BRIDGING THE CULTURAL DIVIDE:
THE ROLE OF FOREIGN DIRECTORS IN CROSS-BORDER MERGERS

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ABSTRACT

This study examines the influence of foreign directors on the advising role of corporate boards. I use cross-border mergers as a test of the ability of foreign directors to provide effective strategic advising. Social science literature argues that outsiders can positively influence groups by enhancing the quality of their decision-making.

I find that firms with foreign directors on their boards are more likely to engage in cross-border mergers, engage in a higher number of cross-border mergers, and put more dollars in cross-border mergers. Consistent with the fact that outsiders positively impact groups, I find that firms with foreign directors are more likely to engage in non-diversifying mergers, friendly mergers, and acquiring privately-held targets. Moreover, I find that firms with foreign directors have higher announcement-period returns, pay less for their cross-border targets, and acquire undervalued targets. I also find that firms with foreign directors are more likely to use equity in their payment for cross-border targets.

This study answers important questions regarding the effect of diversity in corporate boards. This research expands our understanding of how board diversity in the form of foreign directors can enhance board advising effectiveness. As companies seek foreign acquisitions, they face difficult legal, cultural, and informational challenges that can impede merger competition. Foreign directors play a key role in reducing these challenges and help to bridge the cultural gap between the acquirer and target.