

Do foreign chief executive officers perform better than local ones?

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ABSTRACT

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This paper examines the relationship between the presence of the foreign chief executive officer (CEO) as a director of a firm and firm performance in Saudi Arabia. Performance is measured in terms of a business' profitability proxy, return on assets (ROA), and the market performance measure, Tobin's Q. Herein, we use a sample of non-financial companies that have been listed in Saudi Arabia between 2005 and 2016. The results reveal that firms managed by a local CEO outperform firms helmed by their foreign counterparts. They also support the notion that the success of managing directors in emerging markets requires cultural and inter-cultural skills.

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1. Introduction

Since the oil industry boom, which took place between 2003 and 2014, there has been an increasing inflow of expatriate employers and directors into the middle east countries from overseas. Collings et al. (2007) highlighted how this type of prosperity heightens the demand for those who are skilled in managing such markets, which happen to differ from their own – institutionally, culturally and economically. Dowling and Welch (2004) pointed out the increase in discussion surrounding the issue of foreign directors' failures and their general performance. However, for emerging markets, these managers with international experience are useful because of their strategic role, as well as being essential to make up for the lack of qualified talent in these up-and-coming countries, particularly on a senior executive level (Lenartowicz & Johnson, 2007). The New York-based Association of Executive Search Consultants (AESC) carried out a survey which examined recruitment in various important emerging markets. It was found that around 12 per cent of multinational companies (MNCs) in emerging markets were unable to hire local senior executives (Bindra, 2008). Furthermore, it was argued by Carpenter et al. (2000) that having international management at the top of an organisation will positively influence a company's performance from a financial perspective. Indeed, Daily et al. (2000) demonstrated that companies who have international CEOs perform better financially than those who have CEOs with little to no global experience. As well as fiscal performance, the international understanding of top management members can inform their actions when it comes to strategy (Caligiuri et al., 2004; Tihanyi et al., 2000). Herrmann and Datta (2006) found that international senior executives were more likely to prefer direct foreign investments, as they perceived the risks of foreign expansion to be lower than other managers. Nevertheless, there are other factors affecting the performance of expatriate managers, including life circumstances, openness to other cultures, flexibility and motivation (Arthur & Bennett, 1995). Additionally, it is their unique competencies that determine the company's success, according to Caligiuri and Tarique (2009). These include technical ability and knowledge of the corporation and industry, knowledge of the local market and how adaptable they are to the foreign culture (Bonache & Fernandez, 1999; Cascio, 2006). However, companies often overemphasise the technical knowledge of new international managers and do not make cultural and contextual considerations (Brewster, 1991). Existing literature suggests that executives lacking in knowledge of the local context can negatively affect their own decision-making abilities, thus posing a threat to performance in the local, emerging market (Lord & Ranft, 2000; Makino & Delios, 1996). Eriksson et al. (1997) and Harvey et al. (1999), amongst other researchers,

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demonstrated that it is difficult to acquire this information given the implicit nature of emerging markets. Even details about the local market that are explicit can be hard to obtain, depending on the country, as a result of poor infrastructure when it comes to information collation (Lord & Ranft, 2000). One specific flaw of recruiting an international manager is the need for them to adapt to the regional culture. Harvey (1996) states that local managers, in comparison with their international counterparts, have the advantage with regards to being politically and culturally sensitive. It is essential that those employed from overseas acclimatise to the local region, as in order to be successful, they need to possess cultural and inter-cultural skills, as well as be competent enough to negotiate in their new surroundings (Slocum et al., 2006). Adaptation to the new locality will be influenced by how different the home and host countries are from a cultural perspective. The present study takes a sample of non-financial companies from the Saudi Arabian market and investigates the difference, in terms of performance, between companies with local CEOs and businesses with international CEOs, respectively. The findings highlight the existence of a negative relationship between the presence of an international CEO and the operational success of companies in Saudi Arabia. This research also contributes to current academic literature on the topic by utilising the Saudi context, which is unique amongst developed and other developing economies with regards to several features. Firstly, most of the population are Muslim (97%), which translates into a very conservative presentation of the religion's laws and customs. Islam is central to day-to-day life in Saudi Arabia and is responsible for informing societal interactions. There is evidently a relationship between religion and business in the country. Secondly, the economy in Saudi Arabia depends on the income generated from oil, with the price of the commodity influencing the economy. For example, the country maintained high levels of growth when oil prices were high, however when oil prices dropped in 2014, economic growth also slowed down. The market in Saudi Arabia is volatile compared with others because of the fluctuation of oil prices, whereby there can be huge variations in behaviour, needs and perceptions. Lastly, most firms are local and family-owned in the Saudi arena. Unlike other developed and developing countries, expatriate managers are appointed mainly in multinational companies where they are expected to transfer international characteristics over to the firm.

This paper is set out as follows: the second part provides a detailed description of the thesis' theoretical arguments, and hypotheses are also developed in this section; the third part describes the sample and methodology; the fourth part outlines the findings of the study, and; the fifth section consists of a discussion and conclusion.

2. Literature review and hypothesis development

In recent decades, there has been increased research interest in executive management. Hambrick and Mason's book, *Upper Echelons: The Organization as a Reflection of Its Top Managers* (1984) was a starting point for many. In this publication, they proposed the theory that executive managers are a crucial causal factor in the performance of the organisation (Carpenter et al., 2004; Hambrick & Mason, 1984; Loane et al., 2007). It was stated by Hambrick (2007) that it is essential to take into consideration top management's respective characters and preferences in order to understand the actions and performance of their organisations; a theory which uses the assumption of bounded rationality as its foundation (Aharoni, 2011). This assumption underpins the hypothesis that complicated and uncertain circumstances can only ever be interpreted rather than understood objectively (Carpenter et al., 2004). In turn, this means that executive management take action in accordance with how they perceive a situation. Upper-echelons theory holds that such perceptions are built on the values, experiences and character of managers (Hambrick, 2007). Some of the earlier research into upper-echelons theory looked at how diverse management characteristics, such as educational background, age, function and so on, influenced outcomes for companies, for example in terms of their competitive actions (Nielsen, 2010a). Carpenter et al. (2000) put forward the argument that the degree of internationalisation of executive managers can positively influence a company's financial performance. Meanwhile, Caligiuri et al. (2004), Geletkanycz (1997), and Tihanyi (2000) demonstrated that the degree of internationalisation of executive managers is a predictor of their preferred strategic behaviours. Herrmann and Datta (2006) also found that, compared to other managers, top executives who have international experience are likely to opt for foreign direct investments as they do not perceive them to be as risky. Berry (2006) holds that the international investments made by a company might be held in a positive light by shareholders if they see the firm as having top international executives with the right skills and abilities to deal with overseas operations. In spite of the popular framework that upper-echelon theory provides for the investigation of the effects of the internationalisation of top executives (Carpenter et al., 2004), it is posited by critics that it is insufficient as a sole theoretical foundation for the exploration of a relationship between company outcomes and the characteristics of top management (McIntyre et al., 2007; Pettigrew, 1992). That is, although the theory argues that the characteristics of top managers are of relevance (Carpenter et al., 2004; Nadkarni & Herrmann, 2010), it does not fully explain exactly how said characteristics are associated with the performance of a company (Nielsen, 2010a; Pettigrew, 1992). Various theorists from the Carnegie school have sought to integrate upper-echelons theory with resource-dependence theory (Cyert & March, 1963). These models both argue that the decisions of management are the product of manager characteristics and bounded rationality, as opposed to simply seeking the best economic outcome (Hambrick & Mason, 1984; Nadkarni & Herrmann, 2010). Resource-dependence theory, similarly to upper-echelons theory, emphasises how behaviour of top managers is influenced by their experience, values and attitudes (Pfeffer & Salancik, 1978). It is the assumption of both frameworks that a company's strategy, performance and environment are affected by the behaviour and decision-making of top executives (Hambrick & Mason, 1984; Pfeffer & Salancik, 1978). Resource-dependence theory holds that the intention of the primary tasks of top executives is to try to minimise the company's bounds and uncertainties by finding new ways to obtain resources, as well as strengthening relationships with company stakeholders (Schoorman et al., 1981). In line with this, top executives are key to link the company

with the environment in which it is situated (Nielsen, 2010). The company gains human capital to obtain international experience, abilities and knowledge, as well as relational capital with regards to having a network of stakeholders from overseas (Hillmann & Dalziel, 2003; Nielsen, 2009). These benefits may help to reduce uncertainty and provide increased knowledge of the emerging market (Sambharya, 1996). In addition, the networks that top executives possess can be used for cooperating with international stakeholders (Ruigrok et al., 2006). Said networks are valuable in terms of knowledge acquisition and also personal and professional improvement for the manager themselves (Useem, 1984). Participating in the top management team in an overseas organisation allows managers to come into contact with differing styles of management, as well as the issues faced in overseas markets (Young et al., 2001). These points suggest that recruiting an international manager can help in the minimisation of uncertainty at the same time as reducing environmental constraints (Zahra & Pearce, 1989). Stakeholders may see the experience and networks of international managers as critical to how the company performs in the emerging market, and consequently might place a high value on these attributes. It could indeed be the case that recruiting an international top manager provides security for the wealth of stakeholders in the long-term (Walters et al., 2008). The definition of market-specific knowledge is the possession of a competent grasp of details about the region or country, and can include information about the economy, language, politics, culture and the society overall. Lord and Ranft (2000) highlighted the fact local knowledge is complicated and wide-reaching. An awareness of the locality when it comes to emerging markets may be more couched than it is in other places, and thus less tangible (Eriksson et al, 1997; Harvey et al., 1999). Even statistics about the local market that are explicit can be hard to get, depending on the country, as a result of the poor infrastructure (Lord & Ranft, 2000). This may also be a product of information quickly becoming outdated due to fast-moving changes in the political landscape and in the economy. This means that local knowledge in countries with emerging markets will vary significantly from those with developed markets, implying that when enhancing the skills and abilities of top managers, the local context must be taken into consideration.

The market in Saudi Arabia is one such example. 97 per cent of the population are Muslim, and the type of Islam adhered to in the country is very conservative. A huge part of the national identity is its key role in international Islam, as it is the location of the two holy cities of Makkah and Medina. The religion is central to day-to-day life in Saudi Arabia and is responsible for informing societal behaviour and interactions, which means there is clearly a relationship between faith and business in the nation. Moreover, the economy in Saudi Arabia depends on the income generated from oil, and the price of oil in turn influences the economy. For example, in 2000 it grew by 5.6%, and along with peak oil prices, grew by 6.3% in 2008. This highlights that the economy improved when oil prices went up. The government consequently spent some of its savings on social spending and funding different industries to try and encourage more growth, as well as attempting to make sure that life was still affordable for citizens. Conversely, when oil prices went down, the government cut its spending, slashed some subsidies and certain taxes were imposed. The market in Saudi Arabia is complicated, as there can be huge variations in behaviour, needs and perceptions. Furthermore, it is in constant flux as a result of the fluctuation of oil prices, which consequently affects the growth of the economy, as well as influencing the reforms and changes to the law that have taken place. Thus, there is a difference in emerging markets between business knowledge which is clear, controllable and accessible, and knowledge which is implicit, localised and subject to rapid change. Some of this information cannot be transferred to other areas. Local knowledge, which is implicit and hard to control, can negatively influence the performance of managers. This indicates that it is necessary to adjust management strategies to the circumstances of the emerging market. The conclusions drawn from previous literature are mixed. While some studies propose the presence of a positive impact of the international experience of the CEO on performance, others suggest that emerging markets are complicated and dynamic in nature, therefore local market knowledge is more important. In light of the aforementioned research, this paper has generated the following hypotheses:

H₁: A firm's profitability and the presence of a foreign CEO are positively correlated.

H₂: A firm's market performance and the presence of a foreign CEO are positively correlated.

3. Data and research method

3.1. Data

The study sampled non-financial listed companies from 2015 to 2016 in six GCC markets. Data Stream and the financial statements of the countries were the source of the financial data. The firms were divided into varying industries in accordance with the main activities of the business, based on the international industrial classification. The six categories were as follows: Consumer Discretionary, Consumer Staples, Industry, Materials, Real Estate, and Utilities.

3.1.1 Performance measures

The most commonly used performance measures are accounting and market measures, the former of which utilise the accounting data sourced from the financial statements of the firm (Verweire & Berghe, 2004). Researchers make use of this type of data as it is beneficial in multiple ways. Firstly, this type of data is easily accessible (Richard et al., 2009). In addition, this measure of performance can highlight the company's economic value (Danielson & Press, 2003). Financial statements are how management and external parties communicate regarding a firm and thus, this data represents information about the genuine performance of a firm (Finkelstein & Cooper &, 2010). Nevertheless, these performance measures have come under fire for a number of reasons. One of these criticisms is that past data will not necessarily lead to the accurate prediction of

future performance (Verweire & Berghe, 2004). Furthermore, it may be that these figures can be manipulated in some way. A further measure of performance is the base measure of the market, which measures performance as the market value of equity to the book value. This is advantageous in numerous respects, the first of which is that it focuses on the future, where the company's current value is the discounted future cash flow, which means it is therefore, an accurate reflection of opportunities both in the present and in the future (Fisher & McGowan, 1983). In addition, this measure is more useful for determining how much the company's intangible assets are worth (Lev, 2001). Furthermore, it is not influenced by the discretion of the managers.

3.1.2. Control Variables

In this paper, various control variables are put into the regression models. These variables are associated with the performance of the company encompass size, leverage, growth, operating cash flow, capital expenditure, asset turnover, and assets tangibility.

Firm size: The control variable in the regression is the size of the company (found by calculating a natural logarithm of total assets). The performance of a company can be influenced by its size in several ways. For instance, it has been suggested (Hall & Weiss, 1967; Gale, 1972; Gschwandtner, 2005) that larger companies have an advantage in terms of having more capabilities, as well as benefitting from economies of scale, amongst other advantages. This leads to increased efficiency compared to small companies. This is then evidenced in their increased profit.

Leverage: Given that the capital of a company may affect either or both of its equity and debt, companies try to ensure that they generate the maximum amount of profit from their capital structure. The regression controls for the company's financial leverage measured as a total liability to total assets. There is an increase in an equity's value when there is a low cost of capital (Gitman, 2003). On the other hand, increase capital and thus lower company value may be caused by increases to the cost of capital. Things such as the effect of tax, the costs of agencies, financial distress, and the cost of bankruptcy may cause a negative impact of leverage on company performance (Modigliani & Miller, 1963; Graham, 2000; Myers, 2001).

Growth: One control variable which was added is the change of total assets. The performance of a business is reflected in its growth (Davidsson et al., 2009). Bogner et al. (1996) demonstrated that economic circumstances can cause businesses to alter the size of their assets. Frank (1988) put forward the argument that future performance can be predicted by the recent growth of a company. There are other findings to show that a company's growth rate is a key factor that is taken into consideration by investors in the selection of their investment portfolio (De Jong et al., 2014).

Asset turnover: Another control variable which was added is the return on sales or asset turnover ratio. Some of the literature has investigated how company performance is predicted by varying financial ratios. Two of the most commonly used ratios are profit margin and asset turnover. The latter is how managers improve efficiency by creating revenue using assets, and the former is the measurements of a company's capability to create profit from sales. Fairfield and Yohn (2001) looked at how alterations to these ratios predicted change to future performance and determined that a company's value reacts to the asset turnover ratio more as this is more assiduous.

Operating cash flow: This paper added operating cash flow to total assets as a control variable, the use of which is as a proxy for firm liquidity. A company must be able to generate cash flow in order to survive and grow (Holtz-Eakin et al., 1994).

3.2. Research method

In order for the hypotheses to be tested, there was an estimation of the following ordinary least squares (OLS) regression (Eq. (1)) with a firm level clustered robust standard error. For robustness, both hypotheses were also tested using the GMM model. In addition, the instruments used in the system GMM are the lag variables and first differences. Blundell and Bond (1998) suggest that the system GMM can be used for predicting the model's endogenous variables. Three model specification tests exist for testing the instruments' validity in this model, the first of which is Hansen's J of over-identifying. This is used rather than Sargan for over-identification restriction. The second test is for serial autocorrelation using STATA by default reports of AR (1) & AR (2) (Arellano & Bond, 1991). In this model, what is of more importance is the second order autocorrelation AR (2). Thus, there is a check for the absence of second serial autocorrelation. The third test ensures that there are fewer instruments than groups, as the use of too many instruments can lead to the over fitting of exogenous variables as well as a failure to extract the endogenous element (Arellano & Bond, 2006).

$$Perfm_{i,t} = \beta_0 + \beta_1 CEO_{i,t} + \beta_2 Size_{i,t} + \beta_3 ROA_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 Capex_{i,t} + \beta_6 OFC_{i,t} + \beta_7 AssetTN_{i,t} + \beta_8 PPE_{i,t} + \beta_9 Year_{i,t} + \varepsilon_{i,t} \quad (1)$$

where, *Perfm* is firm performance proxies, profitability (ROA), and market performance (Tobin's Q), *CEO* is a dummy variable that takes one if the chief executive officer is an expatriate and 0 otherwise, *Size* is the firm size measured as natural logarithm of total assets, *Leverage* is the firm financial leverage calculated as total liability to total assets, *Capex* is the ratio of capital expenditure to total assets, *OFC* is a measure of firm's liquidity, measured as the operating cash flow to total assets, *AssetTN* refers to the asset's turnover ratio, which is calculated as the sales to total assets. *PPE* is the property, plant, and equipment to total assets.

3.3. Descriptive statistics

Table 1 shows the descriptive statistics for the main variables of the study. Variables were winsorized 1st and 99th percentile to reduce the outlier effects.

Table 1
Descriptive statistics

	Mean	Median	SD	25th	75th
ROA	0.07	0.06	0.10	0.02	0.11
Size	13.1	13	1.5	12.2	13.8
Leverage	0.36	0.35	0.2	0.19	0.53
Capex	0.11	0.06	0.16	0.02	0.12
OCF	0.10	0.08	0.11	0.03	0.16
Asetturn	0.60	0.44	0.58	0.22	0.78
PPE	0.48	0.51	0.23	0.3	0.67

ROA is firm profitability, and Q is market performance measured by Tobin's Q. CEO is a dummy variable that takes one if the chief executive officer is an expatriate and 0 otherwise. Size is the firm size measured as natural logarithm of total assets. Leverage is the firm financial leverage calculated as total liability to total assets. Capex is the ratio of capital expenditure to total assets. OCF is a measure of firm's liquidity, measured as the operating cash flow to total assets. AsetTN refers to the asset's turnover ratio. It is calculated as the sales to total assets. PPE is the property, plant, and equipment to total assets.

Table 2 reports the correlation matrix between variables. There is a positive and significant relationship between profitability of the firms (ROA) and the CEO, which supports H₁. There is a negative relationship between market performance Q with existence of expatriate CEO. This relationship contradicts with H₂. Since the correlation between variables findings do not consider other variables that affect the performance, we rely more on our next regression analysis because it takes into account several control variables.

Table 2
Pairwise correlations

Variables	ROA	Debt EQ	CEO	size	leverage	OCF	AsetTurn	Capex	PPE
ROA	1								
Q	0.108*	1							
CEO	0.011	-0.081*	1						
size	0.072*	-0.049*	0.012	1					
leverage	-0.267*	-0.083*	0.078*	0.153*	1				
OCF	0.454*	0.072*	0.043	0.065*	-0.113*	1			
AsetTurn	0.280*	0.094*	0.165*	-0.168*	0.144*	0.228*	1		
Capex	0.083*	0.047*	0.096*	0.093*	0.083*	0.081*	-0.009	1	
PPE	-0.038*	0.047*	-0.116*	0.105*	0.181*	0.100*	-0.201*	0.216*	1

ROA is firm profitability, and Q is market performance measured by Tobin's Q. CEO is a dummy variable that takes one if the chief executive officer is an expatriate and 0 otherwise. Size is the firm size measured as natural logarithm of total assets. Leverage is the firm financial leverage calculated as total liability to total assets. Capex is the ratio of capital expenditure to total assets. OCF is a measure of firm's liquidity, measured as the operating cash flow to total assets. AsetTN refers to the asset's turnover ratio. It is calculated as the sales to total assets. PPE is the property, plant, and equipment to total assets. The * is significance level at the 5% levels.

3.4 Regression results and discussion

Model 1 is employed to test H₁ and H₂. The ordinary least square model results are reported in Table 3. We used a dummy variable to differentiate between local and expatriate CEO. The dummy takes 1 if the CEO is expatriate and zero if the CEO is local. H₁ and H₂ predict negative positive relationship between the existence of expatriate CEO with profitability (ROA) of the firms and market performance (Q). As shown in Table 3, we find negative and significant relationship between the independent variable (expatriate CEO) and both proxies for firm performance ROA ($t = -2.9$; $P < 0.01$) and Q ($t = -4.72$; $P < 0.01$), which contradict with H₁ and H₂. The results indicate that firms headed by expatriate CEO underperform the ones headed by local CEO. The results also support the notion that some established tacit cultural norms may not be transferable. This intrinsic and difficult-to-control nature of local knowledge determines its significant impact on the expatriate manager's business performance. The results for control variables are consistent with earlier studies in emerging markets. Firm size has significant and positive relationship with ROA ($t = 4.12$; $P < 0.01$), but negative relationship with Q ($t = -8.81$; $P < 0.01$). Large firms benefit from economic of scale, therefore, they are more profitable than small firms. However, large firms may suffer more from the agency problem, thus, the market value has negative relationship with firms' size. In line with earlier studies in emerging markets and GCC markets, the leverage has negative relationship with ROA ($t = -6.87$; $P < 0.01$) and Q ($t = -3.97$; $P < 0.01$). This is because profitable firms in emerging markets prefer to use internally generated cash flow over the external funds. Capital expenditure to total assets has positive but not significant relationship with ROA ($t = 1.16$; $P > 0.1$), but significant relationship at 10% with Q ($t = 1.93$; $P < 0.1$). According to Table 3, OLS regression results comparing performance of expatriate CEO and local CEO Operating cash flow to total assets and asset turnover ratio have positive and

significant relationship with both proxies of performance ROA ($t = 12.2$; $P < 0.01$) and Q ($t = 4.73$; $P < 0.01$), and ROA ($t = 5.70$; $P < 0.01$) and Q ($t = 4.23$; $P < 0.01$), respectively. The tangibility of the assets has negative relationship with ROA ($t = -2.64$; $P < 0.01$), and positive relationship with Q ($t = 1.92$; $P < 0.1$).

Table 3

Regression results comparing performance between firms managed by foreign CEO and local CEO

	OLS		Year and industry fixed effects	
	ROA	Q	ROA	Q
CEO	-0.02*** (-2.9)	-0.40*** (-4.72)	-0.01* (-1.70)	-0.38*** (-4.04)
size	0.009*** (4.12)	-0.25*** (-8.81)	0.01*** (4.18)	-0.26*** (-8.20)
leverage	-0.12*** (-6.87)	-0.74*** (-3.97)	-0.11*** (-5.51)	-0.69*** (-3.43)
Capex	0.02 (1.16)	0.37* (1.93)	0.003 (0.17)	0.23 (1.33)
OCF	0.46*** (12.2)	2.42*** (4.73)	0.43*** (10.84)	2.24*** (4.36)
AsetTurn	0.05*** (5.70)	0.49*** (4.23)	0.05*** (5.40)	0.48*** (4.34)
PPE	-0.03*** (-2.64)	0.38* (1.92)	-0.008 (-0.74)	0.52** (2.43)
Constant	-0.06** (-2.13)	4.86*** (11.90)	-0.06** (-2.102)	5.50*** (12.07)
Year			Yes	Yes
Industry			Yes	Yes
Observations	949	868	949	868
R-squared	0.51	0.29	0.56	0.37

The table shows the regression results for the sample of firms in Saudi Arabia between 2005 and 2016. The dependent variable is *Perfm*: firm performance proxies, profitability (ROA), and market performance (Tobin's Q). CEO is a dummy variable that takes one if the chief executive officer is an expatriate and 0 otherwise. Size is the firm size measured as natural logarithm of total assets. Leverage is the firm financial leverage calculated as total liability to total assets. Capex is the ratio of capital expenditure to total assets. OCF is a measure of firm's liquidity, measured as the operating cash flow to total assets. AssetTN refers to the asset's turnover ratio. It is calculated as the sales to total assets. PPE is the property, plant, and equipment to total assets. The numbers in the parentheses are the robust standard errors by firm. *, ** and *** are significance level at the 10%, 5% and 1% levels, respectively.

3.5 Robustness check

To confirm the robustness of the findings, we attempt different specifications. To avoid the endogeneity problem, the dynamic panel model (system GMM) is employed. The results of the system GMM are reported in Table 4. The result of the CEO is unchanged.

Table 4

System GMM results comparing performance between firms managed by foreign CEO and local CEO.

	ROA	Q	ROA	Q	ROA
L.ROA	0.914*** -3.809		Capex	-0.01 (-0.09)	0.54 -0.53
L.Q		0.101*** (3.17)	OCF	0.06 (0.45)	1.66 (1.38)
CEO	-0.192* (-1.809)	-1.184* (-1.670)	AsetTurn	0.07** (2.05)	0.89* (1.86)
size	0.001 (0.112)	-0.501*** (-3.664)	PPE	0.051 (0.42)	2.22*** (2.88)
leverage	-0.02 (-0.38)	0.085 (0.14)	Constant	-0.045 (-0.457)	6.56*** (3.60)
Observations	948	826			
Number of firm_iden	100	97			
Instruments	37	85			
AR2	0.914	0.12			
Hansen	0.383	0.219			

The table shows the system GMM regression results for the sample of firms in Saudi Arabia between 2005 and 2016. The dependent variable is *Perfm*: firm performance proxies, profitability (ROA), and market performance (Tobin's Q). The lag of the dependent variable is also added in the dynamic model. CEO is a dummy variable that takes one if the chief executive officer is an expatriate and 0 otherwise. Size is the firm size measured as natural logarithm of total assets. Leverage is the firm financial leverage calculated as total liability to total assets. Capex is the ratio of capital expenditure to total assets. OCF is a measure of firm's liquidity, measured as the operating cash flow to total assets. AssetTN refers to the asset's turnover ratio. It is calculated as the sales to total assets. PPE is the property, plant, and equipment to total assets. The numbers in the parentheses are the robust standard errors by firm. *, ** and *** are significance level at the 10%, 5% and 1% levels, respectively.

4. Conclusion

This paper has examined whether the performance of firms headed by expatriate CEO perform better than firms headed by local directors. Foreign director is expected to benefit from the CEO with international experience from different perspective including international experience, abilities and knowledge, as well as relational capital with regards to having a network of

stakeholders from overseas. These benefits may help to reduce uncertainty and to provide increased knowledge of the emerging market. The results have revealed that the presence of foreign director had negative relationship with the firm's performance proxies. Our results are robust under static and dynamic system GMM models.

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