"The effect of foreign directors on financial performance: an applied study on the UK"

"تأثير مجلس الإدارة الأجنبي على الأداء المالي: دراسة تطبيقية على المملكة المتحدة"

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Abstract:

This study investigates the effect of foreign directors on the financial performance of non-financial companies registered on the London Stock Exchange. Therefore, the main objective of this study is to show the effect of executive and non-executive foreign boards of directors on the firms' financial performance across the period from 1999 to 2021, and across 31 sectors.

Using a sample from the non-financial companies listed on the London Stock Exchange (FTSE 350), consisting of 5,359 observations for 233 companies from the period 1999 to 2021, we found that the percentages of the executive and non-executive foreign directors are stable across the period; however, they are changing across 31 sectors. Moreover, the results show that the financial performance is positively affected by the percentage of executive foreign directors, but not significantly affected by the percentage of non-executive foreign directors.

Keywords: board diversity, foreign directors, executive foreign directors, non-executive foreign directors, nationality diversity, FTSE 350, agency theory, financial performance, corporate governance, resource dependency theory.

المستلخص:

تبحث هذه الدراسة في تأثير مجلس الادارة الاجنبي على الأداء المالي للشركات المسجلة في بورصة لندن. لذلك ، فالهدف الرئيسي من هذه الدراسة هو إظهار تأثير مجالس الإدارة الأجنبية التنفيذية وغير التنفيذية على الأداء المالي للشركات عبر الفترة من ١٩٩٩ إلى ٢٠٢١ ، وعبر ٣١ قطاعًا. باستخدام عينة من الشركات غير المالية المدرجة في بورصة لندن (FTSE 350) ، والتي تتكون من ٥٣٥٩ ملاحظة لـ ٢٣٣ شركة من الفترة ١٩٩٩ إلى ٢٠٢١ ، اظهرت النتائج أن النسب المئوية للمديرين الأجانب التنفيذيين وغير التنفيذيين مستقرة عبر فترة الدراسة؛ ومع ذلك ، فهي تتغير عبر ٣١ قطاعًا. كما أظهرت النتائج أن الأداء المالي يتأثرتاثرا ايجابيا بنسبة المديرين التنفيذيين الأجانب ولا يتاثر بنسبة المديرين الأجانب غير التنفيذيين.

الكلمات الافتاحية: تنوع مجلس الإدارة ، مجلس الادارة الاجنبى ، مجلس الإدارة التنفيذي الأجنبي ، مجلس الإدارة الأجنبي غير التنفيذي ، تنوع الجنسية ، فوتسي ٣٥٠ ، نظرية الوكالة ، الأداء المالي ، حوكمة الشركات ، نظرية الاعتماد على الموارد.

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Introduction:

The "competition for talent" has become the main challenge for the international corporations (Beechler and Woodward 2009, Ewerlin 2013). Moreover, there is a speedy growth in international economics and high revenue generated from the international exchange of goods and services among small nation economies, which in turn improve the gross domestic product (Rugman and Verbeke 2004). So the question is, how to be qualified to enter this competition?

Therefore, the answer of this question strength all the corporation to depends on highly qualified and well-educated individuals to improve the firm performance. However, people with a great level of skills, experiences, capability and competence, leave their countries and migrate. Thus, this phenomenon reduced the labor supply in many countries (Baruch, et al., 2007, Biondo et al. 2012). Therefore, some European governments have opened their labor markets to extremely skilled immigrants. Furthermore, the native directors has taken active steps to attract foreign workers (Docquier and Machado 2016). In this vein, researchers argue that the aptitude to attract excellent foreign workers has become highly important for firms in their international "competition for talent" (Baum and Kabst 2013, Dauth et al. 2021). Consequently, nationality diversity can be the solution to this question.

Corporate governance codes progressively recognize the importance of board diversity for the effective fulfilment of board responsibilities and tasks. The provisions of this code in the UK identify that both arrangements and progression procedures should promote the diversity of social and ethnic circumstances (Council 2016). In the same vein, the theoretical research identifies diversity as having different members among the same board team with respect to demographic characteristics of directors such as nationality, gender, educational level, age, background, and several directorships (Beji et al. 2021, Kaczmarek and Nyuur 2021).

The debate over whether the firm's performance is affected by the foreign directors is still ambiguous. Some researchers provide evidence of a positive relationship between nationality diversity and firm performance (Carpenter, Geletkanycz, and Sanders 2004, Cannella et al. 2009, EmadEldeen et al. 2021), while others argue that there is a negative relationship (Frijns, Dodd, and Cimerova 2016), or even no relationship (Barako and Brown 2008).

The aim of this study is to focus on nationality diversity, which is defined as having different nationalities in the same team (Van Knippenberg, De Dreu, and Homan 2004), with deep-level differences in cultural values, including heuristics about appropriate work behavior. Therefore, the main objective of this study is to show the effect of executive and non-executive foreign boards of directors on the firm's performance across the period from 1999 to 2021, and across 31 sectors. The data of this paper has been collected from non-financial companies listed on the London Stock Exchange (FTSE 350) for the period from 1999 to 2021.

The remainder of this paper is structured as follows: Section 2 presents the literature review and hypotheses development for board nationality. Section 3 presents the research methodology. Section 4 includes the data analysis. Finally, the last section includes the conclusions.

2- Literature Review:

2-1- Theoretical background

Based on *social identity theory and Attraction theory*, the group members express their characteristics in social comparison with others. Consequently, discriminatory practices of in-group and out-group could creep in leading to a situation where the overall team proof of identity suffers and there is a low level of fulfilment and satisfaction with the group's work (Milliken and Martins, 1996, Phillips and O'Reilly, 1998). Consequently, social categorization gives rise to stereotyping (Knippenberg and Schippers, 2007), hampers communication, and finally hinders overall group functioning (Kagzi and Guha, 2018, Lu et al., 2015), and reduces firm performance (Pitts and Jarry, 2007, Frijns, et al., 2016, García-Meca, et al., 2015).

As a result, foreign boards of directors may face some difficulties in effectively contributing to board reports; coordination is more difficult, confusing, and frequently a source of misunderstanding; and communication is slower (Anderson et al., 2011, Doney, et al., 1998). Accordingly, it may reduce the likelihood of a successful acquisition (Frijns, Dodd, and Cimerova 2016), lead to moral hazard, and decrease their monitoring incentives (García-Meca, et al., 2015). Moreover, the foreign directors may have a sensitive role in taking decisions, and participating in management or any other corporate disclosure activities (Fuente, et al., 2017), as they have lower levels of intragroup trust (Frijns, et al., 2016). Some studies were consistent with this theory (Ashforth and Mael 1989; HOGGY and Terry 2000, Tajfel and Turner 2004, Katmon et al. 2019).

As a result, the foreign directors are trying to prove themselves by being more motivated than other board members to arrange board meetings frequently and to prepare well for these meetings. They are expected to keep up-to-date with board meeting plans and schedules, trying to add during the meetings and contributing in any decisions (Kaczmarek and Nyuur 2021).

According to *Upper Echelons Theory*, the demographic characteristics of nationality have some inner accompaniments that effectively matter in functioning and taking decisions in the boardroom (Cannella et al. 2009). As a result, the executives differ, as do the strategic options available to them, prompting them to expand their information resources in the hope of reinforcing the team's abilities to improve effective strategies, classify strategic opportunities, and, finally, develop the group's performance (Hsu, et al., 2019).

According to the *resource-dependence theory*, foreign directors may have greater professional networks than domestic directors, which simplifies the provision of resources to boards and develops the process of creating legitimacy with regard to local stakeholders (Hillman and Dalziel 2003). Moreover, the cultural knowledge and know-how of foreign directors are valuable for firms in those directors' domestic markets (Ruigrok, et al., 2007, Gull et al. 2018). Therefore, diversity will improve the information delivered to the managers due to the unique information held by diverse directors (García-Meca, et al., 2015, Carter et al., 2010) and it is expected to have a fundamental effect on decision-making processes within team work (Kaczmarek and Nyuur 2021). Then, judgements made by boards of directors has a vital strategic effect on the firm performance.

Therefore, for an effective boardroom, a diverse nationalities of directors creates an inspired environment by sharing knowledge, perspectives, experience, skills, more competitive and higher quality ideas (McLeod and Lobel, 1992, Milliken and Martins, 1996, Hafsi and Turgut, 2013) from different country with different professional background, norms, life experiences, language, knowledge, and culture, which, in sequence, motivate the board to take high-quality decisions (Zaid et al., 2020, Kaczmarek and Nyuur, 2021), increase the possibilities for innovative action (Ruigrok, et al., 2007), be more capable to respond to environmental changes and profit chances and help in shaping the firms' objectives and their attitudes toward its stakeholders (Harjoto, et al., 2019), and improve the board performance (Kaczmarek and Nyuur 2021).

Finally, nationality diversity will decrease agency costs and the difficulties caused by the directors' control function (Fama and Jensen, 1983, Kaczmarek and Nyuur, 2021), and it appears reasonable to expect that nationality diversity will have an obvious effect on board outcomes (Bouquet, 2004, Cannella et al., 2009). Some studies show that board nationality has a positive and significant effect on stock valuation (Ntim, 2015), firm reputation and innovation (Miller and Triana 2009), board commitment (Kaczmarek and Nyuur 2021) and firm performance (Carpenter, et al., 2004, Cannella et al. 2009, EmadEldeen et al. 2021).

2-2- Hypotheses developments:

According to the *agency theory*, boards with a high percentage of foreign members have a higher level of independence, which improves supervisory jobs. Therefore, the foreign directors are less likely to be affiliated with the firm and its management. So, they are more likely to be independent and have more time to invest in the board activities of that particular firm (Van-der-Walt and Ingley, 2003, Ruigrok, et al., 2007). Oxelheim and Randøy (2003) conclude that Norwegian and Swedish firms with foreign directors on their boards have higher valuations than their competitors without foreign independent directors.

Some studies show the percentage of the foreign directors in a different country (Staples, 2007, Van Veen and Elbertsen, 2008, Heijltjes, et al., 2003, Gillies and Dickinson, 1999, Ruigrok, et al., 2007, Van Veen and Marsman, 2008). Gillies and Dickinson (1999) used 80 of the world's largest TNCs in 1993, and the result revealed that 36.3% of these companies had at least one foreign board member. However, Staples (2007) used the same companies as in 2005, and the result showed that this percentage increased to 75%. Ruigrok et al. (2007) used 269 listed companies in 2003, and the result revealed that there are 22.1% non-Swiss (foreign) board members. Moreover, Van Veen and Elbertsen (2008) used the largest companies in Germany, Netherlands, and the UK. The result showed that the nationality diversity in Netherlands is higher than both the UK and Germany. According to the previous studies, the following hypotheses can be developed and tested;

H1: There is no difference between the percentages of the foreign directors across the period from 1999 until 2021

H2: There is no difference between the percentages of foreign directors across the 31 sectors

The corporate governance rules precise a one-tier structure in which the executives and the non-executive directors work closely together and are both responsible for the firm's performance. The executive director is responsible for controlling, managing, and supervising the firm, and the non-executive director is responsible for monitoring the executive. Moreover, the nomination committees that exist in the non-executive directors are responsible for employing, terminating, and rewarding executives 'directors. On the other hand, in the UK, both the executive and non-executive boards of directors share responsibility for the success of the firm, and they obviously represent the shareholders (Van Veen and Elbertsen 2008), attend the meetings, and listen to the opinions of the shareholders to get a balanced understanding of their concerns and opinions and to guarantee that they are transferred to the boardroom. Consequently, this link is a good indication of good corporate governance (Hafsi and Turgut 2013).

Van Veen and Elbertsen (2008) showed that in the UK in 2005, the mean number of executive directors per company was 31.1% and the mean number of non-executive directors per company was 68.9%. Moreover, Van Veen and Marsman (2008) determined that the percentage of foreign managers on European executive boards was 14.9% of the total group of executives from the 363 MNCs. Ultimately, company and country factors affect different levels of nationality diversity that are reliant on the availability of foreign executive boards of directors, which is pushed by company improvements, but simultaneously strongly entrenched in the different governance rules of each country (Van Veen and Marsman, 2008). According to the previous studies, the following hypothesis can be developed and tested:

H3: There is no difference between the percentages of the executive and non-executive foreign board members in FTSE 350.

Mixed results on the relationship between the nationality diversity and firm performance have been provided. Some studies have indicated that the two variables are positively and significantly associated (Carter et al., 2007). Others have found that there is a negative association between board nationality diversity and firm performance (Rose, et al., 2013). This negative impact contributes to moral hazard among international directors and reduces their incentives for monitoring. However, other studies found that there was no significant relationship (Tarus, et al., 2014). According to the previous studies, the following hypotheses can be developed and tested:

H4: The financial performance of FTSE 350 companies' is not affected by the percentage of the executive foreign directors.

H5: The financial performance of FTSE 350 companies' is not affected by the percentage of the non-executive foreign directors.

3. Research methodology:

3-1. Research sample:

Our basic sample was collected from the non-financial companies listed on the London Stock Exchange (FTSE 350). The total sample is 5,359 observations for 233 companies for the period from 1999 to 2021.

3-2. Data collection:

In this research, the board structure data is collected from Board Ex database while the firm specific data is collected from the data stream databases as shown in table (1).

3-3. Variables measurement:

Table (1) shows the variables measurement, as panel (A) refers to the dependent variable, the return on asset was used as a proxy for the financial performance of the companies. Panel (B) refers to the independent variables which includes the board and firm characteristics.

Table (1): Variable measurement:

Variable	Measurement	Source
Panel (A): Dependent Variable		
ROA (γ)	**Net income/total asset**	**DataStream**
Panel (B): Independent Variables		
Board Characteristics		
Board size (x_1)	**Number of directors on the board**	**Board Ex Database**
% Executive foreign directors (ED) (x_2)	**No. of the executive foreign directors / No. of the executive board of directors**	**Board Ex database**
% non- executive foreign directors (NED) (x_3)	**No. of the non-executive foreign directors / No. of the non-executive board of directors**	**Board Ex database**
Firm Specific Characteristics		
Leverage (x_4)	**Total debt / Total Assets * 100**	**DataStream**
Firm size (x_5)	**Natural log of total assets**	**DataStream**

4-Data analysis:

4-1 Descriptive statistics:

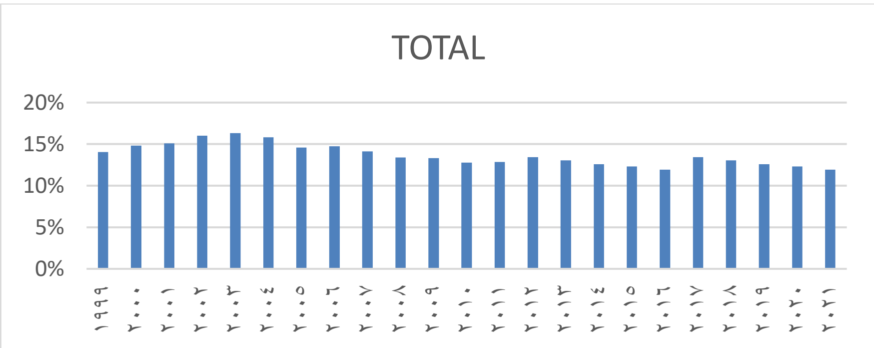
Table (2) reports the descriptive statistics for the variables. The table shows that the average return on asset is 9.19. With regards to governance characteristics, the average percentage of executive foreign directors is 15%, and the average percentage of non-executive foreign directors is 13%. Additionally, the average board size 9 directors.

Table (2) Descriptive Statistics

	Mean	Std. Deviation
ROA	10.19	15.632
Board size	9.20	2.725
ED%	.244833	.2530828
NED%	.133818	.1397430
Firm size	7.3220	.62243
Leverage	24.80	20.317

Figure (1) shows a graphical representation of the percentage of total foreign directors for the period from 1999 to 2021. The figure shows that 14% of the directors were foreign directors in 1999, and this percentage increased until 2003, as it was 16%. After that, this percentage decreased until 2016. Then slightly increased in 2017 then decreased again until 2021.

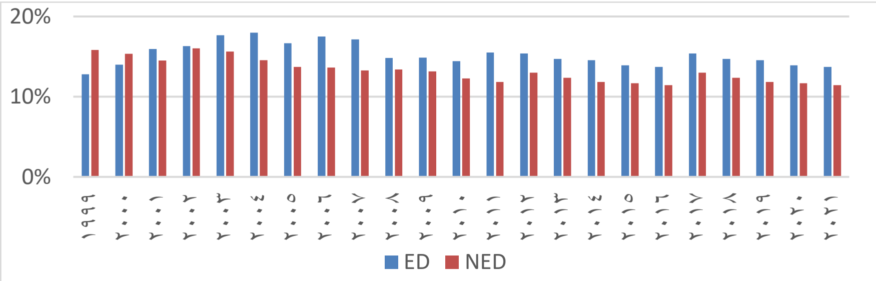
Figure (1): Average percentage of total foreign directors



The figure also shows that in 1999 and 2000, there was a high dependency on non-executive foreign directors; on the other hand, for the period from 2001 until 2016, there was a high dependency on an executive foreign directors.

Figure (2) shows a graphical representation of the percentage of executive and non-executive foreign directors, with the aim of distinguishing between the percentage of executive and non-executive foreign directors in the boardroom across the period from 1999 to 2021. The figure shows that 13% of the executive directors were foreign directors in 1999, and this percentage increased until 2004, then decreased in 2005 and fluctuated until 2021. The figure also shows that 16% of the non-executive directors are foreigners, and this percentage decreased until 2001, increased in 2002, and then fluctuate until 2021.

Figure (2): Average percentage of executive and non-executive foreign directors:



The figure also shows that in 1999 and 2000, there was a high dependency on non-executive foreign directors; on the other hand, for the period from 2001 until 2016, there was a high dependency on an executive foreign directors.

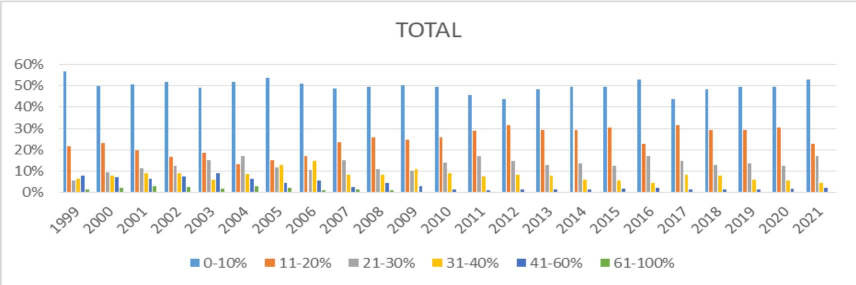
Figure (3) shows a graphical representation of the cross-tabulation data for the different percentages of the total foreign directors in the period from 1999 until 2021. The highest percentage of companies with a **0–10%** foreign directors was in 1999, when it reached 71 companies, or 57% of all companies in this year. After that, the highest percentage of companies was in 2005 and 2016, 2021 at 53% of the total companies in those years. On the other hand, the highest percentage of companies with **11 to 20%** foreign directors was high in 2012, 2017 accounting for 32% of total companies. After that, the highest percentage of companies was in 2015, at 30%. Afterward, in 2011, 2013, 2014, 2018 and 2019, the ratio decreased to 29% of the total companies in those years.

Furthermore, the highest percentage of companies that have from **21 to 30%** foreign directors were in 2004, 2011, 2016 and 2021, where the ratio was only 17% of the total companies in those years.

Moreover, the highest percentage of the companies that have from **31 to 40%** foreign directors were in 2006, as it was 15% of the total companies. Also, the highest percentage of the companies that have from 41 to 60% foreign directors were in 2003, and it was 9% of the total companies in this year. Ultimately, the highest percentage of companies that have from

61 to 100% foreign directors were in 2001, 2002, and 2004, but it didn't exceed 3% of the total companies in those years.

Figure (3): The percentage of companies and the total foreign directors:



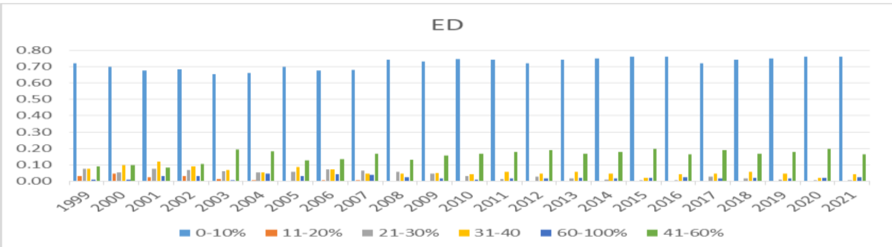
To summarize, the percentage of companies with 0 to 10% remained constant from 1999 to 2021, but the percentage of companies with 11 to 20% increased after 2005. Moreover, the percentage of companies with from 21 to 30% foreign directors increased after 2001, and then there were a few changes in the remaining period. Finally, after 2008, the percentage of companies dropped from 31 to 60%.

Figure (4) shows a graphical representation of the cross-tabulation data for the different percentages of the executive foreign directors in the period from 1999 until 2021. The figure shows that the highest percentage of companies with **0 to 10%** executive foreign directors was 76% in 2015, 2016 and 2021, accounting for 76% of all companies in those years. After that, the highest percentage of companies were in 2014, and 2018 which is 75% of the total companies in this year.

In contrast, the highest percentage of companies with **11 to 30%** executive foreign directors did not exceed 7% in any year. However, the highest percentage of companies that have from **31 to 40%** executive foreign directors was 12% of the total companies in 2001. Unexpectedly, the highest percentage of the companies that have from **41 to 60%** executive foreign directors reached 20% of the total companies in 2003, 2012, 2015, 2017 and 2019. However, the highest percentage of the companies that have from **61 to 100%** executive foreign directors does not exceed 5% of the total companies in these years.

We can conclude that in some years, there is a high percentage of companies that have 0–10% executive foreign directors. However, the proportion of companies with 11 to 100% executive foreign directors did not exceed 20%.

Figure (4): The percentage of companies with an executive foreign directors



To summarize, the majority of the companies have 0–10% executive foreign directors. After 2003, an average of 20% of companies had foreign executive boards of directors ranging from 41-60%.

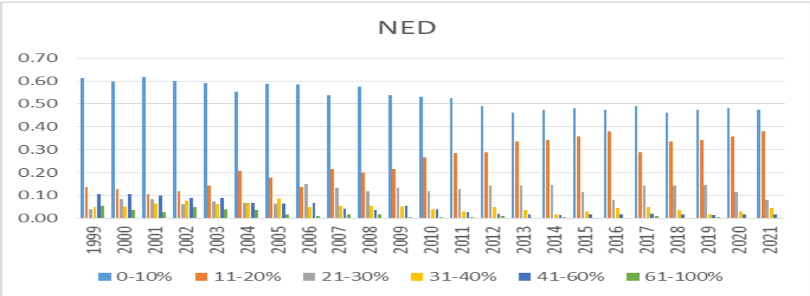
Figure (5) shows a graphical representation of the cross-tabulation data for the different percentages of the non-executive foreign directors in the period from 1999 until 2021. The figure shows that the highest percentage of companies that have **0–10%** non-executive foreign directors were high in 1999 and 2001, as it was 61% of total companies in these years. On the other hand, the companies that have from **11 to 20%** non-executive foreign directors reached 36% in 2015 and 2016. However, between 2006 and 2014, companies with **21 to 30%** non-executive foreign directors accounted for 15% of all companies. Ultimately, the companies that had from **31 to 100%** non-executive foreign directors did not exceed 10% of the total companies in the period from 1999 until 2021.

To sum up, there is a high percentage of companies that have 0–20% non-executive foreign directors. However, the percentage of companies with non-executive foreign directors ranging from 21 to 100% did not exceed 15%.

Furthermore, the majority of the companies have 0–10% foreign non-executive directors. After 2003, however, an average of 30%

of companies had between 11 and 20% non-executive foreign directors, and an average of 10% of companies had between 21 and 30% non-executive foreign directors.

Figure (5): The percentage of companies and the non-executive foreign directors:



Figures (4) and (5) confirm figure (2), which shows that a high percentage of companies have a higher proportion of executive foreign boards of directors after 2003 than non-executive foreign boards of directors.

Figure (6) shows a graphical representation of the percentage of nationality diversity in 31 different sectors. The figure shows that the highest percentage of the foreign directors from the total directors was in the Forestry & Paper, Containers & Packaging, and Oil & Gas sectors. Foreigners make up 34% of the total directors in the Forestry and Paper sector. Moreover, in Containers & Packaging, there is a 33% foreign directors. Furthermore, foreign directors make up 32% in the oil and gas sectors. On the other hand, the diversified industrials sector has no foreign directors, and in the consumer services, utility, and real estate sectors, the foreign directors does not exceed 5% of the total directors.

Figure (6): The average percentage of the foreign directors in each sector

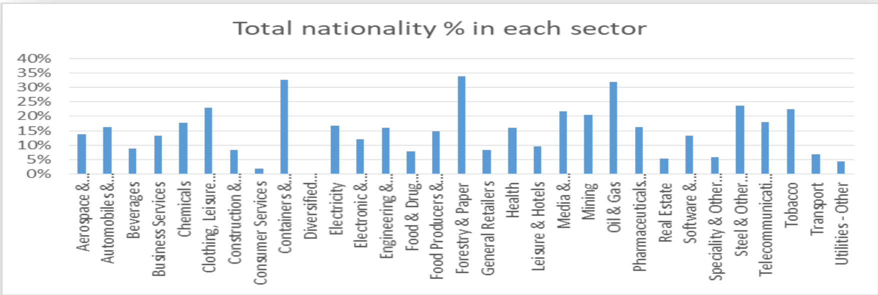


Figure (7) shows a graphical representation of the executive and non-executive foreign directors in 31 sectors. The figure shows that the highest percentage of the *executive foreign directors* were in the containers & packaging, clothing, leisure & personal products, and forestry & paper sectors. Foreign executives make up 46% of the total executive directors in the containers & packaging sector. Moreover, in clothing, leisure, & personal products sectors, there is a 45% foreign executive directors. Furthermore, 41% of the directors in the Forestry & Paper sectors are foreign executives. On the other hand, the diversified industrials sector has no foreign executive directors, and in the consumer services, utility, and food & drug sectors, the foreign executive directors does not exceed 5% of the total directors.

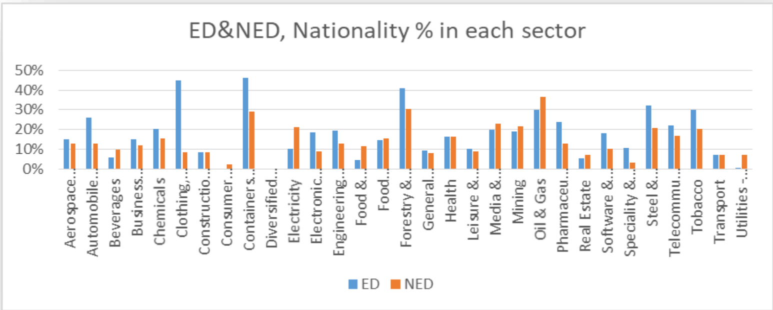
The figure also shows that the highest percentage of the *non-executive foreign directors* were in the Oil & Gas, Containers & Packaging, and Forestry & Paper sectors. In Oil & Gas sector, 37% of the total non-executive directors are foreign directors. Furthermore, there are 31% foreign non-executive directors in the containers & packaging sector. Furthermore, there are 31% foreign non-executive directors in the Forestry & Paper sectors. On the other hand, the diversified industrials sector has no foreign non-executive directors, and in the consumer services, specialty, and other finance sectors, the foreign non-executive directors does not exceed 5% of the total directors.

Moreover, the figure shows that there is a higher reliance on the executive foreign directors than the non-executive foreign directors in the automobiles & parts, clothing, Leisure & Personal Products, Containers & Packaging, Electronic & Electrical Equipment, Engineering & Machinery, Forestry & Paper, Steel & Other Metals, and Tobacco sectors.

Contrariwise, they rely equally on both the executive and non-executive foreign directors in the Aerospace & Defense, Construction & Building Materials, Food Producers & Processors, Health, Leisure & Hotels, Media & Entertainment, Mining, and Transport sectors.

In the electricity, oil & gas, and utilities sectors, however, non-executive foreign directors are relied on more than executive foreign directors.

Figure (7): The average percentage of the executive and non-executive foreign directors in each sector:



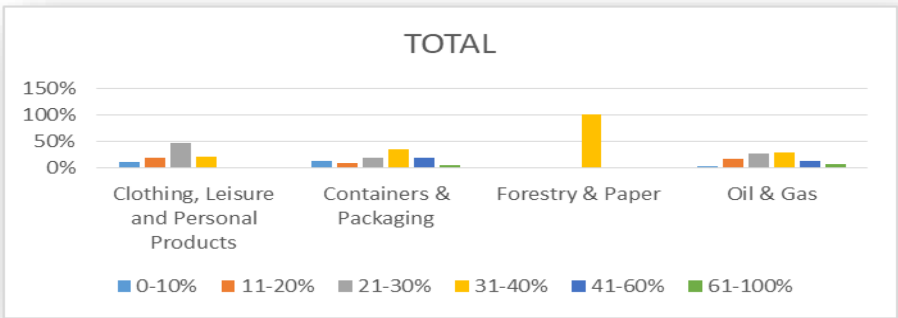
To sum up, the high percentages of foreign directors in the Forestry & Paper, Containers & Packaging & Clothing, Leisure & Personal Products, and Oil & Gas sectors were due to their high reliance on the executive foreign directors, except for the Oil & Gas sectors, which rely more on the non-executive foreign directors. It is shown that the diversified industrial sector has no foreign directors.

In order to make the result more clear, the study focused on the four highest sector in term of the nationality diversity. **Figure (8)** shows a graphical representation of the total percentage of the foreign directors in the 4 highest sectors in nationality diversity. According to the figure, these four sectors are clothing, leisure & personal products, containers & packaging, forestry & paper, and oil & gas sectors. In the Clothing, Leisure, Personal Products sector, 47% of the companies have 21–30% foreign directors, 21% have 31–40% foreign directors, and 19% have 11–20% foreign directors.

Furthermore, in the Containers & Packaging sector, 35% of the companies have 31–40% foreign directors from the total directors, 19% have 31–40% foreign directors, and only 14% have 0–10% foreign directors.

On the other hand, in the Forestry & Paper sector, all the companies have a 31–40% foreign directors. Furthermore, in the oil & gas sector, 30% of the companies have 31-40% foreign directors, 28% of the companies have 21-30% foreign directors, and 17% of the companies have 11-20% foreign directors.

Figure (8): The percentage of companies in the 4 highest sectors (total foreign directors):



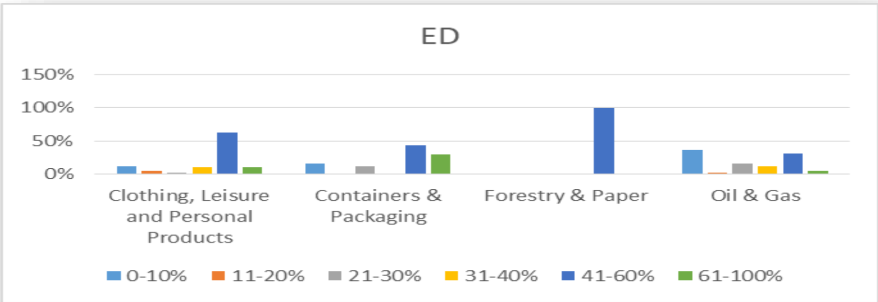
The figure also shows that, in the Containers & Packaging and Oil & Gas sectors, some of the companies have more than 40% foreign board members. However, all companies in the clothing, leisure, & personal products industries, as well as the forest products & paper industries sector, have fewer than 40% foreign board members.

Figure (9) depicts a graphical representation of the percentage of executive foreign directors in the four sectors with the highest nationality diversity. In the Clothing, Leisure & Personal Products sector, 62% of the companies have from 41% to 60% executive foreign directors.

Moreover, In the Containers & Packaging, 43% of the companies have 40–60% foreign executive directors, and 30% of the companies have 60–100% foreign executive directors.

On the other hand, in the Forestry & Paper sector, all the companies have 41–60% foreign executive directors. Furthermore, in the oil & gas sector, 36% of the companies have 0–10% executive foreign directors, and 30% of the companies have 40–60% foreign executive directors.

Figure (9): The percentage of companies in the 4 highest sectors (total foreign executive directors):



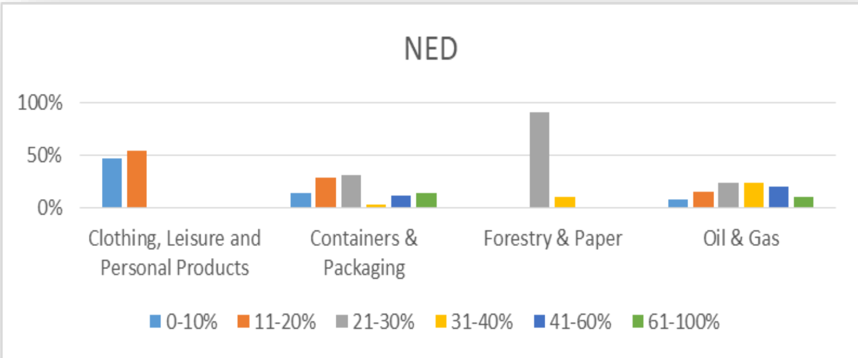
In these four sectors, the majority of the companies have 41–60% executive foreign directors out of the total executive directors. In comparison, only a small percentage of companies have 0–10% foreign executive directors.

Figure (10) shows a graphical representation of the percentage of the non-executive foreign directors in the 4 highest sectors in nationality diversity. In the Clothing, Leisure & Personal Products sector, 53% of the companies have between 11 and 20% non-executive foreign directors, and 47% of the companies have 0–10% non-executive foreign directors.

Moreover, in the Containers & Packaging sector, 31% of the companies have 21–30% foreign non-executive directors, and 29% of the companies have from 11–20% foreign non-executive directors.

On the other hand, in the Forestry & Paper sector, 90% of the companies have 21–30% foreign non-executive directors, and 10% have 31-40% foreign non-executive directors. Furthermore, in the oil & gas sector, 24% of the companies have a 21–30% non-executive foreign directors, and 24% have 31-40% foreign non-executive directors.

Figure (10): The percentage of companies in the 4 highest sectors (total non-executive foreign directors):



To summarize, in the Containers & Packaging, and Oil & Gas sectors, some of the companies have more than 40% non-executive foreign directors. However, in Forestry & Paper, the companies have 21–40% non-executive foreign directors. Moreover, in the Clothing, Leisure & Personal Products sector, the companies have 0–20% non-executive foreign directors.

Moreover, the Clothing, Leisure & Personal Products, Containers & Packaging, and Forestry & Paper sectors rely more on their foreign executive boards of directors, as the majority of the companies in these sectors have more than 41% foreign executive directors. However, the majority of the companies in these sectors have less than 30% non-executive foreign directors. On the other hand, in the oil & gas sectors, they rely more on the non-executive foreign directors.

4-2 Testing Hypothesis:

To test hypothesis (H1) on the data described in figure 3, 4 and 5, the study used Kruskal-Wallis test

Table (3): Kruskal Wallis Test for all the years:

Panel (A): Kruskal Wallis for Total % of the foreign directors for all the years		
Kruskal-Wallis H	***Df***	***Asymp. Sig.***
4.846	17	0.998
Panel (B): Kruskal Wallis for executive % of the foreign directors for all the years		
Kruskal-Wallis H	***Df***	***Asymp. Sig.***
11.658	17	0.820
Panel (C): Kruskal Wallis for non-executive % of the foreign directors for all the years		
Kruskal-Wallis H	***Df***	***Asymp. Sig.***
6.691	17	0.987

Table (3) shows the Kruskal Wallis test results used to evaluate the differences in the percentage of the *total* foreign directors across the period from 1999 until 2021 in panel (A), for the *executive* foreign directors in panel (B), and for the *non-executive* foreign directors in panel (C). The test revealed that there are *no significant* differences in the percentage of the foreign directors across 17 years from 1999 until 2021 in panels (A), (B), and (C).

To test hypothesis (H2) on the data described in figure 6 and figure 7, the study used Kruskal-Wallis test

Table (4): Kruskal-Wallis Test for all the sectors in FTSE 350:

Panel (A): Kruskal-Wallis test for the total percentage of the foreign directors for all sectors:		
Kruskal-Wallis H	***Df***	***Asymp. Sig.***
671.254	30	0.000
Panel (B): Kruskal Wallis test for the executive percentage of the foreign directors for all sectors		
Kruskal-Wallis H	***Df***	***Asymp. Sig.***
483.753	30	0.000
Panel (C): Kruskal Wallis test for the non-executive percentage of the foreign directors for all sectors		
Kruskal-Wallis H	***Df***	***Asymp. Sig.***
590.157	30	0.000

Table (4) shows the Kruskal Wallis test results used to evaluate the differences in the percentage of the *total* foreign directors across 31 sectors in panel (A), for the *executive* foreign directors in panel (B), and for the *non-executive* foreign directors in panel (C). The test revealed that there are *significant* differences in the percentage of foreign directors across 31 sectors in panels (A), (B), and (C).

To test hypothesis (H3) on the data described in figure 2, the study used the Mann-Whitney test

Table 5: Mann-Whitney test for executive and non-executive percentages

Mann-Whitney U	***Wilcoxon W***	***Z***	***Asymp. Sig. (2-tailed)***
4990217.500	10325228.500	-5.382	0.000

Table (5) shows the Mann-Whitney U test results used to evaluate the difference between the percentages of the executive and non-executive foreign directors in the FTSE 350 in all the sectors. The test revealed *a significant* difference in the percentage of executive and non-executive foreign directors.

4-3 Regression analysis:

Finally, to test the hypotheses (H4 and H5) on the data described in Table (1), the study used a linear regression model.

The regression model

$$\gamma = \sum_{i=1}^{5} \beta_i x_i + \varepsilon_{iJ}$$

Where β_i are the coefficient of regression, x_i are the variables which defined in table (1), ε_{iJ} is the error $\varepsilon_{ij} \sim N(0, \sigma_J^2)$.

The following table represents the estimate of the coefficient

Table (6): Linear Regression Model:

	B	T	Collinearity statistics	
(Constant)	30.215	19.322	Tolerance	VIF
Board size (x_1)	.532***	4.531	.631	1.529
ED% (x_2)	2.444**	1.342	.827	1.324
NED% (x_3)	-2.169	-1.713	.848	1.257
firm size (x_4)	-5.18***	-12.661	.610	1.561
Leverage (x_5)	-.020**	-2.423	.924	1.231
R Square	.090			
F	39.520			
SIG	0.000			

Note: *, **, *** represent significance at 0.1, 0.05, and 0.01 levels, respectively.

As shown in the table,

ROA=30.215+.5326x_1+2.444x_2-2.169x_3-5.18x_4-.020x_5

Table (6) shows that all the variables have a significant effect on the financial performance of the non-financial companies in the FTSE 350 except the non-executive foreign directors. The results show that leverage has a negative effect on the financial performance, as when the percentage of total debt to assets increases, the financial performance will decrease. Furthermore, firm size has a negative impact on financial performance, which means that small firms outperform large firms.

Moreover, with regard to corporate governance, the board size has a positive effect on firm performance, implying that a company with a large number of directors will have a strong financial performance.

Finally, the foreign executive directors have a positive effect on the financial performance. However, the non-executive directors have no significant effect on the financial performance, which means that the foreign executives can improve financial performance by sharing knowledge, perspectives, experiences, skills, and more competitive and higher-quality ideas from different countries with different professional backgrounds, norms, life experiences, languages, knowledge, and cultures, which, in sequence, motivate the board to take high-quality decisions. The result is consistent with resource-dependency theory; however, it is inconsistent with social identity theory.

Conclusion:

The results presented in this paper suggest some features with respect to nationality diversity in the non-financial companies in the FTSE 350. The main objective of this study is to show the effect of executive and non-executive foreign directors on the financial performance of non-financial companies across the period from 1999 to 2021 and across 31 sectors.

To achieve this objective, the study used data from the non-financial companies listed on the London Stock Exchange (FTSE 350). The total sample of the FTSE 350 for nonfinancial companies is 5,359 observations for 233 companies from the period 1999 to 2021.

The results indicate that there is a greater reliance on the executive foreign directors than on the non-executive foreign directors, especially after 2000. Moreover, the highest percentage of the foreign directors were in the Forestry & Paper, Containers & Packaging, Clothing, Leisure & Personal Products, and Oil & Gas sectors. They rely more on the executive foreign directors, except for the Oil and gas sectors, which rely more on the non-executive foreign directors. The result also revealed that the diversified industrial sector has no foreign directors.

Ultimately, we can conclude that the percentages of the executive and non-executive foreign directors are stable across the period; however, they are significantly changed across 31 sectors.

Moreover, there is a significant difference between the percentage of executive and non-executive foreign directors.

Furthermore, firm size and leverage negatively affect financial performance. On the other hand, with regard to corporate governance, the board size, and the percentage of executive foreign directors positively affect the financial performance. This result is consistent with resource-dependency theory; however, it is inconsistent with social identity theory.

On the other hand, the percentage of non-executive foreign directors has no significant effect on the financial performance.

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