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MACHADO, VAGNER N.; SONZA, IGOR B.  
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# IMPACT OF THE FOREIGN EXPERIENCE OF BOARD DIRECTORS ON THE PERFORMANCE OF PUBLICLY TRADED BRAZILIAN COMPANIES



VAGNER N. MACHADO<sup>1</sup>

 <https://orcid.org/0000-0002-8111-8494>

IGOR B. SONZA<sup>2</sup>

 <https://orcid.org/0000-0001-5403-3279>

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<sup>1</sup> Federal University of Santa Maria (UFSM), Palmeira das Missões, RS, Brazil.

<sup>2</sup> Federal University of Santa Maria (UFSM), Santa Maria, RS, Brazil.



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## ABSTRACT

**Purpose:** We analyzed the impact of board directors with foreign experience on the accounting and market performance of companies listed on the Brazilian Stock Exchange (B3).

**Originality/value:** We show unpublished empirical evidence about the relationship between the foreign experience of board directors and the performance of Brazilian firms. Knowing this relationship better contributes to the formulation of internal policies for the qualification of senior management, in addition to being valuable to shareholders, especially in a context of weak legal protection, as it is in Brazil.

**Design/methodology/approach:** We collected data from 230 companies between 2010 and 2016, submitted it to unbalanced panel data regressions using the Systemic Generalized Method of Moments (GMM-Sys).

**Findings:** The results suggest that the higher the proportion of board members with academic and professional foreign experience, the lower their accounting and market performance. This finding can be justified by institutional isomorphism, in which having an experience abroad would be a myth, a status institutionalized by the Brazilian society. In addition, foreign owners and directors face cultural barriers and would have less knowledge of the local environment, which would increase information asymmetries, impacting negatively in firms' performance. On the other hand, an increase in the number of foreigners on the board positively influences the market value of companies, since, by having weaker local power networks and, consequently, less possibility to obtain private benefits, the investors could value companies with this characteristic.



## KEYWORDS

Performance. Board of directors. Foreign experience. Corporate governance. Institutional isomorphism.

## 1. INTRODUCTION

For Fama and Jensen (1983), the separation between ownership and control generated conflicts and agency costs arising from the principal and agent relationship, in which managers do not always act in the interests of capital owners (Jensen & Meckling, 1976). Managers can make decisions contrary to the interests of owners, leading to costs that impact the performance of companies (Gounopoulos & Pham, 2018). The adoption of corporate governance practices gains emphasis as a tool capable of minimizing the effects of agency problems by monitoring and supervising agents' behavior (Jensen & Meckling, 1976).

Based on institutional theory, organizations incorporate rules and procedures in order to legitimize their actions in the face of the environment (Meyer & Rowan, 1977). From this perspective, corporate governance practices, while institutionalized, have a legitimating character (Rossoni & Machado-da-Silva, 2010) that standardizes the forms of control and coordination of the behavior of the top management of firms (Fiss, 2007). In this way, the board of directors would be responsible for monitoring executives in order to align the interests of owners and managers (Fama & Jensen, 1983).

The legitimacy crisis caused by corporate scandals at the beginning of the century increased the number of empirical studies focusing on corporate governance (Rossoni & Machado-da-Silva, 2010), especially regarding the relationship between the board of directors and the performance of companies in developed markets (Liao, Ma, & Yu, 2017). However, studies focusing on specific qualities, knowledge, or personal experiences of board members are scarcer. There is empirical evidence that, in the United Kingdom (Conyon, Haß, Vergauwe, & Zhang, 2019), the foreign experience would influence the executive compensation policy, impacting the companies' international strategic decisions. In the United States, foreign independent directors would increase the advisory capacity of boards, but the geographical distance and cultural differences would decrease the monitoring of managers, leading to greater agency problems and lower firm performance (Masulis, Wang, & Xie, 2012).

The consequences of foreign experience on the board of directors can be different for emerging market countries, as they generally have embryonic corporate governance practices and weak protection for shareholders (Liao et al., 2017; Wen, Cui, & Ke, 2020). In the Chinese market, empirical studies suggest that the foreign experience of board members will positively impact

corporate performance (Giannetti, Liao, & Yu, 2015), innovation process (Yuan & Wen, 2018), and corporate social responsibility (Zhang, Tang, & Lin, 2016). Directors with foreign experience make better tax policy decisions (Wen et al., 2020), increase levels of transparency (Liao et al., 2017), and reduce the volatility of firms' share prices, especially in countries with weak corporate governance (Cao, Sun, & Yuan, 2019). However, they would be removed from their local context, which could impair the judgment of financial information, leading to greater influence from the chief executive officer (CEO) and majority shareholders (Liao et al., 2017).

In the Brazilian context, Perlin, Kirch, Vancin, and Mastella (2019) researched which characteristics of the academic career influence the performance and risk of firms. The authors suggest that having directors with a doctorate abroad would increase performance and decrease the risk of Brazilian companies. However, there are no empirical studies that, more comprehensively, investigated director's foreign experience in Brazilian firms. In this sense, the purpose of this study is to analyze the influence of board members' foreign experience on the internal and market performance of companies listed on the Brazilian Stock Exchange.

Our study contributes to the empirical literature, expanding the discussion on the topic and presenting unprecedented results regarding the impact of the foreign experience of the directors on the performance of Brazilian companies. Knowing the implications of foreign experience on boards of directors can help in the definition of internal policies for the qualification of senior management abroad (Wen et al., 2020). This information is also of interest to shareholders, concerned with the monitoring exercised by the directors, especially in countries with weak legal protection (Liao et al., 2017), such as Brazil. Our main results indicate that the foreign experience of directors would negatively influence the performance of Brazilian companies. In this sense, investment in the foreign experience of directors would be a "myth", a "ritual" already institutionalized in the Brazilian society.

## 2. GOVERNANCE AND BOARD FOREIGN EXPERIENCE: CONCEPTIONS AND HYPOTHESES

The growth of organizations has brought about profound changes in the structure of ownership and control of firms (Gounopoulos & Pham, 2018), resulting in conflicts and agency costs arising from the relationship between owners (principal) and managers (agent), in which agents do not always act in the interests of the owners of capital (Jensen & Meckling, 1976).

Corporate frauds in large American companies at the beginning of the century reduced investor confidence and shareholder value, increasing financial market instability (Zhang et al., 2016), and questioned the credibility of companies, affecting the legitimacy of organizations (Fiss, 2007).

Following the precepts of institutional theory, although countries have a specific institutional context, organizations retain a certain degree of interaction, which allows the dissemination of organizational practices (Rossoni & Machado-da-Silva, 2010). Incorporating institutional mechanisms into the organizational environment, such as isomorphism and structuring, presupposes changes in organizational forms to achieve a greater degree of efficiency and legitimacy (Meyer & Rowan, 1977). The institutionalization of corporate governance practices combats agency conflicts (Jensen and Meckling, 1976), having a legitimizing role in the behavior of firms (Rossoni & Machado-da-Silva, 2010).

The board of directors is an important mechanism of corporate governance, which monitors the behavior of managements (Fama & Jensen, 1983; Wen et al., 2020) and exercises the front strategic decisions advisory function (Masulis et al., 2012). These questions motivated several studies to investigate the influence of the characteristics of the board of directors on the results of the firms (Gaur, Bathula, & Singh, 2015). The main results of these studies suggest that the character of the board as size (Giannetti et al., 2015), age (Darmadi, 2011), level of education, and independence of board members (Akpan & Amran, 2014) would impact the company's performance.

The great challenge for companies is to structure the board in an ideal way to maximize shareholder value (Masulis et al., 2012), and for that, they must select more qualified, experienced, and graduated members (Akpan & Amran, 2014). Directors with financial experience and academic formation in accounting, finance, and economics (Gaur et al., 2015) would be better prepared for transmitting financial information to the market, which would positively impact the performance of firms.

The experience and habits in a different country influence the top management skills and perceptions as to uncertainties and ambiguities associated with international activities (Conyon et al., 2019). For Masulis et al. (2012), foreign directors would have a better knowledge of the foreign regulatory environment, which would give them a better advisory capacity. On the other hand, they would be less familiar with the local context, which would limit their monitoring power (Masulis et al., 2012).

Directors with experience abroad would be concerned with the reputation and awareness of Corporate Social Responsibility (Zhang et al., 2016), posi-

tively influencing the tax policy of firms (Wen et al., 2020). The knowledge accumulated abroad improves the monitoring capacity, reducing the volatility of the companies' share prices (Cao et al., 2019), increasing the levels of transparency and disclosure of information, and interfering in the involvement of directors in ties and local power networks (Liao et al., 2017). However, the cultural distance from the local context hinders the analysis and judgment of financial information, limiting the monitoring capacity of foreign directors (Liao et al., 2017).

In Brazil, the admission of board members with a Ph.D. abroad would increase performance and reduce the risks of firms (Perlin et al., 2019), suggesting that directors with foreign academic experience would have better management decision-making skills (Wen et al., 2020). However, specific characteristics of the Brazilian market, such as a poorly developed governance system, concentrated control structure, and weak legal protection for shareholders (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998), can alter the dimension of the effects of foreign experience on the performance of companies. Based on these assumptions, we formulate the following hypothesis:

- Hypothesis 1: The greater the foreign experience of board members, the greater the internal and market performance of Brazilian public companies.

Another way to identify the impacts of the foreign experience is through the ownership structure. According to Choi, Sul, and Min (2012), an increase in foreign ownership can positively influence the value of the company due to a better-globalized governance system and more effective independent monitoring. Doidge, Karolyi, Lins, Miller, and Stulz (2009) show that shareholders' decision to open capital abroad is inversely related to the consumption of private control benefits since cross-listing makes it more rigid in legal terms, generating restrictions for the use of private benefits of control.

On the other hand, foreign ownership can negatively affect the capital of companies, as foreign owners can reduce their capital investments due to concerns about the expropriation of shareholders (Doidge et al., 2009), harming the creation of the company's value (Choi et al., 2012). In this line, Khlif, Ahmed, and Souissi (2017) affirm that distancing from the local reality of foreign owners favors problems of information asymmetry, making monitoring difficult. Based on these assumptions, we formulate the following hypothesis:

- Hypothesis 2: The greater the foreign ownership structure, the greater the internal and market performance of Brazilian public companies.



### 3. METHODOLOGICAL ASPECTS

We develop descriptive and quantitative research based on secondary data. The population of the present study comprises all publicly traded companies in Brazil. However, we exclude non-industrial firms as they have different characteristics related to accounting principles and financial attributes, and companies with Tobin's Q less than zero and greater than ten, in order to eliminate outliers from the analysis. These actions were taken to avoid possible bias, following several authors who made similar exclusions, such as Cao et al. (2019), Choi et al. (2012), and Almeida and Campello (2007). The period of the analysis is from 2010 to 2016, due to the disclosure of the information regarding the members of the board through the reference forms of the Brazilian Securities and Exchange Commission (CVM). Thus, the final sample includes 230 companies or 1,391 unbalanced observations.

Our dependent variables for measuring companies' performance are: 1. the accounting performance – return on equity (ROE) and return on assets (ROA); and 2. the market performance – market-to-book (MB) and Tobin's Q (Q-t). We constitute five independent variables, corresponding to the foreign experience of board members and the proportion of shares owned by foreigners in companies: 1. foreign academic experience (EEA); 2. foreign professional experience (EEP); 3. proportion of foreign members in the board of directors (Cest); 4. proportion of foreign executives (Dest); and 5. foreign ownership (Pest). Following Giannetti et al. (2015), Liao et al. (2017), and Wen et al. (2020), we collect foreign experience information in the publicly disclosed resumes of directors in CVM reports. We consider a director with foreign experience if he/she has graduated or post-graduated abroad (EEA) or if he/she worked outside Brazil (EEP). Finally, the control variables refer to the characteristics of the board of directors, aspects related to the entrenchment, the size, and indebtedness of the companies.

We collected data regarding accounting statements in the Economática<sup>®</sup> and related to characteristics of the board of directors and executives in items 12 (meeting and administrators) and 15 (economic control) of the companies' Reference Report, available at the CVM's website. We used the Stata 14<sup>®</sup> statistical program and an unbalanced panel data model according to Formula (1):

$$D_{it} = \alpha_i + EE_{it}\gamma + W_{it}\delta + \sum_i^n EFind_i + \sum_t^n EFtemp_t + \varepsilon_{it} \quad (1)$$



in which  $D$  stands for performance;  $\alpha$  is the intercept;  $\gamma$  and  $\delta$  are the coefficients;  $EE$  represents the variables relating to foreign experience,  $W$  are the control variables;  $EFind$  are the industrial fixed effects;  $Eftemp$  are the fixed temporal effects;  $\varepsilon$  represents the error term;  $i$  indicates the companies; and  $t$  indicates the period of time. In this sense, Figure 3.1 contemplates the dependent variables, their descriptions, and main studies.

(Figure 3.1)

### DEPENDENT VARIABLES - ACCOUNTING AND MARKET PERFORMANCE

| Dependent variables - accounting performance |                                 |   |
|--|---------------------------------|---|
| Variables                                    | Description                     | Authors   |
| ROE  | Net profit/equity               | Gaur et al. (2015), Giannetti et al. (2015), and Liao et al. (2017)                                   |
| ROA  | Operating income/total assets   | Darmadi (2011), Gaur et al. (2015), Giannetti et al. (2015), Cao et al. (2019), and Wen et al. (2020) |
| Dependent variables - market performance     |                                 |   |
| MB   | VM*/equity                      | Giannetti et al. (2015), Cao et al. (2019), and Wen et al. (2020)                                     |
| Tobin's Q (Q-t)                              | (MVE + PS + D)** / total assets | Darmadi (2011), Choi et al. (2012), and Giannetti et al. (2015)                                       |

\* VM = market value (stock price versus the number of shares outstanding).

\*\* Suggested by Chung and Pruitt (1994), whose market value is the sum of MVE – firm's stock price multiplied by the number of common shares outstanding; PS – settlement value of the preferred shares outstanding; and D – total debt (current liabilities minus current assets plus inventories and long-term debt).

Source: Elaborated by the authors.

In addition, Figure 3.2 presents the main independent variables, their descriptions, the studies that used them, and the signs of impact expected according to the theory.

(Figure 3.2)

### INDEPENDENT VARIABLES - FOREIGN EXPERIENCE

| Independent Variables - Foreign Experience |  |  |        |
|--|--|--|--------|
| Variables                                  | Description  | Authors  | Signal |
| EEA  | Number of directors with academic foreign experience/Total number of directors | Giannetti et al. (2015), Iliev and Roth (2018), Cao et al. (2019), Perlin et al. (2019), and Wen et al. (2020) | +      |

(continue)

(Figure 3.2 (conclusion))

**INDEPENDENT VARIABLES - FOREIGN EXPERIENCE**

| Independent Variables - Foreign Experience |  |  |        |
|--|--|--|--------|
| Variables                                  | Description  | Authors  | Signal |
| EEP  | Number of directors with professional foreign experience/Total number of directors | Giannetti et al. (2015), Iliev and Roth (2018), Cao et al. (2019), and Wen et al. (2020) | +      |
| Dest                                       | Number of foreign executives/Total number of executives                            | Darmadi (2011), Choi et al. (2012), and Giannetti et al. (2015)                          | +      |
| Cest                                       | Number of foreign directors/Total number of directors                              | Darmadi (2011), Masulis et al. (2012), Choi et al. (2012), and Giannetti et al. (2015)   | +/-    |
| Pest                                       | Percentage of stocks owned by foreign investors                                    | Giannetti et al. (2015), Khlif et al. (2017), and Agyei-Boapeah (2019)                   | +/-    |

Source: Elaborated by the authors.

In terms of human capital, an experience abroad would develop a more global view, which would lead to better management decisions and, consequently, better corporate results (Conyon et al., 2019). Immersion in another culture and the internationalization of interpersonal relationships would facilitate the adoption of consistent corporate governance practices (Giannetti et al., 2015), and the internationalization of operations can positively impact the companies' performance (Iliev & Roth, 2018). On the other hand, foreign directors would have less knowledge of local standards, which would weaken their monitoring power, leading to lower levels of performance (Masulis et al., 2012).

Furthermore, the higher the proportion of foreign owners, the better the levels of corporate disclosure, which would allow greater access to new markets and sources of capital (Doidge et al., 2009). However, the physical distance from owners to companies, and the lack of local operational knowledge, would increase levels of information asymmetry and make it difficult for the owners to monitor business management (Khlif et al., 2017).

Finally, Figure 3.3 contemplates the control variables' main studies and the signs of expected impact according to the theory. Regarding the board of directors, a large board would provide greater links with the market, facilitating companies' access to external resources (Gaur et al., 2015). Independent directors would be more efficient in monitoring management (Akpan &

Amran, 2014), as directors with higher levels of education (Perlin et al., 2019) and older age (Giannetti et al., 2015) tend to make decisions with higher quality, which positively impacts the performance of companies. The turnover of the chairman can represent a poor performance in relation to the monitoring of the corporate management, and its substitution can increase the performance of the company (Faleye, Hoitash, & Hoitash, 2011).

On the other hand, independent directors would have less information about the company, which make the decisions and management monitoring more difficult (Masulis et al., 2012), and if they also are members of other boards, they would have less time to deal with company issues, which would impair performance (Giannetti et al., 2015). In addition, board members who have been in the market for a long period would be more resistant to implement new corporate governance practices (Iliev & Roth, 2018), harming the policies and accounting and market performance of the companies (Güner, Burak, & Geoffrey, 2008).

For the executive's level of control, we use entrenchment variables. The duality between the CEO and the Chairman will cause flaws in the internal control system, which would impair the monitoring of the company's management (Fama & Jensen, 1983), and the higher the number of executives, the greater the demand for monitoring, increasing the agency costs (Jensen & Warner, 1988). The longer the tenure of executives, the greater the chance of power networks, which would make it difficult to monitor their actions (Goyal & Park, 2002). In the same way, Jensen and Murphy (1990) suggest that the risk of dismissal is more pronounced for younger CEOs because, over time, they will form their power bases. Executives with academic formation would be better prepared to make corporate decisions (Akpan & Amran, 2014).

Following most empirical studies in finance, we control the size and level of companies' indebtedness. Large companies are better able to hire more experienced and qualified executives, requiring greater effort from managers (Zhang et al., 2016). Indebted companies would have better information transparency practices (Iliev & Roth, 2018) due to greater external monitoring by creditors (Rauh, 2009). On the other hand, the relationship with creditors would increase agency costs, leading to a greater likelihood of financial difficulties and bankruptcy costs (Zhang et al., 2016).

(Figure 3.3)  
CONTROL VARIABLES

| Control variables |   |  |        |
|-------------------|---|--|--------|
| Variables         | Description   | Authors  | Signal |
| Ncon              | Log (total number of directors)   | Giannetti et al. (2015), Gaur et al. (2015), and Wen et al. (2020)         | -      |
| Cind              | Number of independent directors/Total number of directors   | Masulis et al. (2012), Akpan and Amran (2014), and Giannetti et al. (2015) | +/-    |
| Busy              | Number of directors who occupy seats in other boards)/Total number of directors   | Faleye et al. (2011), Giannetti et al. (2015), and Iliev and Roth (2018)   | -      |
| Tcon              | Log (average tenure of the board directors)   | Güner et al. (2008), Giannetti et al. (2015), and Iliev and Roth (2018)    | +      |
| IMC               | Log (average age of the board of directors)   | Darmadi (2011), Akpan and Amran (2014), and Giannetti et al. (2015)        | +      |
| Turnover Cons     | Dummy: 1 – year of the turnover of Chairman of the board; 0 – other years.  | Güner et al. (2008), Faleye et al. (2011), and Giannetti et al. (2015)     | +/-    |
| Econ              | Board level of education:<br>0 – undergraduate; 1 – graduated; 2 – MBA; 3 – Master; 4 – Ph.D.; and 5 – post-doctoral.       | Fraga and Silva (2012), Akpan and Amran (2014), and Perlin et al. (2019)   | +      |
| Dcons             | Dummy: 1 – there was a change in the composition of the board in the same year; 0 – otherwise                               | Güner et al. (2008)  | +/-    |
| Dual*             | Dummy: 1 – CEO and chairman are the same person; 0 – otherwise.   | Faleye et al. (2011) and Wen et al. (2020)                                 | -      |
| Nex*              | Log (number of executives)  | Jensen and Warner (1988) and Giannetti et al. (2015)                       | +/-    |
| Tex*              | Log (average tenure of the executives)  | Goyal and park (2002) and Giannetti et al. (2015)                          | -      |
| IME*              | Log (average age of the executives)   | Giannetti et al. (2015) and Liao et al. (2017)                             | -      |
| EExec*            | Executives' level of education:<br>0 – undergraduate; 1 – graduated; 2 – MBA; 3 – master; 4 – Ph.D.; and 5 – post-doctoral. | Akpan and Amran, (2014) and Gaur et al. (2015)                             | +      |

(continue)

**(Figure 3.3 (conclusion))**  
**CONTROL VARIABLES**

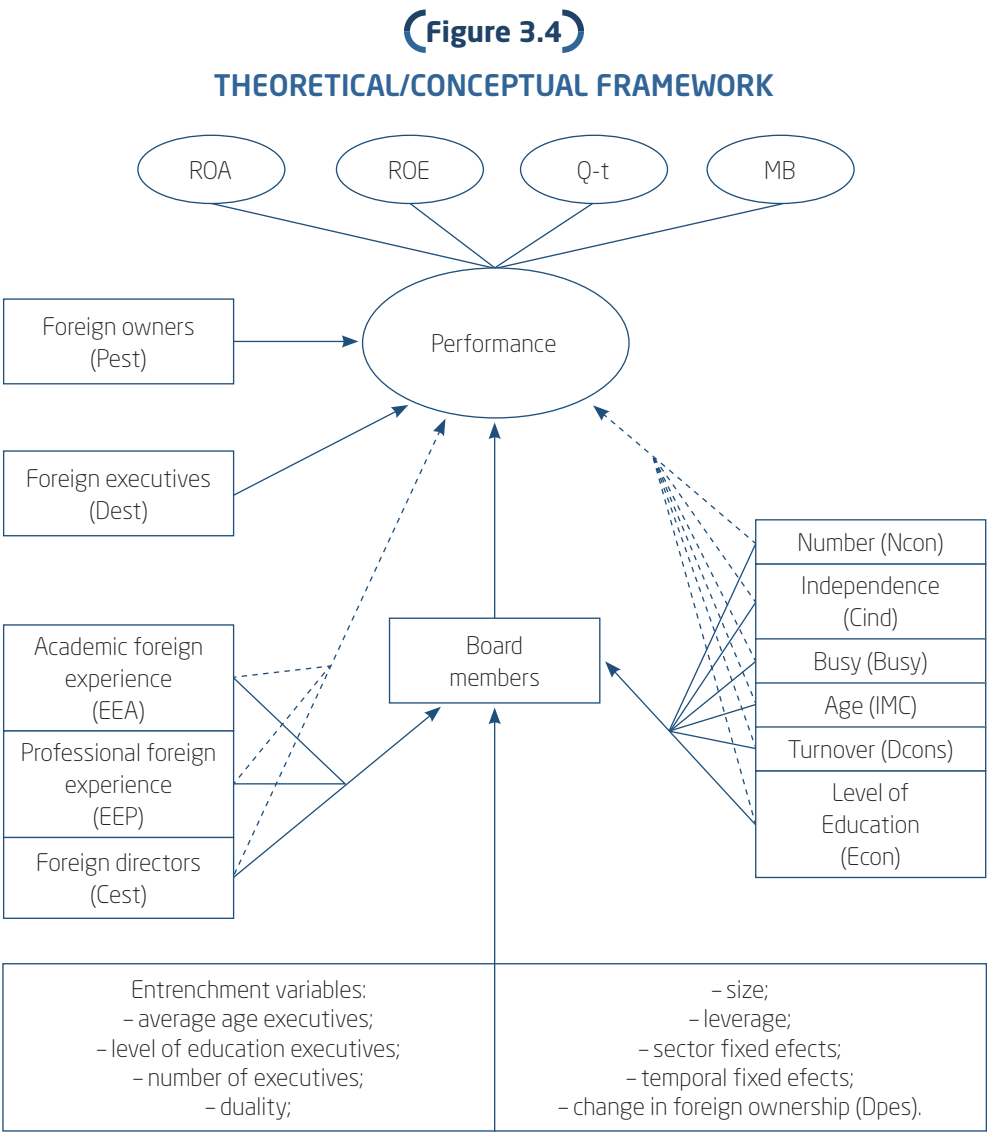
| Control variables |   |  |        |
|-------------------|---|--|--------|
| Variables         | Description   | Authors  | Signal |
| <i>Dpest</i>      | Dummy: 1 – There was a change in foreign ownership in the same year; and 0 – otherwise. | Agyei-Boapeah (2019)   | +/-    |
| Total Assets (AT) | Log (total assets)  | Faleye et al. (2011), Giannetti et al. (2015), Iliev and Roth (2018), Cao et al. (2019), and Wen et al. (2020) | +      |
| Leverage (AL)     | (Current liabilities + Non-current liabilities)/equity                                  | Faleye et al. (2011), Choi et al. (2012), and Giannetti et al. (2015)  | +/-    |

\* Entrenchment variables.

Source: Elaborated by the authors.

We also control the effects of changes in the composition of directors and foreign ownership. The hiring of directors can have the purpose of implementing specific policies in companies; in this case, a turnover of directors can indicate changes to these policies, which may be sensitive to the performance of firms (Güner et al., 2008). To capture these effects, we created the dummy (Dcon), in which one indicates if there was a change in the composition of the board in the same year and zero otherwise.

In addition, the disposition of foreign investors can be sensitive to market instability and economic conditions, and their changes (Agyei-Boapeah, 2019), which would cause fluctuations in the proportion of non-local owners and in the results of firms. To capture these effects, we created the dummy (Dpest), in which one indicates if there was a change in foreign ownership in the same year and zero otherwise. We show, in Figure 3.4, the theoretical/conceptual framework.



Source: Elaborated by the authors.

We also applied the principal component analysis (PCA) to reduce the number of variables and learn about the underlying structure of the data. To identify the adequacy of the data to the model and check the internal consistency through the intercorrelation of the variables, we performed the Kaiser-Meye-Olkin (KMO) and the Cronbach's alpha test, respectively.

In addition, we applied dynamic linear regressions through unbalanced panel data by the Systemic Generalized Method of Moments (GMM-Sys), which allows greater efficiency in obtaining asymptotic estimators. In this case, there are two types of estimators that can be used: GMM-Dif (in differences) developed by Arellano and Bond (1991) and GMM-Sys (systemic) developed by Blundell and Bond (1998). The difference between the estimators is in the moment conditions of each one, depending on the number of instruments available in the analysis. We choose GMM-Sys due to the acceptance of a set of available instruments and from the perspective of more precise estimates, although the assumptions about the initial conditions are more restrictive. Moreover, for Bond (2002), GMM-Sys has a more robust assumption, which reduces the efficiency gains allowed by the homoscedasticity condition.

Thus, we applied the following validation tests: 1. Arellano and Bond (1991): to identify if there is a serial correlation in the residues; 2. correlation and variance inflation factor (VIF): to identify the existence of multicollinearity; 3. chi-square ( $\chi^2$ ): to verify if there is an association between the variables; 4. Hansen (1982): to verify if there is an overidentification of the instruments; and 5. Durbin-Wu-Hausman: to test the endogeneity. Due to the identification of outliers, we winsorized the variables to 5%. The inflation was corrected by the General Prices Index – Internal Availability (IGP-DI).

## 4. RESULTS ACHIEVED

We divided this section into two parts: “Descriptive statistics and correlation” and “Regressions results and validation tests”.

### 4.1 Descriptive statistics and correlation

We verified the correlation between the variables and, according to Hair Jr., Babin, Money, and Samouel (2005), there is a high correlation if the index is above 0.70. In this sense, only the stockholders' equity, net revenue, and total assets presented a high correlation, being that only the last one was used in the analysis. After that, the VIF indicates that no variable is above 5, showing that there is no multicollinearity.



The Figure 4.1.1 and 4.1.2 present the descriptive statistics. We identified a great difference between the media and the median for some variables and the problems with asymmetry and kurtosis. This allows the possibility to apply the winsorization at 5% and the logarithm in some variables, such as total asset (AT), number of members, age, and tenure of the executives and board of directors.

In terms of dependent variables, Figure 4.1.1 shows that, for Q-t, the market value exceeds the total assets by 9%, and for the market-to-book, this value exceeds 55% of the equity. For the accounting performance variables, the operating income represents 8% of total assets, and the net income represents 7% of the equity of the company. Relating to principal independent variables, about 0.34 of the board members have some foreign experience, with an average of two years of academic experience and 1.44 years of professional experience abroad. This average falls to 0.08 for executives that have foreign experience. In terms of ownership structure, there is an average of 7.85% of the common shares belonging to foreigners.

For the control variables, Figure 4.1.2 shows that the number of board members is around 6.55 per company, of which 1.42 are independent. These members are around 56 years old, with a tenure of 3.46 years, and their average level of education is between MBA and masters. These companies have around 4.48 senior executives, who are 51 years old and a tenure of 4 years, with a level of education between graduate and post-graduate. The leverage of these companies is 1.79; that is, the capital of third parties exceeds 79% of the equity. On average, these firms have \$ 0.45 billion in net revenue, \$ 0.29 billion in net equity, and \$ 0.79 billion in total assets.

(Figure 4.1.1)  
DESCRIPTIVE STATISTICS OF THE DEPENDENT AND INDEPENDENT VARIABLES

|          | Dependent variables |       |       |       | Independent variables |       |       |       |
|----------|---------------------|-------|-------|-------|-----------------------|-------|-------|-------|
|          | Q-t                 | MB    | ROA   | ROE   | EEA                   | EEP   | Cest  | Pest  |
| Mean     | 1.09                | 1.55  | 0.08  | 0.07  | 2.09                  | 1.44  | 0.34  | 0.08  |
| Median   | 0.87                | 1.14  | 0.02  | 0.09  | 2.00                  | 1.00  | 0.00  | 0.00  |
| P10      | 0.29                | 0.09  | -0.12 | -1.88 | 0.00                  | 0.00  | 0.00  | 0.00  |
| P25      | 0.55                | 0.57  | -0.02 | 0.03  | 0.00                  | 0.00  | 0.00  | 0.00  |
| P75      | 1.34                | 2.15  | 0.06  | 0.19  | 3.00                  | 2.00  | 0.00  | 0.00  |
| P90      | 2.25                | 3.89  | 0.12  | 0.32  | 5.00                  | 4.00  | 1.00  | 0.00  |
| Var.     | 0.68                | 1.97  | 0.01  | 0.05  | 5.35                  | 3.82  | 1.28  | 0.19  |
| Minimum  | 0.16                | -0.20 | -0.28 | -0.57 | 0.00                  | 0.00  | 0.00  | 0.00  |
| Maximum  | 3.48                | 5.12  | 0.17  | 0.49  | 14.00                 | 14.00 | 9.00  | 6.00  |
| SD       | 0.82                | 1.40  | 0.10  | 0.22  | 2.31                  | 1.95  | 1.13  | 0.44  |
| Assym.   | 1.54                | 1.12  | -1.21 | -0.94 | 1.52                  | 2.10  | 4.17  | 7.97  |
| Kurtosis | 4.95                | 3.53  | 4.64  | 4.70  | 6.01                  | 9.24  | 22.00 | 85.31 |

Q-t – Tobin’s Q; MB – market-to-book; ROA – return on assets; ROE – return on equity; EEA – foreign academic experience; EEP – foreign professional experience; Cest – number of foreign executives; Pest – number of foreign executives; Pest – the percentage of shares owned by foreigners.

Source: Elaborated by the authors.

(Figure 4.1.2)  
DESCRIPTIVE STATISTICS OF THE CONTROL VARIABLES

|          | Ncons | Cind  | Tcon  | Econ  | IMC   | Nex   | Tex   | IME   | Eexe  | AL    | <sup>(1)</sup> RL      | <sup>(1)</sup> PL      | <sup>(1)</sup> AT      |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------------|------------------------|------------------------|
| Mean     | 6.55  | 1.42  | 3.46  | 2.25  | 56.52 | 4.48  | 3.99  | 51.38 | 1.57  | 1.79  | 0.45                   | 0.29                   | 0.79                   |
| Median   | 6.00  | 1.00  | 2.50  | 1.50  | 56.33 | 4.00  | 2.50  | 50.50 | 1.60  | 1.36  | 0.11                   | 0.10                   | 0.25                   |
| P10      | 3.00  | 0.00  | 0.50  | 0.75  | 48.08 | 2.00  | 0.50  | 43.06 | 1.00  | 0.01  | 0.00                   | 0.00                   | 0.00                   |
| P25      | 5.00  | 0.00  | 1.10  | 1.00  | 51.67 | 3.00  | 1.00  | 46.50 | 1.00  | 0.59  | 0.00                   | 0.00                   | 0.01                   |
| P75      | 8.00  | 3.00  | 4.40  | 2.00  | 61.20 | 6.00  | 5.00  | 55.00 | 2.00  | 2.40  | 0.40                   | 0.26                   | 0.71                   |
| P90      | 10.00 | 4.00  | 7.41  | 2.80  | 65.66 | 8.00  | 9.82  | 63.00 | 2.25  | 4.80  | 0.95                   | 0.64                   | 1.95                   |
| Var.     | 7.85  | 2.93  | 11.83 | 8.71  | 60.95 | 7.44  | 19.66 | 77.52 | 0.32  | 5.07  | 4.33 x 10 <sup>6</sup> | 1.57 x 10 <sup>6</sup> | 0.90 x 10 <sup>6</sup> |
| Minimum  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | -1.84 | 0.00                   | -1.07                  | 0.00                   |
| Maximum  | 19.00 | 13.00 | 25.00 | 20.00 | 86.00 | 33.00 | 29.50 | 86.00 | 4.00  | 8.28  | 11.70                  | 5.95                   | 1.16 x 10              |
| SD       | 2.80  | 1.71  | 3.44  | 2.95  | 7.80  | 2.72  | 4.43  | 8.80  | 0.57  | 2.25  | 1.05                   | 0.64                   | 1.53                   |
| Assym.   | 0.50  | 1.30  | 2.47  | 3.37  | -1.04 | 2.43  | 2.24  | -0.46 | -0.02 | 1.27  | 5.58                   | 4.54                   | 3.71                   |
| Kurtosis | 3.44  | 5.36  | 11.53 | 14.16 | 12.40 | 17.71 | 8.86  | 9.64  | 3.30  | 4.97  | 43.75                  | 28.57                  | 19.89                  |

Ncon – number of directors; Cind – independent directors; Tcon – average tenure of directors; Econ – average level of education of board members; IMC – average age of directors; Nex – number of executives; Tex – average tenure of executives; IME – average age of executives; Eexe – average level of education of executives; AL – leverage; RL – net revenue; PL – stockholders' equity; AT – total assets.

<sup>(1)</sup>In billion, converted in US dollar in 04/04/2019 by R\$ 388.

Source: Elaborated by the authors.

## 4.2 Regressions results and validation tests

We estimated the regression models using the GMM-SYS, using, as dependent variables, accounting (ROA and ROE) and market (Tobin's Q and market-to-book) performance indicators. Figure 4.2.1 presents the validation tests used in the study.

**(Figure 4.2.1)**  
**GMM (SYS) - VALIDATION TESTS**

| GMM (SYS) - validation tests |             |             |              |              |
|------------------------------|-------------|-------------|--------------|--------------|
| Tests                        | Regressions |             |              |              |
|                              | ROA         | ROE         | Qt           | MB           |
| Chi2                         | 97.93(0.00) | 80.36(0.00) | 104.48(0.00) | 232.60(0.00) |
| Hansen                       | 56.34(0.57) | 67.50(0.53) | 71.08(0.54)  | 63.14(0.76)  |
| Ar1                          | -2.94(0.00) | -2.90(0.00) | -2.89(0.00)  | -3.48(0.00)  |
| Ar2                          | -1.40(0.16) | 0.56(0.58)  | -1.31(0.19)  | -0.88(0.38)  |
| Endogeneity                  | 13.11(0.00) | 0.10(0.75)  | 326.41(0.00) | 216.26(0.00) |

ROA – return on assets; ROE – return on equity; Qt – Tobin's Q; MB – market-to-book; Chi2 – chi-square test; Hansen – Hansen test; Ar1 – first-order serial autocorrelation; Ar2 – second-order serial autocorrelation; p-value in parentheses.

**Source:** Elaborated by the authors.

The chi-square test indicates the rejection of the null hypothesis. In other words, there is an association between the variables used in the model. The Hansen test (1982) indicates that the null hypothesis cannot be rejected; that is, it is assumed that there is no overidentification of the instruments. In Arellano and Bond's (1991) test, the null hypothesis for first-order serial autocorrelation is rejected, but the second one cannot be rejected; that is, the model presents first-order serial correlation, indicating that the Dynamic GMM-Sys model is the most suitable for the study. Finally, the Durbin-Wu-Hausman test evidenced that, except for the ROE regression, there is an endogeneity problem in the variables because the null hypothesis is not rejected (Davidson & MacKinnon, 1993). This result indicates the need for a more robust method, like the GMM-Sys. Figure 4.2.2 presents the main results of the regression model.

Before running the regressions, we applied the PCA. For better adequacy and internal consistency of the data to the model, we excluded the following

variables with communities smaller than 0.50 (Hair Jr. et al., 2005): turnover of chairman (turnover cons); tenure of the executives (Tex), tenure of the directors (Tcon), and foreign executives (Dest). After excluding these variables, the Kaiser-Meyer-Olkin (KMO) test changed from 0.74 to 0.77, and the Cronbach's alpha changed from 0.67 to 0.70, which are considered as adequate measures (Hair Jr. et al., 2005). The exclusion of other variables worsened the indexes.

According to Figure 4.2.2, the variable foreign academic experience (EEA) presents a significant relation, at 5% and 10%, with a negative impact on, respectively, accounting (ROA) and market (MB) performances. This means that an increase in 1 percentage point of the EEA generates a decrease of 0.01 percentage point in the return on assets and a decrease of 0.12 percentage point in the market-to-book. In this same sense, an increase in 1 percentage point of the foreign professional experience generates a decrease of 0.10 percentage point in the market-to-book, and 0.03 in Tobin's Q, at 10% and 5% of significance, respectively. These findings suggest that the greater the foreign experience of board members, the lower the company performance, contrary to the studies of Giannetti et al. (2015), Iliev and Roth (2018), Perlin et al. (2019), and Wen et al. (2020).

The assumptions of the Institutional theory can help to understand this unexpected relationship. For Meyer and Rowan (1977), with the expansion and increase of the complexity of formal organizational structures, firms are subject to institutional rules and oriented to incorporate institutionalized practices and procedures in society, regardless of their immediate effectiveness. The uncertainties of the organizational environment are powerful forces that encourage organizations to consider others as an example, thus, ending up imitating those (Dimaggio & Powell, 2005). The development of institutionalized techniques, policies, and programs would form powerful myths adopted by many organizations in a ceremonial way (Meyer & Rowan, 1977).

Considering an environment of conflicts and uncertainties, there is a tendency for organizations to adopt a model in their organizational field other organizations that they consider to be more legitimate or well-succeeded (Dimaggio & Powell, 2005). In a highly competitive environment, organizations need to maintain their survival in the market, which makes their practices and procedures somewhat homogeneous or isomorphic (Meyer & Rowan, 1977). Thus, we suggest that the investment in board foreign experience of publicly traded companies in Brazil would be an institutional isomorphism, where having an experience abroad, whether professional or academic, would be a myth, a status already institutionalized by Brazilian society.

Another possible explanation is the questionable effectiveness of boards of directors in countries with a concentrated control structure and weak legal protection for shareholders (Cao et al., 2019). In Brazil, the formation of the board of directors is mandatory by law in publicly traded companies, but the cases of highly effective boards in Brazil are rare (Souza & Kloeckner, 2014). Thus, the negative relationship between the foreign experience of the directors and the performance may result from the ineffective performance of the board.

**(Figure 4.2.2)**  
**REGRESSION RESULTS**

|                       | Dependent variables |                   |                   |                    |
|-----------------------|---------------------|-------------------|-------------------|--------------------|
|                       | ROA                 | ROE               | MB                | Qt                 |
| D (-1)                | 0.45***<br>(3.43)   | 0.13<br>(0.72)    | 0.42***<br>(3.23) | 0.58***<br>(0.00)  |
| Independent variables |                     |                   |                   |                    |
| EEA                   | -0.01**<br>(-2.39)  | 0.01<br>(0.30)    | -0.12*<br>(-1.83) | -0.02<br>(-1.01)   |
| EEP                   | 0.00<br>(0.49)      | 0.00<br>(-0.16)   | -0.10*<br>(-1.66) | -0.03**<br>(-1.99) |
| Cest                  | 0.01<br>(0.58)      | -0.06*<br>(-1.84) | 0.17*<br>(1.71)   | 0.02<br>(0.66)     |
| Pest                  | -0.37**<br>(-2.23)  | -0.70<br>(-1.50)  | 1.52<br>(0.93)    | 0.51<br>(1.16)     |
| Control variables     |                     |                   |                   |                    |
| Cind                  | 0.00<br>(0.05)      | 0.01<br>(0.25)    | -0.01<br>(-0.11)  | 0.00<br>(0.10)     |
| IMC                   | 0.02<br>(0.15)      | 0.44<br>(0.90)    | 3.65**<br>(2.29)  | 0.55<br>(1.04)     |
| IME                   | 0.26**<br>(2.19)    | -0.71<br>(-1.47)  | -1.34<br>(-1.24)  | -0.42<br>(-1.15)   |
| EExec                 | 0.09<br>(1.42)      | 0.03<br>(0.17)    | 0.95<br>(1.18)    | 0.11<br>(0.48)     |

(continue)

**(Figure 4.2.2 (conclusion))****REGRESSION RESULTS**

|          | Control variables |                 |               |                |
|----------|-------------------|-----------------|---------------|----------------|
|          | ROA               | ROE             | MB            | Qt             |
| Econ     | 0.00              | <b>-0.14**</b>  | 0.27          | 0.06           |
|          | (-0.15)           | (-2.17)         | (0.98)        | (0.69)         |
| Ncon     | 0.07              | 0.14            | -0.36         | -0.14          |
|          | (1.20)            | (0.87)          | (-0.53)       | (-0.86)        |
| Nex      | <b>0.08**</b>     | 0.04            | <b>1.01**</b> | <b>0.34***</b> |
|          | (2.04)            | (0.36)          | (2.40)        | (2.54)         |
| Dual     | 0.00              | 0.03            | 0.31          | 0.10           |
|          | (-0.02)           | (0.35)          | (0.74)        | (0.72)         |
| Busy     | -0.01             | <b>-0.04***</b> | 0.04          | -0.01          |
|          | (-0.76)           | (-1.62)         | (0.46)        | (-0.35)        |
| AL       | 0.00              | <b>-0.08***</b> | <b>0.13**</b> | <b>-0.03**</b> |
|          | (-0.63)           | (-4.94)         | (2.13)        | (-1.99)        |
| AT       | 0.01              | <b>0.08*</b>    | 0.11          | 0.05           |
|          | (0.88)            | (1.72)          | (0.73)        | (1.06)         |
| Dpest    | 0.02              | 0.03            | -0.08         | 0.07           |
|          | (0.66)            | (0.35)          | (-0.28)       | (0.87)         |
| Dcon     | <b>-0.04*</b>     | 0.03            | -0.04         | -0.06          |
|          | (-1.90)           | (0.52)          | (-0.19)       | (-1.09)        |
| EFInd    | Yes               | Yes             | Yes           | Yes            |
| EFTemp   | Yes               | Yes             | Yes           | Yes            |
| Constant | -1.49             | -0.37           | -11.80        | -1.35          |
|          | (-1.90)           | -0.16           | (-1.77)       | (-0.62)        |

D-1 – dependent variable lagged; ROA – return on assets; ROE – return on equity; Q-t – Tobin's Q; MB – market-to-book; EEA – foreign academic experience; EEP – foreign professional experience; Cest – number of foreign directors; Pest – percentage of shares owned by foreigners; Cind – independent directors; IMC – average age of directors; IME – average age of executives; EExec – average level of education of executives; Econ – average level of education of board members; Ncon – number of directors; Nex – number of executives; Dual – duality; Busy – directors who are also part of other boards; AL – leverage; AT – total assets; Dpest – foreign property change; Dcon – board composition change; EFInd – industrial fixed effects; EFTemp – temporal fixed effects.

\*\*\* Significant at 1%; \*\* significant at 5%; \*significant at 10%.

Source: Elaborated by the authors.



In addition, we find that an increase in 1 percentage point in the number of foreign directors (Cest) generate a decrease in 0.06 percentage point of the return on equity, at 10% of confidence. This result corroborates with Masulis et al. (2012), who stated that foreign directors would be less familiar with local corporate governance standards, harming their monitoring power and negatively impacting the accounting performance of firms. However, an increase in 1 percentage point in the number of foreign directors increases the Market-to-book value by 0.17 percentage point, at 10% of confidence. This finding is similar to Choi et al.'s (2012) and Giannetti et al.'s (2015), who suggest that foreign directors would have weaker local power networks and, consequently, less possibility to obtain private benefits, giving greater confidence to investors who value firms with this characteristic.

In relation to foreign ownership (Pest), an increase in 1 percentage point generates a decrease of 0.37 percentage point in the return on assets at a 5% confidence level. This result corroborates the findings of Khlif et al. (2017), who indicates that geographic distance, cultural barriers, and lack of knowledge of the domestic environment create a "local bias" in which foreign shareholders face high levels of information asymmetry.

Regarding the characteristics of the board of directors, we find that an increase in 1 percentage point in their age generates an increase of 3.65 percentage points in Market-to-book, at 5% of confidence. This result corroborates the findings of Giannetti et al. (2015), who suggests that older directors would make better management decisions, impacting the efficiency of the company management. On the other hand, an increase in 1 percentage point in the formal education of the board generates a decrease of 0.14 percentage point in the return on equity, at 5% of significance. In line with the findings of Fraga and Silva (2012), this result suggests that the higher the level of education of the board, the lower the ROE of the companies. In addition, an increase in 1 percentage point in the busy variable generates a decrease of 0.04 percentage point in the return on equity, at 1% of confidence. This result corroborates with the studies of Faleye et al. (2011) and Giannetti et al. (2015), who argue that participation in other boards could jeopardize the performance of board members in monitoring companies.

In terms of entrenchment, our results show that an increase in 1 percentage point in the age of the executives generates an increase of 0.26 percentage point in the return on assets, at 5% of significance. This result goes against Jensen and Murphy (1990), Güner et al. (2008) and Giannetti et al. (2015), who suggest that, over time, the executives will form their power bases, pursuing private benefits and harming the company's performance; but this result is in compass with Sonza and Kloeckner (2014), who

found the same result for Brazilian data. In addition, an increase in 1 percentage point in the number of executives generates an increase of 0.08 percentage point in the return on asset, and of 1.01 in market-to-book, at 5% of significance and an increase of 0.34 percentage point in Q-t, at 1% of significance. These results indicate that the higher the number of executives, the more the efforts to pursue performance (Jensen & Warner, 1988).

We find that the AT variable is significant at 10%, with a positive effect on ROE. As well as the studies of Giannetti et al. (2015), and Iliev and Roth (2018), this result indicates that large companies use the best corporate governance practices and would have better conditions to hire qualified managers. In addition, the leverage (AL) is significant at 1% for ROE and at 5% for Market-to-book and Q-t. However, its impact on performance follows opposite directions. In relation to ROE and Q-t, its influence is negative, following Zhang et al.'s (2016) results, which indicate that the relationship with creditors would increase agency costs, leading to a greater likelihood of financial difficulties and bankruptcy costs, affecting the performance. Regarding Market-to-Book, this relation is positive, corroborating with Giannetti et al. (2015) and Iliev and Roth (2018), who suggest that indebted companies would have better governance practices (Iliev & Roth, 2018) due to greater monitoring by creditors (Rauh, 2009).

Finally, we find that an increase in 1 percentage point in the changes in the composition of directors (Dcon) in the same year generates an increase of 0.04 percentage point in ROA, at 10% of confidence. This result corroborates with Güner et al.'s (2008), suggesting that the lack of continuity of strategic guidelines prejudice the results of firms. On the other hand, the variable Dpest is not significant in any regression, suggesting that the change in foreign ownership in the same year does not influence the performance of companies. We also used dummies for the industrial and temporal fixed effects to make sure that all the sectorial particularities and conditions of each year will be covered in the regressions.

## 5. FINAL REMARKS

Our results suggest that the higher the proportion of directors with foreign academic and professional experience, the lower the performance of companies, rejecting hypothesis 1 of this study. Although the great majority of the research related to the theme has an inverse relationship with the findings, this result suggests that, in Brazil, the fact of having foreign experience does not generate greater performance for companies. We argue that

investing in the foreign experience of the board members would be an institutional isomorphism, a ritual institutionalized by the Brazilian society, corroborating with Dimaggio and Powell's (2005) findings. Another point that we defend, in compass with Cao et al. (2019), is that the lack of effectiveness of the board of directors can help to understand the negative relationship between the foreign experience of the directors and the performance of the firms.

In addition, the results indicate that the greater the proportion of foreign directors and foreign ownership, the lower the internal performance of companies, rejecting hypothesis 2. Aspects, such as local cultural barriers and increasing information asymmetry, maximized by the geographical distance between companies and their owners (Khlif et al., 2017), may explain these empirical results. On the other hand, the greater the proportion of foreign directors, the greater the market performance of companies. Foreign advisors improve corporate governance practices, which would encourage investors to trust the company (Choi et al., 2012).

Taking into account the characteristics of the board, the study suggests that older directors would make better decisions and improve the performance of the company in such way that a change in the board composition may represent a loss of continuity in activities, but these issues are not associated with their level of formal education, since this variable is negatively related to ROE. Busy directors also do not contribute to a better return of equity. In terms of entrenchment, contrary to expectations, older and more numerous executives contribute to a better performance of the company.

Finally, we emphasize that this study is limited to the information available on the reference forms published on the CVM website. We believe that the investigation of the influence of foreign experience on other variables, such as direct and indirect incentives to executives and corporate disclosure policy, may be good subjects for further research.

## IMPACTO DA EXPERIÊNCIA ESTRANGEIRA DOS CONSELHEIROS NO DESEMPENHO DE EMPRESAS BRASILEIRAS DE CAPITAL ABERTO

### RESUMO

**Objetivo:** O objetivo do presente estudo é analisar a influência da experiência estrangeira dos conselheiros no desempenho interno e de

mercado das companhias de capital aberto listadas na Bolsa de Valores do Brasil (B3).

**Originalidade/valor:** O estudo apresenta novas evidências empíricas quanto à relação entre experiência estrangeira de membros do conselho de administração e desempenho de firmas brasileiras. Conhecer melhor essa relação contribui para a formulação de políticas internas de qualificação da alta gestão, além de ser valioso para os acionistas, principalmente em um contexto de fraca proteção legal, como no Brasil.

**Design/metodologia/abordagem:** Para atingir os objetivos do estudo, coletaram-se os dados de 230 empresas no período de 2010 a 2016, os quais foram submetidos a regressões por dados em painel não balanceados, por meio do Método dos Momentos Generalizado Sistemático (GMM-Sys).

**Resultados:** Os resultados sugerem que, quanto maior a proporção de membros do conselho de administração com experiência estrangeira acadêmica e profissional, menor é o seu desempenho interno e de mercado. Esses resultados podem ser justificados pelo isomorfismo institucional, em que ter uma vivência no exterior seria um mito, um *status* institucionalizado pela sociedade brasileira. Além disso, proprietários e conselheiros estrangeiros enfrentam barreiras culturais e têm menor conhecimento do ambiente local, o que aumentaria a assimetria de informações, impactando negativamente o desempenho das firmas. Contudo, um aumento no número de estrangeiros no conselho influencia positivamente o valor de mercado das empresas, pois, por possuírem redes de poder locais mais fracas e, conseqüentemente, menor possibilidade de obter benefícios privados, os investidores acabam valorizando mais as empresas com essa característica.

## PALAVRAS-CHAVE

Desempenho. Conselho de administração. Experiência estrangeira. Governança corporativa. Isomorfismo institucional.

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## AUTHOR NOTES

**Vagner N. Machado**, master from the Department of Accounting, University of Vale do Rio dos Sinos (Unisinos); **Igor B. Sonza**, Ph.D. from the Business School, Federal University of Rio Grande do Sul (UFRGS).

Vagner N. Machado is now an assistant professor at the Department of Administration of Federal University of Santa Maria (UFSM); Igor B. Sonza is now a professor at the Center for Social and Human Sciences of UFSM.

Correspondence concerning this article should be addressed to Vagner N. Machado, Avenida Independência, 3751, Vista Alegre, Palmeira das Missões, Rio Grande do Sul, Brazil, CEP 98300-000. E-mail: [vagnernaysinger@gmail.com](mailto:vagnernaysinger@gmail.com)

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