DOES BOARDROOM NATIONALITY AFFECT THE PERFORMANCE OF UK INSURERS?

Abstract

Drawing on the board capital literature, we use a panel data design to investigate the effect of boardroom nationality on the profitability and solvency of property-casualty insurers operating in the United Kingdom (UK). We find that boardroom nationality influences corporate outcomes depending on the financial aspects being measured. For example, North American directors are linked with profitable outcomes, while European directors tend to be associated with better solvency. This reflects differences between the shareholder value corporate culture in North America and stakeholder approaches more common in Europe. Our results could help insurers, regulators, and others (e.g., investors) to better understand the potential performance implications of the appointment of directors of different nationality.

Keywords

Boardroom Nationality; Insurance; Profitability; Solvency; United Kingdom (UK).

INTRODUCTION

The internationalisation of the membership of corporate boards has become an increasing phenomenon over the last two decades (van Veen & Marsman, 2008; Estélyi & Nisar, 2016; Hooghiemstra, Hermes, Oxelheim & Randøy, 2019). In line with this trend, scholars (e.g., Masulis, Wang & Xie, 2012; Nielsen & Nielsen, 2013; Frijns, Dodd & Cimerova, 2016) have examined the empirical relation between the foreign composition of boards (e.g., measured as a fraction of overseas directors to total board membership) and financial outcomes.[1] Examining the performance impact of directors of different nationality is an important line of inquiry as it facilitates a better understanding of the reasons for observed differences in financial outcomes across firms and/or industrial sectors (Greve, Biemann & Ruigrok, 2015. However, a limitation with previous research is that it is ambiguous on whether or not differences in the attributes of directors from different socio-cultural backgrounds matter for financial performance. For example, using a nationality diversity

[1] The concept of nationality reflects both informal socio-cultural norms and values as well as formal functional attributes (e.g., education and training) acquired by citizens of their respective countries during their formative years. Therefore, although nationality is a 'social categorization', it is clearly a different (e.g., more inclusive) construct than ethnicity, genetic profile, place of abode or amount of overseas business experience of a director. In this paper, we define foreign nationality as citizenship of a particular country where a director was born, raised, and educated rather than (dual) nationality or residential status acquired in later professional life.

index from a cross-sectional panel of Swiss publicly-listed firms, Nielsen & Nielsen (2013) find a positive impact between the foreignness of boards and performance - for example, because foreign directors have overseas market knowledge and network advantages that native citizens do not possess. Additionally, Gong (2006) reports that in Japanese firms, the new ideas and practices introduced by foreign directors improved productivity and financial performance. In contrast, Masulis et al. (2012), who use fractional and indicator measures of foreign boardroom membership from a transnational panel of publicly-held firms and Frijns et al. (2016), who uses a 'cultural distance' measure of nationality traits on a cross-sectional publicly-listed panel from the United Kingdom (UK), find a negative effect on financial outcomes. They attribute their observations to foreign directors' unfamiliarity with, and geographical disengagement from, local regulations, accounting rules, and business situations.

These conflicting results could arise because the business practices associated with distinctive national identities at the board-level (e.g., the tendency of North American directors to embrace innovation) can have uneven financial effects depending on the predominance of particular stakeholder interests, context of analysis, and aspects of boardroom nationality and performance being measured (Adams, de Haan, Terjesen and van Ees, 2015). In addition, previous studies that investigate whether boardroom nationality influences performance do so from the perspective of a cross-section of public exchange traded firms using single potentially mis-specified performance indicators, such as Tobin's q.[2] These prior studies (e.g., Frijns et al., 2016) also invariably exclude regulated financial firms, such as insurers, despite their financial viability as risk bearers and institutional

[2] Tobin's q - the ratio of the market value of a firm's assets to their replacement value - is a potentially misleading measure of financial performance as underinvestment in, or divestment from, value-creating productive assets perversely increases Tobin's q. Besides, the large average percentage (93%) of privately-held insurers in our panel sample precludes the use of market-based measures of financial performance as such data are not routinely disclosed in the public domain.

investors being important to the effective functioning of the economy and civil society (Gaganis, Hasan, Papadimitri & Tasiou, 2019).

Prior research (e.g., Delis, Gaganis, Hasan & Pasioras, 2017) further suggests that nationally mixed boards may - for example, because of their specialist knowledge - be less beholden to dominant Chief Executive Officers (CEOs), and hence, potentially effective monitors of stakeholders' interests. For example, foreign directors with unique knowledge of the opportunities and pitfalls of overseas investment can help counter the actions of hubristic CEOs and other board members, and therefore, ensure a more balanced and realistic evaluation of strategic options. On the other hand, Guest (2019), Hooghiemstra et al. (2019), and others, suggests that foreign directors, especially board outsiders, may be ineffective monitors of CEOs because of information asymmetries (e.g., a lack of domain-specific knowledge regarding local regulatory, fiscal, and/or accounting rules) and other socio-cultural inhibitors (e.g., language and learning barriers). We predict that the former view is likely to apply to insurance firms given their statutory and fiduciary responsibilities to balance the 'going concern' interests of stakeholders. Adams & Jiang (2020) further suggest that financial knowledge and expertise at the board-level are important determinants of performance in insurance firms as the directorate regularly advises on complex strategic finance issues, and liaises with outside stakeholders, such as industry regulators, credit ratings agencies, and financial analysts. These potentially performance-enhancing or performance-reducing effects associated with foreign directors are particularly important in insurance firms that actively engage in global markets, yet are subject to regulatory constraints and statutory requirements to ensure solvency maintenance and optimise the interests of different stakeholders. Therefore, we argue that in examining the financial outcomes associated with insurance firm boards comprising foreigners of different nationality (North American versus European), the present study makes a novel contribution to the literature.

The economic prominence of financial firms, such as insurers, further enhances the importance of our insurance industry-specific research given that boards influenced by foreign directors that come from traditional shareholder value maximization corporate cultures, such as North America, may be motivated to adopt overly risky strategies that might increase the probability of ruin, and increase the risk of market contagion. Such a prospect would thus be of high regulatory and legislative interest as well as wider commercial importance (e.g., for consumers of financial products). Moreover, the single industry (insurance)/single country UK focus of our research avoids intrinsic biases (e.g., different fiscal rules) that can confound analyses of the board-performance relation that employ cross-sectional and/or transnational data sets.

The UK's property-casualty insurance industry is a good domain for focusing our research in other regards. For example, the boards of UK property-casualty insurers have been relatively more diverse than other firms in terms of nationality in line with the property-casualty insurance industry's historical international profile dating back to the nineteenth century (e.g., see Swiss Re, 2013). The established representation of different nationalities on the boards of UK insurance firms and the importance of the international trade in property-casualty insurance for the UK's economy thus provides a sound basis for empirically testing our hypotheses. In addition, like most other major insurance markets, UK regulations impose fiduciary and statutory obligations on the board of directors of insurance firms to balance the profit maximization needs of shareholders alongside the solvency maintenance requirements of policyholders, industry regulators, and others (e.g., credit ratings agencies) (Dewing & Russell, 2006). This institutional feature suggests that UK insurance directors are likely to balance the shareholder-focused (profit maximisation) goals characteristic of North American corporate culture, with the stakeholder-orientated (solvency) objectives common in Europe. Also, unlike some European jurisdictions (e.g., Switzerland), the UK does not impose statutory restrictions on the number of boardroom seats assigned to foreign directors. The

absence of regulatory constraints over board appointments means that the appointment of foreign directors by UK insurers is a voluntary decision. Again, this means that a UK property-casualty insurance industry focus represents a clean identification test of our research hypotheses.

Drawing on the board capital literature and utilizing unbalanced panel data for the period 1999 to 2013 drawn from the UK's property-casualty insurance industry, we investigate the differential effects of North American and European directors on insurers' profitability and solvency.[3] These financial performance measures not only reflect the two main functional outcomes of insurance firms - underwriting and investment activities - but also the extent to which the interests of stakeholders, such as investors, policyholders, and industry regulators are being achieved.

In summary, we find that national identity in the boardroom influences corporate performance depending on the financial outcomes being measured. For example, North American directors are linked with profitable outcomes, while European directors tend to be associated with better solvency. This reflects differences between the shareholder value corporate culture in North America and stakeholder approaches more common in Europe. Our results can also be extended to other important internationally-orientated, but economically and systemically important financial firms, such as banks and investment companies, that tend to operate in global markets, and invariably have nationally diversified boards.

In the next section, we develop our hypotheses, and the third section outlines the research design, including the description of the data, modelling procedure, and definition of the variables used. We then examine the empirical results, while the final section of the paper discusses the implications of our research findings.

[3] We focus here on the board capital-performance effects arising from the presence of foreign directors in general rather than distinguish between the relative financial outcomes of inside and outside directors of different national origin. Besides over our period of analysis, outside directors comprised a majority of board membership.

HYPOTHESES DEVELOPMENT

Board Capital Theory

Adherents of board capital theory (e.g., Ruigrok, Peck & Tacheva, 2007; Nielsen & Nielsen, 2013; Hooghiemstra et al., 2019) note that the human-specific skills-sets, innovative business insights, and social (e.g., resource-based) relationships/business networks gained from different institutional environments mean that the nationality composition of the board of directors can directly influence the effectiveness of firms' strategic decisions, and hence, financial outcomes. Oxelheim, Gregoric, Randøy, & Thomsen (2013) also report that the human and social capital attributes associated with foreign representation on boards helps firms to better assess the efficacy of strategic initiatives in foreign markets, and enhances their access to wider financial, human, and other (e.g., technology) resources. Access to, and effective use of, critical resources, such as access to broker networks and attractive reinsurance terms and conditions plus the ability to effectively lobby the policy-making process, are likely to be particularly important to insurance firms that operate in increasingly competitive and regulatory-constrained, yet globally integrated business environments.

Board Nationality and the Performance of Insurance Firms

The ability of the directors of insurers to optimally harness resource inputs (at least cost), maximise outputs (at prices the market will bear), and so realise financial targets, will depend on their ability to effectively lever proprietary underwriting risk information, innovate with new products, and optimise returns on strategic investments that benefit key stakeholders (Lehtonen & Liukko, 2011). The diverse knowledge capabilities, cross-cultural experiences, commercial and political networks, and other skill-sets of foreign directors can help insurers achieve these goals. This can be done by lowering the information processing and transaction costs of doing business in overseas markets (e.g., through the use of business networks), and providing innovative thinking on strategic issues (e.g., new business opportunities) (Frijns et al. 2016). These attributes could enable nationality-mixed boards to

embrace entrepreneurialism, more effectively solve complex strategic issues (e.g., by balancing risk-taking with regulatory constraints), and therefore, realise profitable outcomes than more homogenous boards (Adams et al., 2015). In addition, business contacts between foreign directors and international reinsurers could enable insurance firms to develop innovative solutions that increase period earnings (e.g., by using reinsurance to lower taxes) (e.g., see Abdul, Kader, Adams & Mouratidis et al., 2010). Therefore:

Hypothesis 1a: The greater the proportion of foreigners on the boards of insurance firms, the greater the tendency for the firms to have higher profitability.

To reduce the risk of regulatory intervention, ensure institutional legitimacy (regulatory compliance), and help guarantee sound financial condition going forwards, foreign directors on the boards of insurance firms are likely to encourage their UK boardroom colleagues to effectively manage strategic risks and ensure financial viability. Moreover, in a high trust-based industry, such as insurance, foreign directors operating in an 'alien' business environment are likely to be particularly keen to protect their personal reputations for prudential management, and therefore, not support decisions that may compromise solvency. Again, knowledge of, and/or connections with, international reinsurers could enable insurers with foreign directors to develop cost-effective contingent capital (reinsurance) strategies that enhance financial condition. Consequently:

Hypothesis 1b: The greater proportion of foreigners on the boards of insurance firms, the greater the tendency for the firms to have higher solvency.

Type of Nationality and Performance of Insurance Firms

Prior studies (e.g., Sundarum & Inkpen, 2004; Oxelheim & Randøy, 2005; Chizema, 2010) report that governance practices differ across jurisdictions as a result of a different economic history and politico-legal traditions. For instance, Chizema (2010) and Schmid, Altfeld & Dauth (2018) highlight the diffusion of North American systems of production, management practices, incentive compensation, and corporate culture in international

business. Oxelheim & Randøy (2005) also report that shareholder-orientated systems of corporate governance and market-based compensation plans commonly found in North American firms encourage boards to prioritise accounting earnings growth and the maximisation of shareholder value. This situation contrasts with the bank-owned corporate structures and stakeholders and solvency-based approaches to corporate governance and accounting typically, found in continental Europe (Sundarum & Inkpen, 2004).[4] Gaganis et al. (2019) also note that strongly individualistic business cultures (e.g., as in the US) tend to encourage a high risk-taking managerial appetite and earnings growth that benefits shareholder value. These institutional features could enable the North American directors of UK insurance firms to contribute knowledge and commercial experience to ensure efficient transacting and adopt financial policies (e.g., reducing dividends) that enhance period profitability. Coming from an innovative business culture, North American directors are further likely to be more familiar than other foreign directors with the opportunities for maximising profits using offshore financial centres, such as Bermuda. Therefore:

> Hypothesis 2a: The greater the proportion of North American directors on the boards of insurance firms, the greater the tendency for the firms to have higher profitability.

Desender, Aguilera, Lópezpuertas-Lamy & Crespi (2016) report that corporate governance systems and financial performance differ between traditional shareholder-orientated/common law economies, such as the UK and US, and the stakeholder-type/legally codified economies typical of continental Europe. Indeed, van Veen & Elbertsen (2008) contrast the more regulatory dominated 'coordinated market economies' of Germany and the Netherlands with the more open 'liberal market economy' of the UK. Allen, Carletti & Marquez (2015) further argue that when firms operate and compete in an open global market,

[4] Traditionally, statutory insurance accounting in the UK (plus Ireland) and United States (US) (plus Canada) has been based on the concept of 'freedom with publicity', which gives managers flexibility over accounting treatment and reporting matters (e.g., with regard to reserving methods) provided full disclosure is given in the notes to the accounts. In contrast, insurance accounting in the European Union (EU) has been more standardised and codified with less accounting discretion given to managers (Eling & Marek, 2014). Different from their North American counterparts, UK directors are nonetheless likely to have been influenced to some degree by EU commercial directives and the stakeholder-orientated corporate governance practices common in Europe.

stakeholder-focused firms often realise competitive advantages and higher valuations than their shareholder-focused counterparts. Insurance firms can realise these advantages by, for example, focusing resources on maintaining corporate survival (solvency), and growing future net cash flows by developing trust and long-term business (resource) relationships with brokers, reinsurers, government agencies, amongst others. Such critical resource dependence is likely to be particularly relevant in the case of board directors from continental Europe where firms operate under a stakeholder-orientated corporate culture that differs from the relatively more open market-orientated economies of the UK and US (Fiss & Zajac, 2004).[5] Indeed, Eling & Marek (2014) find that German publicly listed insurers tend to be more risk averse and solvency-conscious than their counterparts in the UK. They attribute this feature to the strategic precaution and close managerial monitoring of block-holder (big bank) investors, and the conservative nature of the two-tier supervisory board structure common in Germany and other continental European countries (e.g., Austria). Van Veen & Elbertsen (2008) also find similar precautionary strategic behaviour in Dutch firms - entities that often have single-tier structures, but nationally homogeneous boardrooms with local reputations for prudent management to protect. Therefore, European institutional and corporate cultural (precautionary) norms are thus expected to influence the boards of insurance firms to prioritise solvency maintenance over the short-term profits. Consequently:

> Hypothesis 2b: The greater the proportion of Continental European directors on the boards of insurance firms, the greater the tendency for the firms to have higher solvency.

[5] In the present study, we assume that British directors will be equally influenced by shareholder (North American) and stakeholder (European) perspectives. This is because, on the one hand the UK shares similar legal, management and accounting practices with the US, but as we noted in footnote 4, the UK has over the last forty years or so also been subject to commercial and regulatory influences as a member of the EU. Therefore, we argue that compared with their North American and European counterparts, British directors will tend not to prioritise certain aspects of financial performance.

CEO Nationality and Performance of Insurance Firms

Veprauskaite & Adams (2013) argue that CEOs play a pivotal role in directing strategic board-level decisions, particularly those involving the allocation and use of financial and other scarce human-specific (e.g., knowledge-based) resources. Consequently, the performance effectiveness of firms is likely to be tangentially dependent on the demographic traits of CEOs, such as their nationality (Ruigrok et al., 2007). Therefore, foreign CEOs that have proprietary knowledge of, and/or close business and political links with, overseas markets and new business opportunities can provide new strategic direction, innovative insights, and other commercial advantages for firms (Fitzsimmons & Callan, 2016). As a result of their multinational experiences, foreign CEOs may also be better placed than domestic CEOs to resolve boardroom disputes (i.e., 'fault-lines') that might arise from opinion differences amongst directors, and which if left unresolved, frustrate the realization of profit targets (Georgakakis, Greve & Ruigrok, 2017). The broad business and socio-cultural experiences of foreign CEOs can further play a positive role in helping boards to improve corporate profitability by advocating operational innovations and efficiencies in the underwriting and investment functions, and/or making risk-calculated overseas investment strategies (Hoojiberg & DiTomasso, 1996). Shin, Seidle & Okhmatovskiy (2016) further report that overseas knowledge, experiences and business/political connections at the upper echelons of business organizations can reduce the uncertainty associated with global investment plans, generate new business, and help achieve profit targets Accordingly:

Hypothesis 3a; Foreign CEOs of insurance firms are likely to have a positive effect on profitability.

On the other hand, the foreign CEOs of insurance firms could be overly constrained by the strategic uncertainties arising from the ‘liability of foreignness’ of operating outside of their native countries (Nachum, 2010) as well as omnipresent regulatory and public media surveillance that typify the UK business environment for financial firms. Moreover, in high

public profile insurance firms, the value a CEO's human capital can be seriously denuded as a result of corporate financial ruin. Such constraints could induce the foreign CEOs of insurance firms, including those from North America, to constrain the risk-taking hubris of other directors, and adopt precautionary strategies that prioritise balance sheet protection, and therefore, mitigate any potential loss to their public reputations for prudent management and top-job security in the event of corporate financial distress and/or bankruptcy. The foreign CEOs of insurance firms can contribute to solvency maintenance not only by improving period profitability, but also persuading board members to employ industry-specific strategic tools, such as purchasing more reinsurance and/or increasing loss reserves (Veprauskaite & Adams, 2018). Therefore:

Hypothesis 3b: Foreign CEOs of insurance firms are likely to have a positive effect on solvency.

RESEARCH DESIGN

Data

The analysis carried out in the present study is based on UK property-casualty insurers with foreign directors on their boards. The data set used in this study comprises an unbalanced panel of 84 UK stock-owned property-casualty insurance firms (1,098 firm/year data points) that were operating over the 15 years 1999 to 2013. We use statutory accounting data reported at the level of the UK-based property-casualty insurance entity, which allows us to relate financial performance and other data to the relevant business decision-making unit directly managed by UK board members. This helps reduce bias (e.g., internal transfer pricing effects) arising from using conglomerate corporate data. The panel data set comprises: (a) focal-firm data sourced from *Standard & Poor's SynThesys* insurance companies' database which was compiled from the annual statutory solvency returns for property-casualty insurance business submitted by UK insurers to the industry regulator over the relevant period of analysis; and (b) hand-matched biographical and other data on board

composition obtained from published annual reports, industrial companies' databases (e.g., *Thomson Reuters Datastream*), and other sources (e.g., annual UK insurance company directories and internet company information sites, such as *DueDil*). The time period covered by our study (1999 to 2013) represents the earliest and latest years when complete data were available at the time the study was carried out. The period of analysis straddles a period of variable macroeconomic conditions (including the 2007/8 global financial crisis) and underwriting cycles (which we control for econometrically using time-effects) during which there were some small changes in the composition of the longitudinal data set (e.g., due to market exits).[6] However, using an unbalanced panel design can help reduce potentially confounding effects due to survivorship bias.

Our unbalanced panel sample of 84 firms constitutes roughly 30% of the total number of property-casualty insurers actively operating in the UK over our period of analysis, accounting for approximately 70% of gross annual premiums written in the market over the period of analysis.[7] The panel also includes a mix of firms of varying size, ownership-type, product-mix, and board membership comprising a mix of nationalities, mainly from the UK, North America and Western Europe.[8] Furthermore, most of the insurers in the panel data set are non-listed private companies with only about 7% (mainly large conglomerate insurers)

[6] The insurance underwriting cycle reflects temporal changes in premium rates, profits and capital capacity. The cycle begins after periods of large losses when premium rates rise thereby increasing profits, and attracting inflows of capital into the non-life insurance sector. However, in competitive insurance markets, increased capital capacity deflates prices thus reducing profitability (Webb & Pettigrew, 1999).

[7] Like other developed insurance markets, such as those in Europe and North America, the UK insurance sector is an oligopoly market where large multi-product entities predominate due to their ability to secure economies of scale and scope, and realise risk management benefits by holding diversified underwriting and investment portfolios. However, large diversified insurers also operate alongside smaller niche players that survive and prosper in the market - for example, by using their specialist expertise in assessing and pricing risks in complex lines of business, such as legal liability insurance (e.g., see Adams, Upreti & Chen, 2019).

[8] Limited data points meant that we had to group European directors (excluding those from the UK and Ireland) and foreign CEOs, and so could not perform statistical tests of the performance effects of European directors/foreign CEOs according to their country of origin. However, over our period of analysis, European directors were spread evenly between Germany, Switzerland, France, and Italy, with token representation from the BENELUX countries and Scandinavia. This spread of national identities on corporate boards generally reflects the major continental Western European insurance markets, and is also consistent with the distributional mix of Europeans on the boards of publicly listed UK firms reported in Frijns et al. (2016).

being publicly listed on the London Stock Exchange. These features add to the variability of the panel data set, and potentially enhances the robustness of the research results. In addition, within sample variation in our panel data set improves on the selective/short time-series data sets employed in some previous studies, such as Ruigrok et al.'s (2007) cross-sectional single period study from Switzerland. The composition of our panel sample is, however, restricted in that firm-level financial data had to be hand-matched with board-level demographic information that were not always available.

Model

To test our hypotheses, we fit our data to the following model:

$$PfMs_{it} = \beta_0 + \beta_1 FORBD_{it} + \beta_2 FORAMBD_{it} + \beta_3 FOREUBD_{it} + \beta_4 FORCEO_{it} + \boldsymbol{\beta}'_5 \boldsymbol{x_1}_{it} + \boldsymbol{\beta}'_6 \boldsymbol{x_2}_{it} + \alpha_i + \delta_t + \varepsilon_{it}$$

where, i and t denote the cross-sectional (firm) and time-series dimensions respectively. The dependent variables, variables of interest and control variables that enter our regression analysis are described and motivated below, and summarised in Table 1. The additional variables - α_i and δ_t - represent potential individual firm-effects and time-effects respectively, which help control for unobserved time invariant heterogeneity across firms (e.g., differences in boardroom quality) and unobserved year-specific heterogeneity over time (e.g., due to changes in macroeconomic conditions).

[Insert Table 1 here]

Dependent Variables

$PfMs_{it}$ represents one of the two performance measures used as the dependent variable in our analysis, namely: return on equity (*ROE*) and solvency (*SOLV).* The first is a common accounting earnings indicator that directly measures the return on shareholders' investment in the firm (and hence a useful cross-firm comparator of value creation for investors), with the second being an inverse measure of financial resilience specific to the property-casualty

insurance industry (see Table 1).[9] Profitability not only reflects the returns due to investors, and hence, a measure of firm value, but also an indicator of operational performance used by policyholders, and others. On the other hand, solvency is a statutorily-defined measure of balance sheet strength, and thus the ability of an insurer to service its contractual liabilities to policyholders. As a result, solvency performance is of particular relevance to policyholders,, industry regulators, and credit ratings agencies (Ho, Lai & Lee, 2013).

Variables of Interest

We use the following four variables of interest to test our hypotheses: the percentage of foreign (non-UK) (internal and outside) directors on the boards of UK insurers (*FORBD*); the percentage of North American (internal and outside) directors on the boards of UK insurers (*FORAMBD*); the percentage of continental European (internal and outside) directors on the boards of UK insurers (*FOREUBD*); and whether or not the CEO is a foreign national (*FORCEO*).

Boards-level Controls (x_1)

Prior studies (e.g., Nielsen & Nielsen, 2013) suggest that the influence of directors' nationality diversity on financial performance can be affected by board-level governance factors. Therefore, we control for six main board composition and structure variables, namely: outside directors' tenure (*OUTTEN*); outsiders' insurance industry experience (*OUTINS*); directors' financial expertise (*FINEXP*); the proportion of outside directors on the board (*OUTS*); board size (*BSIZE*); the existence of an audit committee (*AUD*) (see Table 1).

Wang & Hsu (2013) report that the longer outside members sit on the boards of financial services firms, the better they get to know internal systems, growth options,

[9] In the present study, we consider that *ROE* is a more apt indicator of shareholder value than the other commonly used profit performance measure, the return on assets (*ROA*), as it directly reflects the returns on investors' residual claims. The *ROA* is arguably of more interest to policyholders as they have fixed contractual claims on assets in the event of financial ruin. Therefore, utilizing *ROA* could introduce confounding effects into our analysis. Additionally, *ROE* is commonly used by insurers as the hurdle cost of capital in setting, amongst other things, insurance premiums and levels of reserves (Calandro & Lane, 2002). We measure the adequacy of solvency as 1 - surplus to total (regulatory admitted) assets - a common measure of insolvency risk used in insurance industry studies.

regulatory requirements, and so on. Therefore, we expect the quality of internal monitoring and financial performance to improve the longer outside directors have been on the boards of insurance firms (*OUTTEN*). Hillman, Withers & Collins (2009) argue that the boards of firms operating in highly competitive global markets can improve performance by leveraging their collective industry-specific knowledge, financial expertise, and business connections. This implies that outside directors with insurance industry experience and resource connections (*OUTINS*) - for example, as former managers of insurers, (up-stream) reinsurers, (down-stream) brokers, and insurance consultants - will have a positive effect on firm performance. Adams & Jiang (2017) argue that board-level financial expertise will be particularly useful in signalling the economic condition of insurance firms to stakeholders. Hence, superior financial performance is likely to be positively related to the level of financial expertise on the boards of insurance firms (*FINEXP*).[10]

UK corporate governance initiatives, such as the Cadbury Report (1992), articulate that increasing independent outsiders (*OUTS*) on boards can improve financial performance through effective monitoring of, and advice on, strategic proposals, preventing imprudent risk-taking, and contributing valuable strategic advice. Lai, Chen & Song (2019) further show that more outside directors with heterogeneous skills-sets and unique human/social capital traits can add to the advisory capacity of boards, and therefore, be intrinsically valuable to firms. O'Sullivan & Diacon (1999) argue that the technical (actuarial) complexity of the insurance business further underpins the importance of outside directors in both monitoring the decisions of managers and supplementing external solvency regulations. Hardwick, Adams & Zou (2011) reason that compared with insurers with smaller boards (*BSIZE*), insurance firms with more members (including outsiders) are likely to bring diverse business

[10] Information on the international experiences of British directors was in most cases unobservable from public sources – for example, because expatriate work experiences can relate to their time spent in different firms and/or industries. Moreover, the performance-effects of directors' expatriate work experiences can also be influenced by the occupational role and the amount of time spent overseas. Besides, our primary focus in the present study is on the performance-effects of innate socio-cultural norms of business behaviour associated with directors' country of origin rather than their past experiences overseas.

knowledge and more technical expertise to bear in influencing and evaluating the strategic decisions of the CEO. In this regard, large boards might help to counter managerial entrenchment, information processing problems, and so impact positively on financial results. Audit committees (*AUD*) in insurance firms further perform many important corporate governance functions, including strengthening the independence of outside directors and providing advice on accounting, finance, and regulatory matters (Hardwick et al., 2011).[11] Hence, all else equal, audit committees are likely to have a positive impact on financial outcomes.

Firm-Specific Controls (x_2)

The board capital-performance relation can also be influenced by firms' characteristics (Jermias & Gani, 2014). Therefore, we control for the effects of ten relevant firm-specific variables in our analysis, namely: ownership concentration (*CONC*); foreign ownership (*FOR*); managerial ownership (*INSIDE*); public listing status (*LIST*); CEO incentive compensation (*BONUS*); international business-mix (*IB-MIX*); product-mix (*P-MIX*); reinsurance (*REINS*); firm size (*lnSIZE*); and firm age (*AGE*).

Cornelli, Kominek & Ljunqvist (2014) report that blockholder investors are likely to expect the board of directors to actively monitor and regularly question the decisions of CEOs. Accordingly, we predict that concentrated ownership (*CONC*) will be positively related to the financial performance of insurance firms. Chang & Taylor (1999) report that because of location disadvantages and asymmetric information, foreign owners will be keen and active monitors of board-level activities and performance in the firms in which they have invested. As a result of close foreign investor monitoring of managerial activities and control of agency costs, we anticipate foreign ownership (*FOR*) to be related to sound financial

[11] Oxelheim et al. (2013) suggest that home country CEOs with international experience can substitute for the transactional and resource access abilities, and hence, performance impact of foreigners on the board. To test for this, we included a dummy variable of 1 for UK CEOs with more than a year's overseas experience, 0 otherwise into our analysis. However, the results are not statistically significant and its inclusion resulted in the loss of approximately 300 observations and collinearity with our foreign-owned variable. As a result, the dummy variable representing UK CEOs with international experience was dropped from our analysis.

performance. Saunders, Strock & Travlos (1990) posit that insider ownership (*INSIDE*) motivates managers to act like shareholders, thereby, boosting financial performance. Insurance firms listed on a major stock exchange (*LIST*) could also be motivated to perform better than other insurers in order to attract inflows of global investment (Miller, 2011).

CEO incentive-based compensation (*BONUS*) also enters our analysis as the existence of a performance-related bonus system can motivate CEOs to encourage board members to enhance financial results (Mayers & Smith, 2010). The increased internationalisation of business (*IB-MIX*) can secure resource utilization and performance benefits for firms - for example, as a result of greater product and geographical risk diversification, and scale and scope economies (Nielsen & Nielsen, 2013). A diversified mix of products (*P-MIX*) can further produce economies of scale and scope for insurers, enabling them to secure input efficiencies in their management of risk pools and asset portfolios, and thus improve financial performance (Mayers & Smith, 1981).

As loss-contingent capital, reinsurance (*REINS*) can improve capital allocation and usage, and thus enhance profitability and solvency position through increased underwriting capacity, lower insolvency risk, and reduced taxes (Abdul Kader et al., 2010). Therefore, all else equal, we predict a positive link between reinsurance and financial performance. Financial viability is also likely to improve as firms grow as a result of economies of scale and scope, and increased product-market share (Hardwick et al., 2011). Therefore, we anticipate firm size (*lnSIZE*) to be positively related to financial performance. What is more, well-established firms are likely to have competitive advantages over relatively new entrants in terms of acquired product-market knowledge, established distribution networks, and greater levels of accumulated free cash flows (Carneli, Schaubroeck & Tishler, 2011). Therefore, the financial performance of an insurer is likely to be increasing in the length of time it has been operating in the UK (*AGE*).

EMPIRICAL RESULTS

Descriptive Statistics and Correlation Analysis

[Insert Table 2 here]

Descriptive statistics for all variables are reported in Table 2. They show that outside directors represent a majority of board members (at 60% on average), with mean tenure of about four and a half years. Additionally, half of outside board members have insurance and related sector (e.g., brokerage or reinsurance) experience. Consistent with Hardwick et al.'s (2011) UK life insurance study, mean board size for our panel sample is about eight members, but this varies markedly across insurers from three to 14 members depending on their size. Board members of foreign nationality comprise a quarter of total boardroom seats on average, with most of these board members coming from continental European countries.[12]

In terms of our dependent variables, average *ROE* over the period of analysis is 0.21, indicating sound returns on shareholders' funds. Solvency levels vary over the analysis period from between 0.40 and 0.94, with an average of 0.70. Low solvency values are driven by a handful of non-surviving insurers in the unbalanced panel (e.g., Independent Insurance plc) that exited the market due to financial difficulties. On average, 73% of the insurers in our panel sample have large block-holder investors with 7% of insurers being publicly listed. Some 40% of insurers on average have equity ownership schemes as part of a senior management compensation package, with a mean majority (90%) having alternative (e.g., cash-based) board-level incentive bonus plans. Moreover, the insurers in our panel sample tend to have a diversified range of product (mean Herfindahl index = 0.56) though the business activities for most insurers is mainly domestic-focused (average Herfindahl index = 0.82). Table 2 indicates that all insurers in our panel sample purchased reinsurance, while at

[12] The handful of directors who are citizens of the Irish Republic are treated in the present study as 'British'. This is because Ireland to all extents and purposes follows the same institutional (e.g., common law) processes, corporate governance guidelines, and accounting standards as the rest of the British Isles.

0.31 average levels of reinsurance buying across the UK's property-casualty insurance sector are consistent with prior studies (e.g., Adams & Jiang, 2017), but roughly twice that for the UK's life insurance sector, where risks are more predictable due to the widespread application of actuarial technology (Hardwick et al., 2011).

Pair-wise Pearson correlation coefficients are also reported in Table 2, and they are reassuringly low with respect to concerns over multicollinearity, with the exception of two control variables – international business mix (*IB-MIX*) and foreign ownership of the firm (FOR) – as well as the main variables of interest (*FORBD, FORAMBD*, *FOREUBD* and *FORCEO*). The positive and statistically significant ($p \leq 0.01$) association between *IB-MIX* and *FOR* is not surprising given that foreign-owned insurers are by their nature international in their scope of business activities (Masulis et al., 2012). However, all regressions were estimated both with and without the two control variables, *IB-MIX and FOR*, with essentially no difference in the results. As to the variables of interest, these are introduced into the model in isolation which prevents any concerns over multicollinearity confounding our results. However, again the positive and statistically significant ($p \leq 0.01$) correlation coefficients between these variables reflects the multinational nature of their respective board structures.

Multivariate Results

Our multivariate results are reported in Tables 3 and 4 at Appendix. In estimating the models, the F-test and Breusch-Pagan LM test rejects the pooled ordinary least squares (OLS) estimation in favour of a random-effects or fixed-effects estimator. The Hausman and Robust Hausman tests (Wooldridge, 2010) consistently reject the null hypothesis of random individual effects. Therefore, fixed-effects (α_i) are included in all estimations. Time (δ_t) indicator variables are included with tests of statistical significance given at the 5% level, two-tail. Heteroskedasticity and cluster-robust standard errors are also used in our multivariate analysis

From Table 3, we see that the fit of the model is consistently strong across all estimations as indicated by the adjusted R^2 values of 0.16 [13]. With respect to our variables of interest, we find statistically significant support for H1a and the predicted positive relation between the percentage of foreign board members (*FORBD*) and *ROE* (at $p \leq 0.05$). If the average board substitutes for an addition foreign board member, the model predicts a 2 percentage point increase in *ROE*[14]. We also find statistically significant evidence ($p \leq 0.05$) of a positive effect between the percentage of North American board members (*FORAMBD*) and *ROE*. This evidence supports H2a. The estimates indicate that where the average board replaces a member with an additional one from North America, a 2 percentage point increase in *ROE* would be expected. The positive effect of *FORAMBD* on *ROE* is further robust to the estimation of the full model (column (6)), where we drop *FORBD* due to its high level of collinearity with the other variables of interest. We do not find evidence of the predicted positive effect of a foreign CEO on the firm's profitability (H3a); however, the point estimate is of the correct sign.

Continuing with Table 3, we find evidence ($p \leq 0.05$) of the predicted positive link between having an audit committee (*AUD*) and the profitability of the firm as measured by its return on equity (*ROE*) [15]. We also find some evidence ($p \leq 0.10$) in model (3) of the expected positive relation between the proportion of independent directors on the board and profitability. However, the point estimate is consistently positive and of similar magnitude across all the estimations in Table 3. We also find evidence ($p \leq 0.10$) of a negative relation between the average tenure of the board's independent directors (*OUTTEN*) and *ROE*. This

[13] For completeness, we also performed all estimations with our measure of firm solvency (*SOLV*) as an additional control variable. Firms with a stronger measure of solvency would be expected to have a lower risk of bankruptcy, and therefore, a higher return on equity (*ROE*). However, it is never statistically significant at conventional levels and has no impact on the estimated coefficients of interest.

[14] Eight board members with two foreign directors as per Table 2 (rounded).

[15] Given the degree of pair-wise correlation (Table 2) between the audit committee (*AUD*), average tenure of the independent directors (*OUTTEN*) and percentage of outside directors (*OUTS*), the models were estimated with and without these control variables. The results were essentially unchanged and the variables retained in the models due to their prevalence in the literature.

suggests that the monitoring and control effectiveness of board outsiders declines with their time on the board - for example, because they have developed close personal relationships with the CEO and inside directors. Although this is contrary to the predicted positive effect, the economic magnitude is small, with an annual increase in average board tenure being associated with a percentage point decrease in *ROE*.

Turning to the firm-level control variables, we observe statistically significant ($p \leq 0.01$) evidence of a negative effect for insurer maturity (*AGE*) on *ROE*. This suggests that new entrants the UK's insurance market could be achieving above average profits from product/process innovations and/or competitive pricing practices. We also note contrary evidence ($p \leq 0.05$) with regard to the predicted negative relation between product mix and financial performance.

Proceeding to Table 4 and the solvency measure of firm performance (*SOLV*), we again support a consistently strong fit of our model to the data (with adjusted R^2 ranging from 13% to 15%). Beginning with the variables of interest and recognizing that the lower the solvency measure (*SOLV*) the better insurers' financial condition, we find statistically significant evidence ($p \leq 0.05$) in support of H2b (*FOREUBD*) and H3b (*FORCEO*). All else equal, an insurance firm's solvency position is stronger for a higher proportion of continental European board members (*FOREUBD*) – with an estimated 2% decrease in the average firm's solvency measure for each additional European board member - and similarly for having a foreign CEO (*FORCEO*). These results are further robust to the estimation of the full model in column (6). However, we do not find evidence of the predicted positive effect of the percentage of foreign board members (*FORBD*) and the firm's solvency position (*SOLV*); however, the point estimate is of the correct sign (H1b).

Concerning the board level control variables, we find statistically significant evidence ($p \leq 0.05$) of the expected positive effect of the board's financial expertise (*FINEXP*) on the level of solvency (recognising that the lower the value of *SOLV* the more solvent (less

levered) an insurer). We note further evidence in support of the control variables with respect to the positive impact that the board's bonus (*BONUS*, p≤0.05) and firm size (*lnSIZE*, p≤0.01) has on *SOLV*. We also observe interesting results with the opposite of the predicted effect of *AGE* (p≤0.01) on *SOLV*, suggesting that older insurers may experience above average losses as a result of legacy policies and/or out-of-date underwriting practices. Of weaker statistical significance (p≤ 0.10), our results also indicate that insurers in weak financial condition purchase more reinsurance than their financially stronger counterparts.

Further Analysis

As it is possible that there is a delayed effect between the change in nationality composition of the board and financial performance, we repeat the above analysis for lagged values of the explanatory variables. As can be seen from Table 5 at Appendix, we continue to obtain statistically significant evidence (p≤0.05) of the positive relation between lagged *FORBD* and *ROE* thus supporting H1a. The estimation continues to also support H2a, with statistically significant evidence (p≤0.05) of a positive (lagged) effect of *FORAMBD* on *ROE*. Proceeding to Table 6 at Appendix and *SOLV*, although *FOREUBD* is not significant at conventional levels (p≤0.11), it is nevertheless correctly signed. We do, however, continue to find evidence (p≤0.05) in support of H3b and the effect of *FORCEO* on *SOLV*.

As a further analysis, we also examined for a potential differential effect of boardroom nationality on a pre-2007/8 and post-2007/8 global financial crisis basis. We re-estimated our models to effect the inclusion of an interaction term between an indicator variable of the pre and post financial crisis world and the variables of interest.[16] The results are qualitatively unchanged from what we report above, other than with respect to a foreign CEO's (*FORCEO*) effect on a firm's profitability (*ROE*). See Table 7 at Appendix. Although the pre-financial crisis effect is effectively unchanged from Table 3, we now find evidence

[16] For completeness, we also fully saturated the models to allow for the control variables' effects to change post-financial crisis.

that post-financial crisis, a foreign CEO has on average a negative 4% point effect on a firm's *ROE.* This indicates that in macroeconomic crises, foreign CEOs are likely to increase reserves/reduce reported profits in order to bolster solvency, avoid close political scrutiny, and so preserve their reputational capital as prudent strategic leaders. We argue that this is a period conditional, yet rationale, response by foreign CEOs given the heavily regulated and socio-economically and politically salient nature of the insurance industry. Therefore, the effect of the 2007/8 global financial crisis on the promotion of solvency over profitability by foreign CEOs needs to be recognised when interpreting the main research results.

Endogeneity Analysis

To control for the effect of past financial performance on current financial performance, we include the lagged value of the dependent variable as a control variable. However, as the inclusion of a lagged dependent variable on the right hand side of a fixed-effects regression can bias results (Nickell, 1981), we estimate the models using the Arellano-Bond Dynamic Panel Generalized Method of Moments (GMM) Estimator (Arellano & Bond, 1991). A dynamic panel GMM estimator is also useful when alternative estimators (e.g., two-stage least squares (2SLS) regression) are inhibited by a limited choice of theoretically valid and/or empirically meaningful external instrumental variables (Wintoki, Linck & Netter, 2012). The dynamic panel GMM estimator eliminates endogeneity by unobserved time invariant heterogeneity through its use of first differencing of the variables. The first difference lagged value of the dependent variable is then instrumented with appropriate further lag(s) to ensure sequential exogeneity with respect to the disturbance term. To address the potential for endogeneity by reverse causality we estimate the models by similarly instrumenting the variables of interest – *FORAMBD, FOREUBD, FORCEO* – with their appropriate lagged values to ensure they are exogenous to the first differenced disturbance term. The results are reported at Appendix in Table 8 which also indicates that both models

are appropriately specified as they pass the standard tests for no second-order autocorrelation and the validity of the over-identification restrictions.

Not surprisingly, we find strong evidence ($p \leq 0.01$) that the prior year's financial performance has a positive correlation with the current year's measure of financial performance (*ROE* and *SOLV*). With respect to our variables of interest, we continue to find statistically significant support for H2a ($p \leq 0.05$) and the predicted positive effect of North American board members on *ROE*. Although the hypothesised positive impact of continental European directors on *SOLV* is no longer statistically significant, the point estimate is nevertheless of the correct sign and similar magnitude to that reported in the fixed effects regression (Table 4). Finally, the previous evidence of the effect of a foreign CEO (*FORCEO*) is not robust to the use of the dynamic panel estimator. However, we cannot rule out that the lack of statistical significance of these results is driven by the loss of 15% of our observations from implementing this method.

CONCLUSION

Drawing an integrative framework from the corporate governance literature and using an unbalanced panel design (1999 to 2013) from a major international market - the UK's property-casualty insurance industry - we examine the relation between boardroom nationality and two accounting-related measures covering the main aspects of the annual financial performance of insurance firms - profitability and solvency.

We first demonstrate that boardroom nationality matters for financial outcomes after controlling for other board-level characteristics, such as board size. This suggests that directors of foreign nationality are likely to benefit from the enhanced knowledge and resource management capabilities of, and interactions with, other directors when boards get bigger. Second, we observe that the type of directors' nationality affects aspects of financial performance differently. For example, our results indicate that in promoting profitability, North American directors tend to be relatively less inclined than their continental European

counterparts to focus on solvency. This reflects differences between the shareholder value (agency theory-based) corporate culture in North America and broader stakeholder-type approaches more common in continental Europe. Moreover, continental European directors are associated with better corporate solvency, thereby reflecting the regulatory traditions of assigning primacy for insurers to satisfy the 'going concern' interests of a stakeholders. We also observe that foreign CEOs are generally associated with superior solvency ratios. These observations suggest that regulatory legitimacy is likely to be an important consideration for foreign CEOs.

We believe our research contributes theoretically by demonstrating that the socio-cultural antecedents and human-specific capital qualities of board directors influence financial outcomes in complex and risky business settings, such as the insurance industry. For example, directors schooled in North American business culture promote shareholder value (profitability) measures of performance, whilst European board members reinforce broader stakeholder (solvency) interests. This insight can have policy implications by helping insurers, regulators, and other interested parties (e.g., investors) to better understand the potential performance implications of the appointment of directors of different nationality. The challenge for future research is to help determine the optimal mix of board-level demographics and structures that effectively balance the financial claims of key stakeholders. In addition, our use of a panel data design comprising insurers of different size, ownership-type, and governance structures enables us to benefit from increased within-sample variation and lessens the risk of selection bias, and potentially leads to cleaner tests of our hypotheses.

We acknowledge that our study, like all research, suffers from the limitations of publicly available secondary data, particularly with regard to the availability of board-level demographics and the relatively small number of (n=84) firms in the 15 years panel sample. However, we attempted to mitigate such shortcomings - for example, by using a panel data design that accounts for the changing performance impact of boardroom nationality diversity

over time as well as unobservable firm-effects (e.g., differences in the quality of directors). Sample size could be increased by carrying out comparative research between property-casualty insurers and life insurers either in national or international contexts. Future research could also investigate the effects of board-level nationality on strategic decisions using primary research methods, such as direct interviews with board members and/or by comparing boardroom nationality performance effects across financial sectors and/or jurisdictions.

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Table 1: Variable Definitions

Variables	Definition
Dependent Variables	
ROE	Return on equity - measured as net annual profit before taxes /issued (& paid-up) equity
SOLV	Solvency position - measured as 1- surplus (capital + technical & other reserves)/total assets. Firm performance is *decreasing* in this measure
Variables of Interest	
FORBD	% foreign (inside & outside) directors on the board
FORAMBD	% North American (inside & outside) directors on the board
FOREUBD	% Continental European (inside & outside) directors on the board
FORCEO	Dummy variable equal to 1 if the CEO is foreign, 0 otherwise
Board-Level Controls	
OUTTEN	Average of outside directors' tenure on the board (years)
OUTINS	% outside directors on the board with insurance experience (e.g., as former managers in insurers, reinsurers, & brokers &/or insurance industry-specific consultants)
FINEXP	% finance professionals (accountants, actuaries & underwriters) on the board (including the CEO)
OUTS	% outside (independent) directors on the board
BSIZE	Board size - the total number of board members (including the CEO)
AUD	Dummy variable equal to 1 for an audit committee, 0 otherwise
Firm-Specific Controls	
CONC	% shares in issue held by the top-3 shareholders
FOR	Dummy variable equal to 1 if the firm is foreign-owned, 0 otherwise
INSIDE	Dummy variable equal to 1 for managerial share scheme, 0 otherwise
LIST	Dummy variable equal to 1 if an insurer is publicly listed on a primary stock market, 0 otherwise
BONUS	Dummy variable equal to 1 for board-level bonus plan, 0 otherwise
IB-MIX	Herfindahl index - closer to 1 the more UK concentrated is the business-mix
P-MIX	Herfindahl index – closer to 1 the more concentrated the product-mix
REINS	Reinsurance premiums ceded per annum divided by annual gross written premiums
lnSIZE	Natural logarithm of total assets
AGE	Number of years since an insurance firm's establishment in the UK

Table 2. Descriptive statistrics and pairwise Pearson correlations

Variable	*Mean*	*S.D.*	*Min*	*Max*	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
(1) *ROE*	0.21	0.14	-0.46	0.58																						
(2) *SOLV*	0.70	0.09	0.40	0.94	-0.10[a]																					
(3) *OUTTEN*	4.44	0.88	1.80	10.40	-0.02	0.02																				
(4) *OUTINS*	0.50	0.29	0.00	1.00	0.20[a]	-0.25[a]	-0.04																			
(5) *FINEXP*	0.41	0.14	0.00	0.85	0.23[a]	-0.17[a]	0.11[a]	0.29[a]																		
(6) *OUTS*	0.60	0.10	0.00	0.75	0.23[a]	-0.14[a]	0.29[a]	0.20[a]	0.37[a]																	
(7) *BSIZE*	7.85	2.33	3.00	14.00	0.11[a]	-0.05[c]	0.45[a]	0.14[a]	0.38[a]	0.49[a]																
(8) *AUD*	0.77	0.42	0.00	1.00	0.12[a]	-0.07[b]	0.20[a]	0.15[a]	0.35[a]	0.40[a]	0.38[a]															
(9) *CONC*	0.73	0.22	0.30	1.00	-0.06[b]	0.15[a]	-0.07[b]	0.03	-0.05[c]	-0.25[a]	-0.04	-0.16[a]														
(10) *FOR*	0.25	0.44	0.00	1.00	-0.09[a]	0.04	-0.06[c]	0.04	-0.01	-0.07[b]	-0.05	0.00	0.39[a]													
(11) *INSIDE*	0.40	0.49	0.00	1.00	0.07[b]	-0.23[a]	0.15[a]	0.24[a]	0.31[a]	0.17[a]	0.36[a]	0.18[a]	0.16[a]	0.12[a]												
(12) *LIST*	0.07	0.26	0.00	1.00	-0.03	0.14[a]	0.10[a]	0.07[b]	0.40[a]	0.15[a]	0.24[a]	0.15[a]	0.11[a]	0.10[a]	0.34[a]											
(13) *BONUS*	0.90	0.31	0.00	1.00	0.28[a]	-0.20[a]	0.07[b]	0.27[a]	0.32[a]	0.41[a]	0.26[a]	0.28[a]	-0.42[a]	-0.23[a]	0.04	-0.03										
(14) *IB-MIX*	0.82	0.24	0.20	1.00	0.11[a]	-0.02	0.04	0.00	0.10[a]	0.17[a]	-0.02	0.06[b]	-0.43[a]	-0.76[a]	-0.17[a]	-0.13[a]	0.28[a]									
(15) *P-MIX*	0.56	0.21	0.13	1.00	0.08[a]	0.20[a]	-0.09[a]	-0.07[b]	-0.17[a]	-0.16[a]	-0.28[a]	-0.19[a]	0.15[a]	-0.05	-0.21[a]	0.01	-0.22[a]	0.09[a]								
(16) *REINS*	0.31	0.07	0.18	0.75	0.09[a]	0.27[a]	-0.10[a]	0.02	-0.21[a]	-0.20[a]	-0.07[b]	-0.18[a]	0.15[a]	-0.01	-0.16[a]	-0.19[a]	-0.16[a]	0.05[c]	0.37[a]							
(17) *LnSIZE*	4.57	1.73	2.48	10.00	-0.02	-0.08[b]	0.19[a]	0.19[a]	0.36[a]	0.19[a]	0.61[a]	0.25[a]	0.01	0.06[b]	0.58[a]	0.48[a]	0.16[a]	-0.20[a]	-0.39[a]	-0.11[a]						
(18) *AGE*	45.50	33.02	0.00	133.00	-0.03	-0.19[a]	0.08[a]	0.06[c]	0.15[a]	0.10[a]	0.21[a]	0.01	-0.15[a]	0.00	0.25[a]	-0.02	0.13[a]	-0.02	-0.36[a]	-0.21[a]	0.29[a]					
(19) *FORBD*	0.25	0.27	0.00	0.75	-0.01	0.08[b]	-0.01	0.05[c]	0.04	-0.04	0.12[a]	0.15[a]	0.36[a]	0.64[a]	0.28[a]	0.32[a]	-0.18[a]	-0.63[a]	-0.14[a]	-0.03	0.31[a]	0.04				
(20) *FORAMBD*	0.08	0.15	0.00	0.75	-0.10[a]	0.12[a]	0.01	-0.09[a]	-0.15[a]	-0.12[a]	-0.05[c]	0.09[a]	0.28[a]	0.37[a]	0.05[c]	0.06[b]	-0.11[a]	-0.37[a]	-0.02	-0.02	0.01	-0.16[a]	0.60[a]			
(21) *FOREUBD*	0.11	0.17	0.00	0.75	0.05[c]	-0.05	0.04	0.17[a]	0.26[a]	0.16[a]	0.25[a]	0.22[a]	0.21[a]	0.53[a]	0.39[a]	0.29[a]	-0.02	-0.35[a]	-0.19[a]	-0.03	0.37[a]	0.16[a]	0.70[a]	0.07[b]		
(22) *FORCEO*	0.26	0.44	0.00	1.00	0.03	0.07[b]	-0.07[b]	0.05[c]	-0.19[a]	-0.14[a]	-0.06[b]	0.01	0.30[a]	0.64[a]	0.12[a]	0.10[a]	-0.20[a]	-0.62[a]	0.10[a]	0.18[a]	0.08[a]	-0.04	0.65[a]	0.52[a]	0.34[a]	na

N = 1,098; Pearson Correlation coefficient; l; [a] significant at the at the 1% level; [b] significant at the 5% level; [c] significant at the 10% level

Table 3. Regressions to analyse the effect of Nationality on Firm Perfomance as measured by Return on Equity

		ROE					
	Expected Sign	(1)	(2)	(3)	(4)	(5)	(6)
OUTTEN	+	-0.011[c]	-0.011[c]	-0.010	-0.011	-0.011[c]	-0.010
		(0.007)	(0.006)	(0.007)	(0.007)	(0.007)	(0.007)
OUTINS	+	-0.004	0.000	-0.002	-0.003	-0.005	0.000
		(0.031)	(0.030)	(0.031)	(0.031)	(0.031)	(0.031)
FINEXP	+	0.040	0.048	0.054	0.039	0.044	0.055
		(0.051)	(0.051)	(0.052)	(0.051)	(0.050)	(0.052)
OUTS	+	0.074	0.080	0.083[c]	0.072	0.074	0.081
		(0.051)	(0.050)	(0.050)	(0.051)	(0.051)	(0.050)
BSIZE	+	-0.007	-0.006	-0.006	-0.006	-0.006	-0.006
		(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
AUD	+	0.058[b]	0.062[b]	0.061[b]	0.057[b]	0.057[b]	0.061[b]
		(0.026)	(0.024)	(0.024)	(0.026)	(0.025)	(0.024)
CONC	+	0.006	-0.012	0.015	-0.001	0.005	0.006
		(0.131)	(0.131)	(0.129)	(0.134)	(0.131)	(0.132)
FOR	+	0.075	-0.037	-0.019	0.070	0.066	-0.029
		(0.109)	(0.117)	(0.109)	(0.108)	(0.109)	(0.108)
INSIDE	+	0.028	0.028	0.027	0.028	0.029	0.027
		(0.051)	(0.052)	(0.051)	(0.052)	(0.051)	(0.052)
LIST	+	0.016	0.020	0.015	0.018	0.016	0.016
		(0.043)	(0.045)	(0.043)	(0.044)	(0.043)	(0.044)
BONUS	+	0.056	0.057	0.052	0.056	0.056	0.051
		(0.040)	(0.038)	(0.040)	(0.040)	(0.040)	(0.040)
IB-MIX	-	-0.045	-0.038	-0.036	-0.045	-0.045	-0.036
		(0.087)	(0.086)	(0.086)	(0.087)	(0.087)	(0.087)
P-MIX	-	0.168[b]	0.163[b]	0.163[b]	0.165[b]	0.165[b]	0.159[b]
		(0.068)	(0.065)	(0.068)	(0.069)	(0.068)	(0.068)
REINS	+	-0.224	-0.206	-0.242	-0.217	-0.222	-0.233
		(0.181)	(0.175)	(0.178)	(0.182)	(0.182)	(0.179)
LnSIZE	+	0.023	0.021	0.022	0.023	0.022	0.021
		(0.021)	(0.021)	(0.020)	(0.021)	(0.021)	(0.021)
AGE	+	-0.008[a]	-0.009[a]	-0.008[a]	-0.009[a]	-0.008[a]	-0.008[a]
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
FORBD	+		0.174[b]				
			(0.078)				
FORAMBD	+			0.180[b]			0.183[b]
				(0.080)			(0.081)
FOREUBD	+				0.058		0.073
					(0.087)		(0.088)
FORCEO	+					0.010	0.003
						(0.016)	(0.017)
Constant		0.319[c]	0.295[c]	0.307[c]	0.320[c]	0.320[c]	0.308[c]
		(0.175)	(0.171)	(0.172)	(0.175)	(0.176)	(0.172)
Time Indicators		Yes	Yes	Yes	Yes	Yes	Yes
Individual Effects		Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
N		1098	1098	1098	1098	1098	1098
Adjusted R^2		0.16	0.17	0.16	0.16	0.16	0.16

Standard errors appear in parantheses. [a] significant at the at the 1% level; [b] significant at the 5% level; [c] significant at the 10% level, (two tail tests). Heteroskedasticity and cluster (by firm) robust standard errors are used. Time indicators are included when jointly significant at the 5% level or less (two tail tests). Individual effects are included as per the F-Test; Breusch Pagan LM Test; Hausman Test; and Robust Hausman Test.

Table 4. Regressions to analyse the effect of Nationality on Firm Perfomance as measured by Solvency

		SOLV					
	Expected Sign	(1)	(2)	(3)	(4)	(5)	(6)
OUTTEN	-	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
		(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
OUTINS	-	0.008	0.008	0.008	0.006	0.010	0.007
		(0.017)	(0.017)	(0.017)	(0.016)	(0.017)	(0.016)
FINEXP	-	-0.093[b]	-0.094[b]	-0.092[b]	-0.092[b]	-0.099[b]	-0.096[b]
		(0.041)	(0.040)	(0.038)	(0.040)	(0.041)	(0.038)
OUTS	-	-0.043	-0.044	-0.042	-0.038	-0.044	-0.038
		(0.030)	(0.029)	(0.029)	(0.029)	(0.029)	(0.028)
BSIZE	-	0.000	-0.001	0.000	-0.001	-0.001	-0.001
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
AUD	-	-0.012	-0.012	-0.011	-0.011	-0.011	-0.009
		(0.009)	(0.009)	(0.010)	(0.009)	(0.009)	(0.010)
CONC	-	-0.052	-0.050	-0.052	-0.037	-0.052	-0.037
		(0.087)	(0.088)	(0.088)	(0.091)	(0.087)	(0.091)
FOR	-	0.032	0.047	0.027	0.040	0.045	0.043
		(0.090)	(0.095)	(0.096)	(0.092)	(0.090)	(0.096)
INSIDE	-	-0.014	-0.014	-0.014	-0.012	-0.015	-0.014
		(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.019)
LIST	-	-0.016	-0.016	-0.016	-0.019	-0.015	-0.018
		(0.021)	(0.021)	(0.021)	(0.021)	(0.022)	(0.021)
BONUS	-	-0.033[b]	-0.033[b]	-0.034[b]	-0.033[b]	-0.033[b]	-0.033[b]
		(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
IB-MIX	+	0.146	0.145	0.146	0.146	0.145	0.146
		(0.135)	(0.135)	(0.135)	(0.134)	(0.130)	(0.129)
P-MIX	+	-0.076	-0.076	-0.077	-0.072	-0.072	-0.068
		(0.053)	(0.053)	(0.053)	(0.053)	(0.054)	(0.054)
REINS	-	0.163[c]	0.161[c]	0.162[c]	0.151[c]	0.160[c]	0.146[c]
		(0.084)	(0.084)	(0.084)	(0.086)	(0.083)	(0.085)
lnSIZE	-	-0.027[a]	-0.026[a]	-0.027[a]	-0.027[a]	-0.026[a]	-0.026[a]
		(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
AGE	-	0.002[a]	0.002[a]	0.002[a]	0.003[a]	0.002[a]	0.003[a]
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
FORBD	-		-0.022				
			(0.047)				
FORAMBD	-			0.011			0.020
				(0.082)			(0.087)
FOREUBD	-				-0.110[b]		-0.107[b]
					(0.049)		(0.052)
FORCEO	-					0.015[b]	0.015[b]
						(0.006)	(0.007)
Constant		0.728[a]	0.733[a]	0.728[a]	0.722[a]	0.729[a]	0.722[a]
		(0.155)	(0.156)	(0.155)	(0.155)	(0.151)	(0.151)
Time Indicators		No	No	No	No	No	No
Individual Effects		Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
N		1098	1098	1098	1098	1098	1098
Adjusted R^2		0.13	0.13	0.13	0.14	0.14	0.15

Standard errors appear in parantheses. [a] significant at the at the 1% level; [b] significant at the 5% level; [c] significant at the 10% level, (two tail tests). Heteroskedasticity and cluster (by firm) robust standard errors are used. Time indicators are included when jointly significant at the 5% level or less (two tail tests). Individual effects are included as per the F-Test; Breusch Pagan LM Test; Hausman Test; and Robust Hausman Test.

Table 5. Regressions to analyse the lagged effect of Nationality on Firm Perfomance as measured by Return on Equity

		ROE					
	Expected Sign	(1)	(2)	(3)	(4)	(5)	(6)
OUTTEN	+	-0.011[c]	-0.014[c]	-0.014[c]	-0.014[c]	-0.014[c]	-0.014[c]
		(0.007)	(0.007)	(0.008)	(0.008)	(0.008)	(0.008)
OUTINS	+	-0.004	0.010	0.008	0.007	0.006	0.008
		(0.031)	(0.027)	(0.028)	(0.029)	(0.028)	(0.028)
FINEXP	+	0.040	0.057	0.058	0.048	0.049	0.057
		(0.051)	(0.051)	(0.052)	(0.050)	(0.050)	(0.051)
OUTS	+	0.074	0.062	0.060	0.051	0.051	0.060
		(0.051)	(0.047)	(0.048)	(0.049)	(0.049)	(0.048)
BSIZE	+	-0.007	-0.004	-0.005	-0.005	-0.005	-0.004
		(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
AUD	+	0.058[b]	0.045[b]	0.044[b]	0.041[b]	0.041[b]	0.044[b]
		(0.026)	(0.022)	(0.022)	(0.023)	(0.023)	(0.022)
CONC	+	0.006	-0.008	0.009	0.002	0.002	0.009
		(0.131)	(0.133)	(0.131)	(0.134)	(0.132)	(0.134)
FOR	+	0.075	0.113	0.092	0.095	0.095	0.093
		(0.109)	(0.117)	(0.116)	(0.120)	(0.117)	(0.120)
INSIDE	+	0.028	0.037	0.037	0.038	0.038	0.037
		(0.051)	(0.058)	(0.056)	(0.057)	(0.057)	(0.057)
LIST	+	0.016	0.026	0.020	0.022	0.022	0.020
		(0.043)	(0.045)	(0.043)	(0.044)	(0.044)	(0.044)
BONUS	+	0.056	0.054	0.051	0.054	0.054	0.051
		(0.040)	(0.037)	(0.039)	(0.039)	(0.039)	(0.039)
IB-MIX	-	-0.045	-0.063	-0.073	-0.082	-0.081	-0.073
		(0.087)	(0.092)	(0.092)	(0.091)	(0.091)	(0.092)
P-MIX	-	0.168[b]	0.176[a]	0.177[a]	0.179[a]	0.179[a]	0.177[a]
		(0.068)	(0.060)	(0.062)	(0.064)	(0.063)	(0.063)
REINS	+	-0.224	-0.220	-0.247	-0.232	-0.232	-0.246
		(0.181)	(0.172)	(0.177)	(0.181)	(0.179)	(0.179)
LnSIZE	+	0.023	0.014	0.015	0.016	0.016	0.016
		(0.021)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)
AGE	+	-0.008[a]	-0.008[a]	-0.008[a]	-0.008[a]	-0.008[a]	-0.008[a]
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
$FORBD_{t-1}$	+		0.170[b]				
			(0.077)				
$FORAMBD_{t-1}$	+			0.144[b]			0.147[b]
				(0.062)			(0.066)
$FOREUBD_{t-1}$	+				0.002		0.012
					(0.092)		(0.094)
$FORCEO_{t-1}$	+					0.003	-0.002
						(0.015)	(0.015)
Constant		0.319[c]	0.451[b]	0.486[b]	0.518[c]	0.518[c]	0.484[c]
		(0.175)	(0.194)	(0.196)	(0.196)	(0.197)	(0.196)
Time Indicators		Yes	Yes	Yes	Yes	Yes	Yes
Individual Effects		Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
N		1098	1013	1013	1013	1013	1013
Adjusted R^2		0.16	0.17	0.16	0.16	0.16	0.16

Standard errors appear in parantheses. [a] significant at the at the 1% level; [b] significant at the 5% level; [c] significant at the 10% level, (two tail tests). Heteroskedasticity and cluster (by firm) robust standard errors are used. Time indicators are included when jointly significant at the 5% level or less (two tail tests). Individual effects are included as per the F-Test; Breusch Pagan LM Test; Hausman Test; and Robust Hausman Test.

Table 6. Regressions to analyse the lagged effect of Nationality on Firm Perfomance as measured by Solvency

		SOLV					
	Expected Sign	(1)	(2)	(3)	(4)	(5)	(6)
OUTTEN	-	-0.001	-0.003	-0.003	-0.003	-0.003	-0.003
		(0.003)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
OUTINS	-	0.008	0.004	0.004	0.003	0.006	0.004
		(0.017)	(0.017)	(0.017)	(0.016)	(0.017)	(0.017)
FINEXP	-	-0.093[b]	-0.089[b]	-0.089[b]	-0.087[b]	-0.093[b]	-0.092[b]
		(0.041)	(0.040)	(0.039)	(0.040)	(0.041)	(0.039)
OUTS	-	-0.043	-0.050[c]	-0.050	-0.046[c]	-0.050[c]	-0.0476[c]
		(0.030)	(0.029)	(0.029)	(0.028)	(0.029)	(0.027)
BSIZE	-	0.000	-0.001	-0.001	-0.001	-0.001	-0.001
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
AUD	-	-0.012	-0.013	-0.013	-0.012	-0.012	-0.012
		(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
CONC	-	-0.052	-0.064	-0.064	-0.056	-0.064	-0.056
		(0.087)	(0.079)	(0.079)	(0.080)	(0.079)	(0.080)
FOR	-	0.032	0.042	0.043	0.027	0.041	0.025
		(0.090)	(0.092)	(0.091)	(0.091)	(0.089)	(0.089)
INSIDE	-	-0.014	-0.007	-0.007	-0.006	-0.008	-0.007
		(0.018)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
LIST	-	-0.016	-0.014	-0.014	-0.017	-0.013	-0.015
		(0.021)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)
BONUS	-	-0.033[b]	-0.034[b]	-0.033[b]	-0.033[b]	-0.033[b]	-0.033[b]
		(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
IB-MIX	+	0.146	0.154	0.154	0.154	0.153	0.152
		(0.135)	(0.145)	(0.145)	(0.144)	(0.140)	(0.140)
P-MIX	+	-0.076	-0.046	-0.046	-0.043	-0.042	-0.040
		(0.053)	(0.051)	(0.052)	(0.052)	(0.052)	(0.053)
REINS	-	0.163[c]	0.150[c]	0.152[c]	0.142	0.152[c]	0.144
		(0.084)	(0.090)	(0.089)	(0.092)	(0.088)	(0.089)
LnSIZE	-	-0.027[a]	-0.027[a]	-0.027[a]	-0.027[a]	-0.026[a]	-0.026[a]
		(0.008)	(0.007)	(0.007)	(0.007)	(0.008)	(0.008)
AGE	-	0.002[a]	0.003[a]	0.003[a]	0.003[a]	0.002[a]	0.003[a]
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
$FORBD_{t-1}$	-		-0.007				
			(0.045)				
$FORAMBD_{t-1}$	-			-0.010			-0.002
				(0.080)			(0.087)
$FOREUBD_{t-1}$	-				-0.088 [ł]		-0.087
					(0.055)		(0.056)
$FORCEO_{t-1}$	-					-0.013[b]	0.002[c]
						(0.007)	(0.087)
Constant		0.728[a]	0.729[a]	0.728[a]	0.731[a]	0.728[a]	0.734[a]
		(0.155)	(0.166)	(0.165)	(0.163)	(0.159)	(0.160)
Time Indicators		No	No	No	No	No	No
Individual Effects		Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
N		1098	1013	1013	1013	1013	1013
Adjusted R^2		0.13	0.14	0.14	0.15	0.15	0.15

Standard errors appear in parantheses. [a] significant at the at the 1% level; [b] significant at the 5% level; [c] significant at the 10% level, (two tail tests). Heteroskedasticity and cluster (by firm) robust standard errors are used. Time indicators are included when jointly significant at the 5% level or less (two tail tests). Individual effects are included as per the F-Test; Breusch Pagan LM Test; Hausman Test; and Robust Hausman Test. [ł] $FOREUBD_{t-1}$ has a p value of 11%

Table 7. Regressions to analyse for a Post-Financial Crisis Differential Effect

	ROE	
	Pre-FC	Post-FC
FORAMBD	0.160[c]	-0.007
	(0.083)	(0.065)
FOREUBD	0.027	0.085
	(0.079)	(0.065)
FORCEO	0.013	-0.044[b]
	(0.017)	(0.022)
Control Variables	Yes	
Time Indicators	Yes	
Individual Effects	Fixed	
N	1098	
Adjusted R^2	0.19	

Standard errors appear in parantheses. [a] significant at the 1% level; [b] significant at the 5% level; [c] significant at the at the 1% level, (two tail tests). Heteroskedasticity and cluster (by firm) robust standard errors are used. FC refers to the 2008 Financial Crisis.

Table 8. Arellano-Bond GMM estimates

		Dependent Variable		
	Expected Sign	ROE	Expected Sign	SOLV
OUTTEN	+	-0.002	-	-0.004
		(0.008)		(0.003)
OUTINS	+	0.093[b]	-	-0.038[b]
		(0.040)		(0.017)
FINEXP	+	0.085	-	-0.038
		(0.058)		(0.035)
OUTS	+	0.042	-	-0.033
		(0.076)		(0.028)
BSIZE	+	0.003	-	-0.003[c]
		(0.006)		(0.002)
AUD	+	0.035	-	-0.018
		(0.025)		(0.012)
CONC	+	-0.089	-	-0.028
		(0.189)		(0.066)
FOR	+	0.040	-	-0.141
		(0.189)		(0.094)
INSIDE	+	0.128[b]	-	-0.019
		(0.065)		(0.020)
LIST	+	0.091	-	-0.011
		(0.084)		(0.026)
BONUS	+	0.030	-	-0.043[b]
		(0.043)		(0.021)
IB-MIX	-	0.047	+	0.032
		(0.072)		(0.046)
P-MIX	-	0.187[c]	+	0.073[c]
		(0.107)		(0.039)
REINS	+	0.024	-	0.019
		(0.148)		(0.065)
LnSIZE	+	-0.021	-	-0.014[c]
		(0.025)		(0.008)
AGE	+	-0.007[a]	-	0.002[a]
		(0.002)		(0.001)
$Dependent_{t-1}$		0.505[a]		0.640[a]
		(0.126)		(0.142)
FORAMBD	+	0.403	-	0.044
		(0.186)		(0.094)
FOREUBD	+	0.439	-	-0.127
		(0.301)		(0.137)
FORCEO	+	0.000	-	0.015
		(0.031)		(0.020)
Constant		0.154		0.359[a]
		(0.304)		(0.142)
Time Indicators		Yes		No
Autocorrelation Test		Satisfied		Satisfied
Sargan Test		Satisfied		Satisfied
N		930		930

Standard errors appear in parantheses. [a] significant at the at the 1% level; [b] significant at the 5% level; [c] significant at the 10% level, (two tail tests). Heteroskedasticity and cluster (by firm) robust standard errors are used. Time indicators are included when jointly significant at the 5% level or less (two tail tests). Individual effects are removed by first differencing. The number of lags used as instruments are limited to one to ensure the total number of instruments are less than the number of groups.