frequently than the European firms. European boards according to the findings of Palmer & Varner (2007) are more global, which can be explained by the geographical access, common business practices, etc. At the same, it’s revealed that the high levels of European internationalisation come mostly from within Europe, questioning the differences and real diversity with this regard (Palmer & Varner, 2007). Even though European companies face similar obstacles of foreign directors’ involvement, they often exercise innovative strategies to overcome them.

Moreover, some non-U. S. companies employ special fees for the directors to attract foreign candidates (Lublin, 2005). Corporate boards going global is especially important trend for the companies with significant sales abroad as those non-national directors could express the views of the rest of the world and prevent the management from the ineffective decisions about international expansion (Lublin, 2005). As observed by Staples (2007) the boards of MNCs are becoming more international, and the most common way for them to achieve this international expertise and experience is through the cross-borders M&As and strategic partnerships. research strategyThe following section offers the hypotheses under the roof of the research question, reviews the methodological approaches to answering the research question and testing the hypothesis and introduces the data set to support the further findings. Research question and hypothesesAs has been mentioned in the introduction, the research question of this study is whether there is a relationship between the internationality of the board members and performance of the multinational company. Thus, with regard to the research focus and related studies in the field the following hypotheses are suggested to be tested. Firstly, as the chosen sample covers the multinational firms, it’s worth testing whether the composition of the board, in particular in the aspect of the foreign board members presence, is correlated with the level of transnationality of the firm. Therefore, the initial hypothesis is: 1)The null hypothesis (1Ho): The composition of the board doesn’t reflect the level of international expansion of the company. The alternative hypothesis (1Ha): The composition of the board reflects the level of international expansion of the company. The author believes that the null hypothesis will be rejected and the idea of international diversity in composition of the board as one of the reflectors of the levels of globalisation will be supported. Moving on to the performance outcome of the MNCs as the response to the international board members in the structure, the 2nd hypothesis is suggested. 2)2Ho: The international diversity within the boardroom of a company with the substantial international operations has no impact on firm performance. 2Ha: The international diversity within the boardroom of a company with the substantial international operations influences firm performance. The author expects to find the evidence supporting the possible effects of having foreign directors on corporate performance in the companies, which operate globally. MethodologyIn order to answer the research question the author examines the relation between the internationality of the board and firm profitability measured by the return on assets (ROA). The work is related to a certain extend to the Miletkov et al. (2012) study and thus uses the analogues definition of the foreign directors - the director is treated as the foreign one, when he/she is based in other geographical location than the country of firm’s incorporation or have different nationality. Moreover, the author also follows the same logics with determining the variables to report the presence of foreign directors in the boardroom. In particular, I will use a measurement of the percentage of the international board members in the company boards and indicator variable, which will reflect the general phenomena of board nationality heterogeneity by awarding those companies who have at least one international director with 1 and 0 otherwise. Within the first research phase I present some key summary statistics for the corporations in the sample, including summary on the variables used in the paper and their definitions as given in the table 4.

The descriptive summary statistics will help to find out the average trends.

Definitions of main variables

Variable

Definition

FDIndicator variable of the presence of foreign director in the board (1 – if there is at least one international director, 0 – otherwise)FD percentThe number of foreign directors to the total number of board membersForeign salesForeign sales as a percent of total salesForeign assetsForeign assets as a percent of total assetsTable 4 (continued)

Variable

Definition

Foreign employmentForeign employment as a percent of total employmentROAReturn on assets measured as net income divided by average total assetsBoard sizeNumber of directors in the company boardTNICountryThe Transnationality Index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employmentDummy variable (1-for the developed economies, 0-for the developing and transition[2])Source: updated from Miletkov et al. (2012)The strength of the testing relationships and variables will be assessed using the correlation technique. For the hypothesis, which assumes the alignment between the degree of firm international expansionm using composite indicator TNIm and board internalisation the analysis is carried out using the regression approach. Next, in order to explore the effect of board internationalisation on firm performance the ordinary least squares (OLS) regressions method is offered, where ROA is the dependent variable. I estimate OLS regressions of ROA against the presence of foreign directors while controlling for a wide array of other related characteristics. In order to investigate how international heterogeneity affects firm performance and make it reliable and credible, we should take into account the control variables to avoid flaws. With regard to the previous researches (Kaczmarek, 2009; Miletkov et al., 2012) the author includes the following main control variables in the model: Company size – to be defined as the natural logarithm of total sales; because larger companies tend to expand globally more often due to the scale advantagesBoard size – to be defined as the natural logarithm of the total number of board members; because with larger boards the likelihood of foreign directors' presence is higher. One of the important steps also, taking into account the multinational orientation of the topic, is to control for the percentage of a company's total sales from foreign operations, which shows the degree of global diversification of TNCs. Moreover, according to Miletkov at al. (2012) the decision towards internationalisation of the board is to a certain extend determined by the country view on the issue – more precisely, U. S. boards are generally outsider dominated, while non-U. S. tend to the insider approach of composition. Hence, in the research the additional regression analysis will be presented the U. S. firms to check the hypothesis, taking into account the difference in the perception of the foreign directors' introduction. Data setFor our empirical investigation, I use the sample of firms obtained from the United Nations Conference on Trade and Development (UNCTAD) databases. More precisely, the selection of the final sample is based on the UNCTAD's World Investment Report (WIR) 2012:

Towards a New Generation of Investment Policies (http://www. unctad-docs. org/files/UNCTAD-WIR2012-Full-en. pdf) with the top 100 MNCs according to their foreign assets. The WIR12 provides the data set with the world's top 100 non-financial transnational corporations, ranked by foreign assets as of 2011 (Appendix 1). This source, besides the name of the TNC, includes also the home country of the corporation, industry, total and foreign assets, total and foreign sales, total and foreign employment. Moreover, the report provides measurement of the Transnationality Index (TNI), which will help to evaluate the findings with regard to the level of globalisation and overall international orientation of the firm.[3]The time period under consideration is the year of 2011. The decision is based on the logics, that the year of 2011 is the most recent up-to-date, isn't expected to be determined a lot by the shocks of the last crisis and still can help to make conclusions concerning the possible changes, taking into account the stable trends of globalisation. The sample selection decision can be justified by the crucial role of transnational corporations and huge resources they own. For example, some TNCs are even constantly bigger than countries (see Appendix 2 for details). About 65000 multinationals held US$25 trillion of total foreign assets, which stands for about 78% of world GDP. Moreover foreign affiliates of multinationals employed more than 53 million workers worldwide, which averagely account for between one third and one half of total employment (Hove & Chidoko, 2012). While in this research only top TNCs are considered, this decision can be also justified by its representative aspect. Among thousands of transnational corporations worldwide, a set of 147 controls 40 percent of the total value of all these corporations' value (State of the World 2012: Moving Toward Sustainable Prosperity, 2012), meaning that the top TNCs own not only the majority of the total TNCs' resources, but also " the capital of the world" in the global sense. Other data concerning variables and determinants of performance, country- and firm-specific characteristics will be collected manually from multiple sources, such as Orbis database (a product of Bureau van Dijk Electronic Publishing), reports of UNCTAD and annual reports of the TNCs. LimitationsThe World Investment Report data provides information on the activity results of the whole TNC group rather than just the parent company. Nevertheless the board of the parent is a driving force of the whole corporation and its affiliates, hence the WIR explanatory variables can be considered as significant and reasonable. Another limitation concerns the non-nationality of the directors. The phenomena of being " non-national" can be described as quite complex and wide, including international experience, education etc., which, as a result, is extremely difficult to observe and measure, hence the research will only consider the formal nationality of the board members, which we can obtain from the corporate reports, CVs of the board members and other above-mentioned sources. Moreover, some difficulties concern also the duality of the reported nationality of the board members. In such cases the author considers the nationality, which is foreign with regard to the company home country, because this still shows board member's international background. The performance of the company can be measured with several variables, but we consider here only ROA, even though we are aware of the fact that ROA can be highly influenced by the leverage and is significantly dependent on the industry. Another problematic issue concerns the differences between the corporate governance models worldwide. In general, there are three basic patterns of corporate governance systems – the Anglo-Saxon with the unitary board, the Continental with the dual board and the Japanese with the board of statutory auditors. All of the above-mentioned approaches get their reflection in the governing systems of TNCs, examined in the paper. Thus due to the differences in evaluating the place of Board, its structure and mission within the various geographical/national contexts, the author assumes that the board members with respect to the thesis topic are the members of the board of directors for the unitary and Japanese models and members of the supervisory board for the continental (dual) model. In addition, the author is aware that there are more complicated ways of approaching the problem with the regression; however they can be presented in the future researches. Empirical findingsTables 5 presents summary descriptive statistics of the key variables to be used in the analysis for the companies in the sample with the number of observations N= 100. It also helps to add up to the understanding of the average company's profile in the sample. Appendix 2 summarizes descriptive statistics for the absolute values of some variables, which are additional for the study. The nationalities of 1355 board members were checked and as can be seen from the table 5, on average 94% of firms in the sample include at least one foreign director, which reflect that among top TNCs the phenomena of international diversity is quite common. Only 6 companies from the sample don't have at least one foreign board member, of which 4 are Japanese, showing the traditional Japanese approach to building the team with the insider-dominated board. The average firm has around 30% of foreigners in the board with more than half of the total assets, sales and employment being foreign. At the same time, one should be aware of the observation that companies are enough different in the sample, implying significant differences in the minimum and maximum levels of foreign assets, sales and employment. Summary statisticsVariableMeanStd Dev. MedianMinMaxBoard size13, 550, 31313813820FD %30, 535112, 07914327, 52525087, 5FD0, 940, 023868101ROA5, 44980, 4712185, 05-4, 4722, 98Table 5 (continued)VariableMeanStd Dev. MedianMinMaxCountry0, 940, 023868101F assets %67, 461451, 9222965, 4520113, 8900499, 03057F sales %71, 677971, 98359573, 1127818, 5127999, 68714F empl %62, 293461, 84270561, 3042318, 5069997, 04299TNI %67, 144291, 64705966, 4523123, 2083696, 8878Table 6 displays the distribution of sample firms and foreign directors. Panel A of Table 6 presents country distribution of foreign directors among the developed and developing economies, with Figure 1 specifying cross-country differences in the fraction of foreign directors' representation; Panel B describes the sample distribution by the industry[4]. Distribution of sample firms and foreign directors

Panel A. Country distribution

of firmsFD presence% of FD presenceDeveloped948994, 68Developing & transition6583, 33

Panel B. Industry distribution

of firmsFD presence% of FD presenceElectrical & electronic equipment77100, 00Petroleum expl./ref./distr. 11981, 82Motor vehicles11981, 82Utilities (Electricity, gas and water)1212100, 00

# of firmsFD presence% of FD presenceTelecommunications77100, 00Metal and metal products33100, 00Food, beverages and tobacco8787, 50Pharmaceuticals1111100, 00Wholesale trade100, 00Aircraft22100,

00Diversified44100, 00Retail & Trade33100, 00Mining & quarrying66100, 00Chemicals44100, 00Non-metallic mineral products33100, 00Gold mining11100, 00Transport and storage22100, 00Construction11100, 00Business services11100, 00Engineering services22100, 00We observe that due to the limited sample and international character of the companies, there is no huge difference between the countries of the developed and developing/transition economies in the aspect of foreign board membership, however the conclusion should be made only with regard to the analysis of the costs and benefits associated with internalisation of the board room in different particular countries. The figure 1 was built using the information on the board members and number of foreigners within the boardrooms. The results are grouped for each home country of the firms in the sample (the consolidated table is in the Appendix 3). The reported findings for the extremes do not lead us to the statistically significant conclusions as they reflect small amount of firms belonging to the specific economy, however the observations concerning the U. S., the UK, Japan, France and Germany cover the examination of more than 150 board members for each, thus can be taken into account. Japan has the lowest ratio of foreign board members among the above mentioned countries, underlying the Japanese insider-dominated approach to forming the board room. German MNCs also tend to involve fewer foreigners than the companies of the Anglo-American model. The evidence of France with the fraction of foreigners as of 1/3 approximately could be partly explained by the general positive position towards diversity (for example, as with the gender diversity issues). Distribution of foreign directors in countriesAs can be observed from the Panel B of Table 6 the distribution of foreign directors among the industries is approximately similar, with only 4 industries – Petroleum, Motor vehicles, Food, beverages & tobacco, and Wholesale trade, having firms without the foreign director at all. Moreover, due to the global character of the MNCs and their wide-spread structure, some of the operations may not be reported as the main industry or cover many business sections, hence the industry is not of the main focuses in this paper. In order to examine the linear association between the variables, the correlation analysis is reported in Appendix 4. As can be seen from the results of the correlation matrix, the regression model can be subject to the multicollinearity problem (TNI and ratios of foreign assets, employment and sales are indicating possible problems in this regard). At the same time, we can observe high correlation coefficients between transnationality index and the percentage of foreign directors, leading us to the first hypothesis under consideration. The hypothesis H1 questions whether the composition of the board reflects the level of the international expansion of the firm. In order to test it, the author uses the simple linear regression, where the percentage of the international directors in the boardroom is the dependent variable and the TNI shows the levels of internationalisation, being independent. The results are reported in table 7. Regression analysis: hypothesis H1Regression statisticsMultiple R0, 618537987R Square0, 382589242Adjusted R square0, 376289132Standard Error16, 42010547Observations100ANOVA

dfSSMSFSignificance FRegression116373, 311416373, 311460, 727392917, 00224E-12Residual9826422, 74664269, 6198637Total9942796, 05804

CoefficientsStandard Errort StatP-valueIntercept-21, 891376, 92505855-3, 1611821090, 002091182TNI0, 78080330, 1001957537, 7927782547, 00224E-12Based on the Anderson et al. (2009) interpretations of the regression results we could make the following conclusions. P-value is very small, being less than α, thus we can reject the null hypothesis at the 0, 01 level of significance and conclude that there is a significant relationship between the composition of the boardroom and international expansion of the company. The simple linear regression model in this case, using the obtained results, can be estimated as follows:

FD % = - 21, 89 + 0, 78 TNI

Hence, a 1 point increase in the level of transionalisation of the company (including changes in such ratios as foreign assets to total assets, foreign sales to total sales and foreign employment to total employment) implies expected growth of the percentage of foreign directors’ representation in the boardroom on 0. 78. This finding is consistent with the view of the future globalisation being accompanied by the diversification of the boards. Moreover it can be also explained by the international organisation of MNCs and logical necessity of " international components" inbuilt in the decision-making process of such enterprises. The possible effects of foreign directorship in the boards of MNCs on their corporate performance in order to test the hypothesis H2 are studied by the regression analysis. To examine the impact of the international board diversity on firm performance, we estimate the following regression model:

ROA = β0 + β1*FD % + β2*for as + β3*for sal+ β4*for empl+β5*TNI +β6*Ln(board size) + β7*country + β8*Ln(total sales),

where ROA is return on assets and FD % is the percentage of the foreign directors in the boardroom; foreign assets, sales, employment, TNI, logarithmic values of board size and total sales are the control variables in the model. The results of the analysis are given in Table 8, where ROA is the performance measure and dependent variable. Regression analysis 1: hypothesis 2Regression statisticsMultiple R0, 342840327R Square0, 11753949Adjusted R square0, 039960544Standard Error4, 61707077Observations100ANOVA

dfSSMSFSignificance FRegression8258, 382429132, 297803641, 5150952160, 162871107Residual911939, 87816721, 31734249Total992198, 260596

CoefficientsStandard Errort StatP-valueIntercept-5, 0787218, 46946-0, 274980, 78396for as-0, 000020, 00001-2, 061270, 04213for sal0, 000020, 000021, 222230, 22478for empl-0, 000010, 00001-0, 932160, 35372TNI-0, 017610, 04927-0, 357430, 72160Ln (board size)0, 314932, 219780, 141870, 88749Country-1, 994432, 09878-0, 950280, 34449FD %0, 051010, 029681, 718550, 08910Ln (total sales)1, 086501, 504820, 722010, 47214The p-value for FD % is 0, 089, so we can’t reject the null hypothesis at the 0, 01 and 0, 05 levels of significance, thus we will not report the significant relationship between foreign directorship and performance of the company at the above mentioned significance levels. However, with α= 0, 1 we can report the statistical evidence to reject the null hypothesis and conclude that at the

10% significance level the percentage of foreign directors in the board makes an impact on corporate performance of MNCs, measured by ROA. The adjusted R square is low, so it's not the best fit for the estimated regression equitation. Moreover, as discussed earlier the problem of multicollinearity exists concerning the TNI and such variables as foreign assets, sales and employment. Thus taking into account that TNI is the weighted average index of the above-mentioned variables, they can be omitted in the model. So the next results, presented in Table 9, show the analysis for the estimated regression with only foreign directors' percentage, TNI, Country, board size and total sales as explanatory and control variables. Regression analysis 2: hypothesis 2Regression statisticsMultiple R0, 246097316R Square0, 060563889Adjusted R square0, 010593883Standard Error4, 68715468Observations100ANOVA

dfSSMSFSignificance FRegression5133, 135210226, 627042031, 2120048340, 309605462Residual942065, 12538621, 969419Total992198, 260596

CoefficientsStandard Errort StatP-valueIntercept-3, 319499, 35307-0, 354910, 72345TNI-0, 016970, 03971-0, 427380, 67008Ln (board size)-0, 614992, 17580-0, 282650, 77807Country-1, 970952, 08367-0, 945910, 34662FD %0, 050320, 030111, 671120, 09802Ln (total sales)1, 071990, 649691, 650010, 10228With the model, reported in Table 9, the relationship between the internationality of the board of MNCs and corporate performance is again held only at 10% significance level (as p-value = 0, 098, which is even more than in the previous case). Section 4. 2 mentions that there are differences in views on the role and place of foreign directors in the U. S. and non-U. S. firms. Table 10 reports the results from the OLS regressions for the U. S. firms separately. Regression analysis: U. S. Regression statisticsMultiple R0, 666403722R Square0, 444093921Adjusted R square0, 31329249Standard Error3, 47854949Observations22ANOVA

dfSSMSFF significanceRegression4164, 330697741, 082673, 3951763310, 032468867Residual17205, 705211412, 10031Total21370, 0359091

CoefficientsStandard Errort StatP-valueIntercept-13, 1117820, 45584-0, 640980, 53008TNI-0, 025560, 09380-0, 272460, 78855Ln (board size)-0, 107904, 73505-0, 022790, 98208FD %-0, 081380, 06609-1, 231450, 23492Ln (total sales)2, 078051, 093881, 899710, 07457The p-value is quite big in the reported case of the U. S., thus we can't find sufficient statistical evidence to reject the null hypothesis. So the U. S. outsider-dominated approach to the board composition should be not explained by the potential impact of international board diversity on the performance of the company. The finding is also consistent with the evidence concerning the U. S. boards' globalisation, discussed in the Section 3. 3. Thus, the results show us that the composition of the boardroom in the aspect of its international diversity reflects the level of the globalisation and international expansion of the firm, however the evidence that for the companies with the substantial global operations the corporate performance is dependent on the percentage of the foreign board members could be questioned to a certain extent as the relationship holds at only 10% level of significance. At the same time, it should be mentioned that the results can be biased by the endogeneity problem. When the company performs well, there is no need to challenge the board, even though all of them are domestic. While when company performs poorly, the AGM targets the board and involves foreigners, but the performance is still bad. Hence, we see as a result an international board room within the company, which operates badly. The obtained results also support the findings of Miletkov et al. (2011) and Masulis et al. (2011), who report the lack of statistical evidence to conclude on strong relationship between corporate performance and international composition of the board. summary and conslusionsMain resultsMultinational corporations are the key drivers of globalisation. They are governed by the boards, which are determining firms' behaviour. While a number of board attributes, which influences board's activity and thus performance of the company has been studied a lot to the date, the issue of internalisation of the board is attracting more attention especially in the context of corporations with a focus on global operations. The study aimed at studying the relationship between the international diversity of the board and corporate performance of the MNCs, based on the examination of the world's top 100 non-financial TNCs in 2011 according to UNCTAD. We document that on average 94% of firms in the sample include at least one foreign director with the average firm having around 30% of foreigners in the board. The results, obtained from the hypothesis 1 testing, confirm our intuition that the degree of the boardroom globalisation reflects the level of the international expansion of the firm. The increasing level of international expansion, measured as the composite indicator, the Transnationality Index, implies more intensive board globalisation. The results suggest also that the impact of international board diversity on firm performance within the MNCs was observed only at the 10% significance level. Moreover, a special set of the U. S. companies was analysed, leading to the conclusion that we can't find sufficient statistical evidence of the influence on performance, which foreign directors bring to the U. S. MNCs. Even though, this cross-section study can be bounded by the limitations and problems (e. g. endogeneity problem), discussed in the paper, the findings are broadly consistent with the previous research in the field, which stick to the trade-off between costs and benefits of such international diversity as the main determinant of its potential impact. Furthermore, due to the MNCs being extremely complex organisms, having impact on the global level and maintaining the performance measurements at the stable level, some of the connections are not as significant as might be expected. Nevertheless, we still can assume that the future globalisation will go along with the internationalisation of the boardrooms. Suggestions for further researchThe study was focusing on analysing the globalisation of the boards of multinationals and its impact on corporate performance, however it raised the questions which need more research in future. For example, the study used the ROA as a performance measure, at the same time it might be useful to check also the market valuation of the companies, revealing how a market perceives the value of the firm. Moreover, a special consideration should be given to the American investors and their views on the foreign directors’’ import. The differences of the above-mentioned global diversity-performance relationship within the developed and developing countries should be investigated further, examining the perception of the decisions to import non-national directors and associated with them costs and benefits. Another perspective direction is to elaborate on the other aspects of international diversity rather than the nationality, such as the international working experience or education abroad. While almost all of the companies in the sample have at least one foreign director it might be interesting also to examine the potential benchmark of the foreign directors presence (if any), where the strength of the influence can changes.