8-2024

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Journal of Management
Vol. XX No. X, Month XXXX 1–31
DOI: 10.1177/01492063241265039

Foreign Director Exit in the Midst of Deteriorating Bilateral Political Relations

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Amid global geopolitical realism pushing for a race of hegemonic rivalry nowadays, an outflow of global human talents is a pressing organizational concern. Our study draws attention to the underexamined phenomenon of the exit of foreign directors from their host countries during geopolitical tensions. Theorizing from a sensemaking logic, we posit that the deterioration of bilateral political relations serves as an unexpected event that activates foreign directors' schemas for dual identity conflict, propelling them to react behaviorally to such identity threats by exiting the board in the host country. In addition, we further posit that the sensemaking process is contingent on how the foreign director draws cues from the embedded social context, including organizational identification, socialization and homophily effect, and socioemotional climate. Our empirical analyses from a sample of 1,014 foreign directors in China from 1999 to 2018 provide strong and robust support for the hypotheses. This study instills important theoretical insights into the transcending impacts of international relations and geopolitics, international governance and foreign directors, and the situated cognitive process of sensemaking regarding the intertwining effects of cognitive schema and social contexts.

Keywords: *bilateral political relations; dual identity conflict; foreign directors; geopolitical tensions; sensemaking theory*

Acknowledgement: This study is supported by the National Natural Science Foundation of China (NSFC 72102127, 72172075), and Singapore Ministry of Education Tier 1 Grant 2023-2024 (001551-00001).

Supplemental material for this article is available with the manuscript on the JOM *website.*

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In recent years, with the surge of de-globalization and the escalation of international conflicts, the world has been confronted with mounting economic, social, and geopolitical uncertainties. Scholars and practitioners in international business are now closely scrutinizing bilateral political relations and the far-reaching ramifications they entail (Brouthers, Chen, Li, & Shaheer, 2022; Cui, Vertinsky, Wang, & Zhou, 2023). Deterioration of bilateral political relations, defined as the extent to which bilateral political relations become worse due to conflictual or confrontational events in global affairs (Kinne & Maoz, 2023), can trigger a series of transformations across various social domains and have cascading effects on perceptions, actions, and strategies at different levels (Petricevic & Teece, 2019). Extant research has shed considerable light on how bilateral political relations shape firms' cross-border activities and performance, such as cross-border acquisition premium (Bertrand, Betschinger, & Settles, 2016), acquisition ownership (Yiu, Wan, Chen, & Tian, 2022), and new subsidiary location choice (Li, Meyer, Zhang, & Ding, 2018). Scholars have also investigated how bilateral political relations influence the responses of multinational enterprises (MNEs) in host countries, such as rhetorical strategies (Tian, 2022), decoupling strategies (Cui et al., 2023), and geopolitical jockeying (Lubinski &Wadhwani, 2020). However, the focus on individual foreign actors in a host country is surprisingly limited, despite the fact that they, like firms, also carry the connotation of foreignness and outsidership (Zaheer, 1995), thus facing legitimacy and stereotype threats in the host country (Harvey, Novicevic, Buckley, & Fung, 2005). This study aims to fill this gap by extending the inquiry of bilateral political relations to individual foreign actor level, thus bridging the macro-micro divide in this literature.

A unique and important trait of foreign actors situated in a host country is dual identity, defined as simultaneous identification with one's ethnocultural home country and one's host country of residence (Pant & Ramachandran, 2017; Vora, Kostova, & Roth, 2007). Due to the natural ingroup-outgroup identity divide, such identity duality is easily turned into social psychological tension when bilateral political relations between the foreign actor's home and host countries deteriorate (Lee, Kim, & You, 2023). Foreign directors in a host country are likely to be the first group of foreign actors to encounter dual identity conflicts when bilateral political relations deteriorate. Past studies found that it is typical for directors to resign as a response to organizational crisis, because their strong identity saliency, defined as "the probability that an identity will be invoked across a variety of situations, or alternatively across persons in a given situation" (Stryker & Burke, 2000: 286), is often put under strong scrutiny by host country stakeholders (Withers, Corley, & Hillman, 2012). Given that foreign directors usually serve as outside directors in a host country, we thus find foreign director exit a very suitable outcome for the present study. Our primary research question is: How does the deterioration of bilateral political relations between a foreign director's home and host countries precipitate the foreign director's exit decision?

When individuals are faced with ambiguity and complexity due to the occurrence of novel or unexpected events, sensemaking, a social process that is grounded in identity construction, will be triggered (Weick, 1995). With our backdrop of deterioration of bilateral political tension between home and host countries that triggers the dual identity threat of foreign directors in a host country, we employ a sensemaking lens to delve deeper into the sensemaking process of foreign directors' decision to exit. The central premise of sensemaking theory is that when unexpected events occur, causing moments of ambiguity and identity threats to individuals, the sensemaking process is elicited to "make sense" of what has occurred and/or socially constructed meanings, and the focal actor will then enact the environment by undertaking behavioral action (Weick, 1969, 1995; Weick, Sutcliffe, & Obstfeld, 2005). Contextualizing this logic to our study, we posit that deterioration of bilateral political relations between foreign directors' home and host countries triggers the dual identity threats of foreign directors due to their identity saliency in the host country. This precipitates foreign directors' decisions to exit with the aim of mitigating such threats.

Concomitantly, in order to anticipate trajectories and decide whether to act or not, sensemaking "unfolds as a sequence in which people concerned with identity in the social context of other actors engage ongoing circumstances from which they extract cues and make plausible sense. . ." (Weick et al., 2005: 409). To illuminate cues in the social context that may accelerate or alleviate threats from the event, we further propose three types of social cues with distinctive sensemaking mechanisms drawn from the sensemaking literature. First, given that identity plays a central role in sensemaking, the first cue extraction mechanism is identification, which refers to how the focal foreign director identifies with the focal organization (Maitlis & Christianson, 2014; Weick, 1995). Second, socialization is a key mechanism for shared understanding and meaning construction in social groups and communities (Weick et al., 2005). A direct and important social group that foreign directors socialize with is their home country nationals in the host country (Toh & DeNisi, 2007), particularly those in the same organization. Third, sensemaking process is embedded in broader social contexts that interact with schema to shape situated cognitions (Elsbach, Barr, & Hargadon, 2005). Sensemaking from collective emotions via discourse has been increasingly called for (Hardy & Maguire, 2010; Yiu et al., 2022; Yiu, Wan, Chen, & Tian, in press). Accordingly, we further examine how these three social cues accelerate or alleviate foreign directors' identity threats from the event, thus exerting heterogeneous moderating effects on foreign director exit. Our empirical analyses, using a sample of 1,014 foreign directors in 549 listed firms in China for the period from 1999 to 2018, provide support for our theory.

This study aims to make several contributions. First, increasing geopolitical tensions have exerted immense pressure on firms and individuals situated outside their home country nowadays. International business and management scholars have shown a growing interest in the impact of bilateral political relations on firm strategies (e.g., Li, Arikan, Shenkar, & Arikan, 2020; Li et al., 2018). However, we still have a limited understanding of how geopolitics can influence individual foreign actors situated in host countries, especially foreign directors who play crucial roles in corporate governance (Masulis, Wang, & Xie, 2012). Our study represents an early attempt to theorize, from a sensemaking theory, a micro-macro linkage between changes in the geopolitical environment and the social cognitive evaluation of foreign actors in a host country, thus extending the literature of country-level geopolitical relations to individual-level outcomes.

Second, our study contributes to the research on board internationalization (Miletkov, Poulsen, & Wintoki, 2017; Oxelheim, Gregorič, Randøy, & Thomsen, 2013). Prior international business scholars have paid considerable attention to the legitimacy pressures MNEs face in host countries and the strategic responses MNEs choose to mitigate the liability of foreignness (Li, Tallman, & Ferreira, 2005; Zaheer, 1995). Our study highlights that identity duality also applies to individual foreign directors. While past studies have examined the appointment of foreign directors (Miletkov et al., 2017), relatively less attention has been paid to their exit, which would have significant implications for firm strategy and performance (Fahlenbrach, Low, & Stulz, 2017). Our study enriches our understanding of the impact of geopolitics on foreign talent outflow and corporate governance effectiveness in the host country.

Third, our study sheds important light on sensemaking theory by highlighting that international context is ideal for enriching the understanding of the sensemaking process. First, this study demonstrates that the occurrence of a geopolitical event can trigger the sensemaking of foreign actors in the host country due to identity duality threats immediately and temporarily. This kind of overarching and unpredictable event that poses identity threats to foreign actors with dual identities has not been studied much in the sensemaking literature. The short-term temporality also shifts the debates on whether sensemaking takes place retrospectively or prospectively in a new direction (Weick, 1995). Second, we echo the call for more understanding of how cognitive schema interacts with social context and the role of situated cognitions in the sensemaking process (Elsbach et al., 2005; Sandberg & Tsoukas, 2015). Foreign directors provide a unique context to examine the inner workings and interactions with different levels of the broader social context. Our study reveals that socially situated cognitions of foreign directors in a host country arise from the alignment between individual and organizational identity, a homophily effect from socializing with home country nationals in the host country, and socioemotional support from the host country constituents. Finally, the focus on collective emotions and sentiments is also what sensemaking theory scholars have advocated (Maitlis & Christianson, 2014). Our study highlights that this emotional aspect of sensemaking and social construction is particularly salient and relevant in the midst of geopolitical events.

Theory and Hypotheses

Bilateral Political Relations

With the spread of the deglobalization trend and the occurrence of a series of international conflicts such as the Russian-Ukrainian war, geopolitics and bilateral political relations have attracted increasing attention from international business scholars in recent years (Witt, 2019). Distinguished from related concepts such as political risk and national animosity (Arikan & Shenkar, 2013), bilateral political relations are closely linked to geopolitics, political tensions, and stakeholder activism (Shi, Hoskisson, & Zhang, 2016). International business scholars have paid close attention to the international context and geopolitical dynamics and established that bilateral political relations have a significant influence on country-level outcomes such as trade and investment flows (Buckley, Clegg, Voss, Cross, Liu, & Zheng, 2018).

As bilateral political relations influence diverse social aspects such as culture, norms, and institutions, they have cascading effects on cognitions, behaviors, and strategies (Petricevic & Teece, 2019). An emerging body of literature has begun to employ top-down methods to analyze the impact of bilateral political relations, as well as the accompanying country-level sentiments, on corporate cross-border strategies and behaviors (Li et al., 2018; Yiu et al., 2022). Li et al. (2020) focused on country-dyadic military conflicts and historical conflicts and indicated that these conflicts significantly influence cross-border acquisitions, joint ventures, and alliances. There have been efforts directed toward bilateral relations between countries, and it has been suggested that these relations serve as crucial predictors of foreign investment location choice and ownership choice in cross-border acquisitions (Li et al., 2018; Yoon, Peillex, & Buckley, 2021). Recent studies have demonstrated that host country sentiments and their dynamics are indispensable antecedents of cross-border acquisition completion and ownership choice (Yiu et al., 2022, in press).

Still, the impact of bilateral political relations on more micro-level individual behaviors in corporate governance has been largely overlooked. We have a rather limited understanding of how boards of directors, especially foreign directors who have salient dual identities and suffer from liability of foreignness during international conflicts (Withers et al., 2012; Zaheer, 1995), react to the deterioration of bilateral political relations and the underlying mechanisms. To fill this research gap, we investigate how bilateral political relations affect foreign director exit.

Director Exit and Foreign Directors

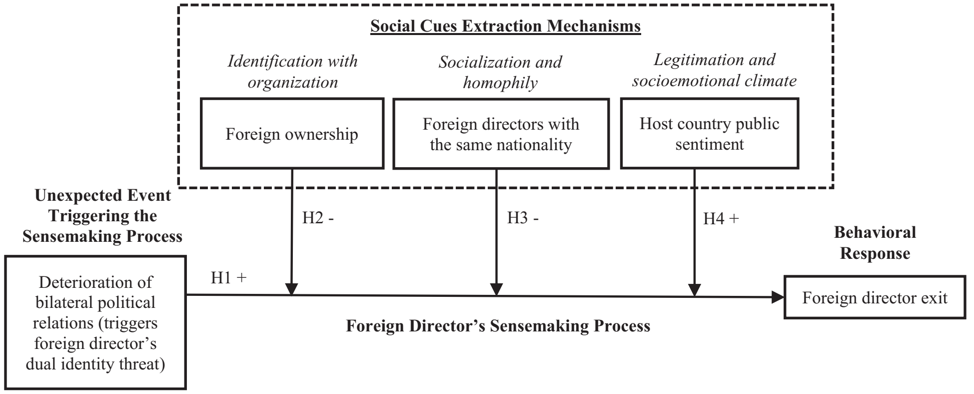
Extant studies have demonstrated that the exit of directors can have a significant influence on firm acquisition, corporate social responsibility (Chen, Crossland, & Huang, 2020), and stock returns (Fahlenbrach et al., 2017). To comprehend the underlying rationale behind director exit, corporate governance scholars have recently shed considerable light on the antecedents of director exit. Some scholars posit that directors make exit decisions voluntarily to safeguard their reputations. They have found that negative firm events such as financial restatements and organizational crises are significant predictors of director exit (Boivie, Graffin, & Pollock, 2012). Another cause for voluntary exit is the cognitive incompatibility of directors, such as the misalignment of ideology (McDonnell & Cobb, 2020). Other scholars have indicated that director exit might also be an involuntary choice resulting from the firm's attempt to clean house; directors with low capital are more likely to be asked or even forced to leave the board (Arthaud-Day, Certo, Dalton, & Dalton, 2006).

As an important demographical attribute of directors, nationality has attracted the attention of corporate governance scholars. Recent studies have demonstrated that foreign directors can provide firms with unique resources such as governance practices, knowledge about foreign markets, and international ties (Iliev & Roth, 2018) and that the relationship between foreign directors and firm performance is more positive in countries with weaker legal institutions (Miletkov et al., 2017). In emerging countries, such as China and Russia, modern governance structures and minority shareholder protection are relatively weak and inefficient (Cumming, Filatotchev, Knill, Reeb, & Senbet, 2017). With growing internationalization, firms in emerging markets have begun to appoint foreign directors mainly from developed countries for various reasons, such as learning about advanced governance practices, acquiring information and policies of developed markets, and signaling the effectiveness of their monitoring system to stakeholders (Grosman, Aguilera, & Wright, 2019). However, our knowledge about when and why foreign directors may exit from the board remains limited.

Bilateral Political Relations and Foreign Director Exit

Drawing insights from the sensemaking theory (Weick, 1979, 1988, 1995; Weick et al., 2005), we conceptualize deterioration of bilateral political relations as an unpredictable event that triggers the sensemaking process of foreign directors due to their identity duality in a

Figure 1
A Sensemaking Framework of Deterioration of Bilateral Political Relations and Foreign Director Exit in a Host Country



host country, thus precipitating their behavioral response to such threat by director exit. Figure 1 presents our theoretical model.

Sensemaking is the social construction process triggered by novel or unexpected events, such as unforeseen crises or even anticipated change interventions, that bring ambiguity or uncertainty and often in the form of violated expectations (Maitlis & Christianson, 2014). In such contexts, the focal actors seek to make sense of what is going on by extracting and bracketing cues from the interrupted situation, interpreting what has occurred, and then enacting the environment (Maitlis, 2005; Weick, 1995; Weick et al., 2005). Sensemaking thus involves three phases: creating, interpreting, and enacting (Sandberg & Tsoukas, 2015; Weick, 1995). Moreover, such a process is influenced by the actual, imagined, or implied presence of others (Allport, 1985; Weick, 1995), during which they "create and maintain an intersubjective world" (Balogun & Johnson, 2004: 524). Sensemaking can facilitate important processes in organizations and lead to outcomes such as organizational learning (Haas, 2006), creativity (Jay, 2013), and strategic change (Nag, Hambrick, & Chen, 2007).

Sensemaking is concerned with identity construction (Maitlis & Christianson, 2014; Weick et al., 2005), which "influences how other aspects, or properties of the sensemaking process are understood" (Mills, 2003: 55). It is inherently self-referential and grounded in identity (Patriotta, 2003), with sensemakers being particularly concerned with the question of "who I am" (Brown, Colville, & Pye, 2015) and attempting to maintain or craft a positive self-view (Alvesson & Jonsson, 2022). Foreign directors possess two identities, one being their national identity of home countries (home national identity) and the other being the identity of their host country of residence (host country identity). Therefore, the deterioration of bilateral political relations can be an unexpected exogenous event that causes an identity threat to a foreign director in a host country due to identity duality saliency and that triggers their sensemaking process to understand and interpret the implications of the change and restructure their identity.

The deterioration of bilateral political relations often arouses the nationalistic sentiments of the foreign directors' home and host countries. In the host country, the foreign identity of foreign directors is then under stricter scrutiny by local stakeholders. The saliency of their home national identity puts them in an identity conflict situation. Such identity conflict is bound to be accompanied by various psychological and emotional challenges (Schabram & Maitlis, 2017), such as anxiety, guilt, depression, bewilderment, and acculturative stress (Lee et al., 2023), prompting foreign directors to quit one identity in order to mitigate such identity conflict.

Identity conflict would drive foreign directors to stick to their home national identity and exit from the focal organization. Specifically, as one of the most fundamental identities for individuals, home national identity provides an essential framework for individuals to define and locate themselves in the world (Mackey, 2002; Lee et al., 2023), and has become particularly prominent amid the widespread prevalence of nationalism (Alvarez & Rangan, 2019). Intergroup relations scholars have demonstrated that people are more inclined to retreat into their group (home country) identity when the group is under threat or in conflict with other groups (host country) (Spears, 2021). When the interests of the home country are threatened by the deterioration of bilateral political relations, the foreign director tends to retreat to his or her home national identity and take action to protect its interests (Balcells, Tellez, & Villamil, 2024). Since the competing dual identities impede and dilute each other, the relative strength of each identity will be altered, in that the prioritization of home national identity and increase in identifying with the home country will result in the corresponding decrease in identification with the host country. Past studies have demonstrated that when directors are under strong scrutiny due to identity saliency (Arthaud-Day et al., 2006; Withers et al., 2012), it is typical for them to respond by resigning. Our baseline hypothesis is that the deterioration of bilateral political relations triggers dual identity threats and pressures for the foreign directors in the host country, prompting their enactment with the environment by exiting the board. We propose:

Hypothesis 1: *Bilateral political relations deterioration is positively related to the likelihood of foreign director exit.*

Moderating Roles of Social Cues. The sensemaking process is context-dependent, social, and systemic (Weick et al., 2005), in which the focal actors extract cues from their situated social context that accelerate or attenuate the dual identity conflicts, thereby shaping their attention, interpretation, reconstruction of identities, and subsequent response actions (Elsbach et al., 2005). To gain a deeper understanding of how foreign directors extract cues from their situated social context, we further investigate the moderating effects of three types of social cues representing distinctive sensemaking mechanisms grounded on sensemaking theory. Contextualizing them in our study context, these social cues are foreign ownership (identification with organization), foreign directors with the same nationality (socialization and homophily), and host country public sentiment (socioemotional climate). These three social cues depict a more comprehensive picture of foreign directors' sensemaking process.

Identification with organization: Foreign ownership. According to the sensemaking literature, a focal actor's identification is the most plausible mechanism because sensemaking is concerned with identity construction during a change brought about by an event (Hampel &

Dalpiaz, 2023). In our context, we propose that the first cue extraction mechanism is a foreign actor's identification with his or her situated organization. Organizational identification reflects foreign directors' embeddedness in the organization and pertains to individual identity in the sensemaking process (Fernando & Patriotta, 2020). Similar to foreign directors having dual identities, firms may also possess not just one identity (Pant & Ramachandran, 2017). We explore the ownership type that is a salient indicator of organizational identity. Particularly, we examine how the focal foreign director identifies with the organization with foreign ownership that grants the firm both a local identity and a foreign identity.

Specifically, a firm with both foreign ownership and local ownership has an equivocal organization identity, and when one representation becomes salient, the other would be attenuated. When the level of foreign ownership is high, the firm's local identity salience is relatively weaker, prompting the foreign director to identify the firm that they serve more as a foreign entity. In the midst of deteriorating bilateral political relations, the foreign director's home national identity would be less misaligned with the host country identity, and the dual identity conflict would be alleviated. Therefore, the foreign director is less likely to take action to enact the environment. Conversely, when the level of foreign ownership is low, the firm's local identity holds greater prominence (Li, Yang, & Yue, 2007), and the foreign director would identify the firm more as a local entity. The impact of deterioration of bilateral political relations, and thus the dual identity saliency of foreign directors, would then be amplified. In instances of such heightened identity conflict and escalated dual identity divergence, the foreign director is more likely to quit the firm, so that the identity as a local member can be relinquished.

> ***Hypothesis 2:*** *Foreign ownership moderates the positive relationship between bilateral political relations deterioration and the likelihood of foreign director exit, in that the relationship will be weaker as the level of foreign ownership increases.*

Socialization and the homophily effect: Foreign directors with the same nationality. Socialization is a cue extraction mechanism in the foreign actors' sensemaking process which plays a crucial role in their gathering information from the same social group for identity construction (Weick et al., 2005). We contextualize the socialization mechanism for foreign directors who, as foreign actors in a host country, interact with others and learn, adapt to, and internalize cultural and value systems (Bauer, Bodner, Erdogan, Truxillo, & Tucker, 2007). Their mental model, interpretation, and action in sensemaking are often shaped by others who are similar to them in certain aspects, due to homophily effect (Bacharach, Bamberger, & Vashdi, 2005). Socialization with similar others provides them with tools and strategies to address identity conflicts by enhancing the sense of belonging and identification and offering them the support and feedback needed to navigate the potential confusion and contradictions (Ingram, 2023). Nationality is a pivotal personal characteristic during the socialization process (Xia, Steensma, & Bai, 2023), particularly in the context of international tensions. When a larger proportion of board members have the same nationality as the focal foreign director, he or she tends to interact more frequently with them to share common life experiences, beliefs, and values based on mutual trust and interpersonal attraction (Joshi, 2006), and may find the socialization and communication effortless, positively reinforcing, and more gratifying (Williams & O'Reilly, 1998). Due to the foreign director's high level of affective commitment and reduced inclination to psychologically disengage from the organization (Tröster & Van Knippenberg, 2012), the foreign director can accommodate and normalize the deterioration of political relations by inadvertently reducing mindfulness (Maitlis & Christianson, 2014), or by interpreting it in a less negative light. Such a homophily effect helps lessen the focal foreign director's psychological and emotional challenges stemming from dual identity conflict triggered by bilateral political tension in the sensemaking process, thus lowering the likelihood of exit. In contrast, when a small proportion of the board or even no board members have the same nationality as the focal foreign director, he or she may experience less desirable interaction and socialization within the firm. When confronted by deteriorating bilateral political relations, the focal foreign director tends to interpret it more negatively, thereby making it more likely for the foreign director to take action to enact the environment.

Hypothesis 3: *Foreign directors with the same nationality moderate the positive relationship between bilateral political relations deterioration and the likelihood of foreign director exit, in that the relationship will be weaker as the level of foreign directors with the same nationality increases.*

Socioemotional climate: Host country public sentiment. Socioemotional climate refers to the prevailing collective emotions arising from the patterns of interactions within social groups such as national communities, and it is perceived as shared by members of such groups (Bar-Tal, Halperin, & De Rivera, 2007). Social emotions, which are often stimulated and shaped by language and discourse in media and mass communication (Fiss & Hirsch, 2005), play a crucial role in the sensemaking process by providing energy for identity construction and sensemaking (Maitlis, Vogus, & Lawrence, 2013). Sensemaking involves emotions aroused from social discourse in the public sphere aroused and shaped by media (Weick et al., 2005; Yiu et al., in press). Social actors often extract cues from the socioemotional climate for the legitimation of their identity, which in turn drives their response actions.

In the context of the deterioration of bilateral country relations, the arousal of public nationalistic sentiments would be easily stimulated. As such, foreign directors' legitimacy in the host country would be under strict scrutiny, making them particularly sensitive to host country sentiments and causing them to pay close attention to opinions, attitudes, and feelings expressed in the public sphere. Specifically, when host country public sentiment toward a foreign director's home country is more negative, local nationals including the foreign director's colleagues, subordinates, and other stakeholders may have hostile and unfriendly emotions and attitudes toward the foreign director's home country government and verbally or physically attack organizations, products, and even citizens from the foreign director's home country (Heilmann, 2016). Such negative host country sentiments would act as a strong signal to foreign directors that their legitimacy is at stake, thus further accelerating the propelling effect of the foreign director's identity threats triggered by the geopolitical tension. They would therefore be increasingly inclined to prioritize home national identity and enact the environment by exiting the board. Conversely, when host country public sentiment is less negative, a foreign director will feel less unwelcomed by local stakeholders, thereby weakening their incentive to quit in spite of deteriorating bilateral political relations.

Hypothesis 4: *Host country public sentiment moderates the positive relationship between bilateral political relations deterioration and the likelihood of foreign director exit, in that the relationship will be stronger when host country public sentiment becomes negative.*

Methods

Data and Sample

Our sample consists of foreign directors of Chinese companies listed on the Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange (SZSE) from 1999 to 2018. The years after 2018 are not included in our sample to avoid any interfering factors related to the COVID-19 pandemic. China is chosen as the empirical context because its bilateral political relations with other countries have been deteriorating. Besides, China has few other social divides based on characteristics such as religion and ethnicity, thus serving as a suitable setting to examine the influence of foreign identity in that few other characteristics can provide a potent basis for sensemaking. In addition, Chinese firms have attracted a relatively large number of foreign directors. Our data reveals that more than 1,000 foreign directors were appointed to the board of directors of Chinese listed firms during 1999-2018.

The concept of "being foreign" is a complex one, and researchers can define it based on either nationality or residency (Miletkov et al., 2017). In this study, nationality is more appropriate as it is a characteristic that people use in social categorization in the context of bilateral political relations. We obtained director nationality information from the Chinese Stock Market Research (CSMAR) database and supplemented the information with directors' curriculum vitae and data from Sina Finance, which provides detailed information about firm top managers and directors.

Consistent with most research on director exit (e.g., Gao, Kim, Tsang, & Wu, 2017; Harrison, Boivie, Sharp, & Gentry, 2018; McDonnell & Cobb, 2020), we did not distinguish between voluntary and involuntary director exits. Extant literature has established that directors generally have high status and autonomy in organizations, and it is extremely rare for directors to be fired from their board appointments (Boivie et al., 2012; Cowen & Marcel, 2011). Foreign directors offer valuable resources and play crucial roles in China, making their exit even much less likely to be involuntary. Moreover, we focused on mechanisms that were inclined to result in voluntary exit. Involuntary exit presents challenges for us to find significant relationships, rendering our analysis a more conservative test of the hypotheses.

In addition, information detailing the various reasons for director exit is generally limited, and we could not effectively code this distinction. We manually searched for the reason why each of them exited from the board. Based on the content of the news articles we found, involuntary exit in China is basically due to illegal behavior, such as suspected corruption and bribery, disciplinary and law violations, and misappropriation of company assets. Since company announcements are required to accurately disclose director exits for illegal behavior, these cases are readily observable and thus excluded from our sample. In addition, we also excluded foreign directors who exited due to other unexpected exogenous reasons such as death (Masulis & Zhang, 2019). Certain reasons such as contract expiry and retirement might only be euphemisms in the Chinese context where Confucianism and "face" (*mianzi*) culture are prevalent (Park & Luo, 2001). Therefore, we chose not to exclude these observations from our sample in the main analyses (the results of excluding these observations remain robust). Taking a further step, we interviewed several foreign and local directors with extensive experience on numerous boards in Chinese public firms. They shared that foreign directors generally resign voluntarily and firing a foreign director is extremely rare, because the exit of such directors would send a negative signal to investors, suggesting that there may be some problems with the firm. The high probability that foreign director exit in China is voluntary also provides support that China is a suitable context for testing our logical linkage.

After deleting observations with missing values, our final sample includes 4,042 observations at the firm-director-year level, pertaining to 549 firms with 1,014 foreign directors from 28 countries and 768 foreign director exit events. All independent and control variables are lagged by one year in our analyses. For one of our moderators, host country public sentiment, we used a unique and meticulous dataset developed by scholars at Tsinghua University (Yan, 2010), which provides sentiment data for twelve countries that are pivotal countries in China's bilateral political relations in the past decades. Eight of the twelve countries have foreign directors in China, reducing our sample to 2,836 observations at the firm-director-year level, pertaining to 403 firms with 716 foreign directors and 554 foreign director exit events. We used this reduced sample to test the moderating effect of host country public sentiment. We conducted a robustness test by replacing the values of host country public sentiment toward countries that are not included in this dataset as "0" to keep the sample size unchanged, and the results remain consistent.

We collected other firm-level and director-level information from China Stock Market and Accounting Research (CSMAR) and Chinese Research Data Service (CNRDS) Platform, which are widely used data sources in extant studies (Yang, Kim, Li, & Lu, 2023). In addition, we gathered GDP per capita from the World Bank, and country distance data from Berry, Guillén, and Zhou (2010).

Dependent Variable

Foreign director exit. Foreign director exit captures whether a foreign director departs from his or her current firm board in a particular year. The measure was operationalized by examining whether a director stays on or leaves the board in a specific year based on the name list of top managers and information about their positions provided by CSMAR. To double-check whether the exit year is accurate, we manually searched for this piece of information from other sources such as firm announcements and news reports. Following prior literature, foreign director exit was measured as a dichotomous variable where "1" indicates that a director leaves the board and "0" indicates that he or she stays on the board in a specific year (Boivie et al., 2012; Cannella, Jones, & Withers, 2015). If a director was still on the board by the end year of our sample (2018), the observation was treated as right-censored and coded as "0".

Independent Variable

Deterioration of bilateral political relations (DBPR). We measured DBPR using the voting decisions made in the United Nations General Assembly (Bertrand et al., 2016). The United Nations votes data captures *objective facts* and reflects the bilateral public stances of different countries on numerous international issues such as military, economic, and social concerns. We first calculated Gartzke's "S" measure (Gartzke, 1998), which is widely used by strategic management and international business scholars to capture bilateral political relations (Johan, Knill, & Mauck, 2013; Li, Li, & Wang, 2019). Gartzke's "S" measure is $1-2\times d / d_{max}$, where d is the sum of metric distances between votes by dyad countries in a given year and d_{max} is the largest possible metric distance for those votes (Li et al., 2018).

Following prior literature (e.g., Li, Xia, Zajac, & Lin, 2024; Voeten, 2004), we used the three-category vote data (1 = "yes" or approval; 2 = abstain; 3 = "no" or disapproval), in which abstentions are assumed as weaker signals of disapproval than no-votes, to capture distances between votes. After obtaining Gartzke's "S" scores, deterioration of bilateral political relations was calculated using the score of Gartzke's "S" measure in period $t-1$ minus that in period t, so that a higher value indicates a higher extent of deterioration of bilateral political relations.

Moderators

Foreign ownership. We measured foreign ownership using the number of foreign legal-person shares divided by the number of non-tradable shares, which in China are typically held by controlling shareholders (Greve & Zhang, 2017; Jia, Shi, Wang, & Wang, 2020).

Foreign directors with the same nationality. Following past studies (Chattopadhyay, George, Li, & Gupta, 2020), homophily effect indicated by foreign directors with the same nationality is measured by the ratio of the number of foreign directors with the same nationality as the focal foreign director to the total number of directors on the board of the same firm in a specific year.[1]

Host country public sentiment. We measured host country public sentiment using the index developed by scholars at Tsinghua University (Yan, 2010). The calculation process of this index is similar to the Goldstein scale, which is widely used in political science literature (Goldstein, 1992) and has recently been adopted by economics and management scholars (Du, Ju, Ramirez, & Yao, 2017; Tian, 2022). The index is compiled based on news reports of political events from prominent sources such as the Chinese newspaper *People's Daily* and the Ministry of Foreign Affairs of the People's Republic of China. It is longitudinal and continuous, with values that range from −9 to 9. Past literature shows that mass media is a central arena for societal communication that both channels and shapes public sentiments (Benkler, Roberts, Faris, Solow-Niederman, & Etling, 2015; Reese & Shoemaker, 2016). Following past studies (e.g., Pollock & Rindova, 2003), we adopted a public sentiment index that is formulated by a large scale news portal. Besides, when it comes to bilateral political relations, government (the state nationalism) and people (popular nationalism) have high levels of opinion convergence (Neo & Xiang, 2022). Because the index is monthly data, we calculated the mean values of the index in each year toward each country to measure host country public sentiment, and reverse coded this measure so that higher values indicate more negative host country public sentiment.

Control Variables

We further controlled for a host of variables at the firm level, director level, and more macro levels that may have an influence on foreign director exit. We first controlled for some important firm-level variables. Prior studies have demonstrated that directors prefer to work in large and established companies to gain a better reputation (Boivie et al., 2012). We controlled for *firm size* and measured it using the natural logarithmic transformation of total assets. We also controlled for *firm age* and measured it using the age of the firm in a specific year. *Firm leverage* was controlled for and measured using the ratio of total liabilities to total assets. Scholars have found that directors who are affiliated with successful firms are less likely to exit from the board (Boivie et al., 2012), and we controlled for *firm prior performance* and measured it using return on assets (ROA). In addition, we controlled for firm *state ownership* (measured using the percentage of state-owned shares, *ownership concentration* (measured using the percentage of ownership held by the five largest shareholders), *top management team (TMT) communist ideology* (measured using the number of Chinese communist party members in the top management team), and *number of foreign subsidiaries*. To exclude the potential influence of financial and reputational risk, we also controlled for *number of financial frauds* in each year (Boivie et al., 2012). We further controlled for *industry dummies* to exclude the potential heterogeneity across industries.

We also controlled for some director-level variables. Older directors have more working experience and thus have more job opportunities and a greater desire to seek more attractive positions (Yan, Zhu, & Hall, 2002). Thus, we controlled for *director age* and measured it using the current year minus the year in which the foreign director was born. *Director gender* may influence other people's perception and evaluation and thus a director's job market opportunities and was also controlled for. Independent directors often only devote limited time to the firm and may have distinct levels of likelihood of exit. We controlled for *independent foreign director* and operationalized it as a dummy variable with "1" assigned to foreign independent directors. Directors with larger ownership usually wield more power in a firm and are less likely to leave the firm (Hill & Snell, 1989), so we controlled for *director ownership* and measured it using the percentage of shares owned by the foreign director. In addition, more competent directors are more competitive in job markets and therefore more likely to exit. Moreover, we controlled for *director FG 500 experience* (with the value of "1" indicating the director has worked in a Fortune Global 500 company before and "0" otherwise), *director salary* (measured as the amount of salary in million yuan in each year), and *director outside work experience* (coded as 1 if a director works for other companies and 0 otherwise). Being appointed after the firm head, typically the board chair in China (Krause, Li, Ma, & Bruton, 2019), increases a director's closer connection to the head and thus the director's power and status, so we also controlled for *appointed after chair* and measured it using whether the director was appointed after the current board chair.

We also controlled for some more macro country-level variables. More developed countries offer more job opportunities and foreign directors from such countries have a higher probability of returning and working in their home country, and we thus controlled for *GDP per capita* of foreign directors' home countries (in thousand USD). We also controlled for *geographical distance* between a director's home country and China (in thousand kilometers) and *economic distance* between the foreign director's home country and China using the indicator calculated based on components including income, inflation, exports, and imports (Berry et al., 2010).

Statistical Method

We tested our hypotheses using a competing risk event history model (the Stata command is *stcrreg*) because some directors exited the board but then were appointed to other positions within the firm. Competing-risk regression generalizes the hazard approach of event history analysis to instances in which individuals can experience more than one failure (Andrus, Withers, Courtright, & Boivie, 2019; Fine & Gray, 1999; Hoang & Rothaermel, 2010). Its event-specific cumulative incidence function calculates the likelihood that an individual in a current state (i.e., stays on the board) will experience a certain event (exit), in the presence of a competing risk event (appointed to other positions). In our paper, we examined director exit with the competing risk of being appointed to other positions such as supervisor and CEO, and used the number of years a director has worked on a board up until the year in question as the time input variable in our event-history analysis (Cannella et al., 2015). Being appointed to other positions and director exit are competing events in that the occurrence of either signals the end of tenure as a board director.

Results

In Table 1, we report the mean value, standard deviation of each variable, and the correlation coefficients of different variables. Most of the correlation coefficients are less than 0.4. The variable inflation factor (VIF) ranges from 1.01 to 1.96, and the mean VIF is 1.24. Therefore, multicollinearity is not a significant problem in this study.

The competing-risk analysis results are shown in Tables 2 and 3. In Table 2, which uses the full sample to test Hypotheses 1, 2, and 3, Model 1 includes all the control variables and moderators, Model 2 adds DBPR on the basis of Model 1, and Models 3 and 4 further add the interaction of DBPR with foreign ownership and foreign directors with the same nationality respectively. Model 5 includes both the interaction terms of DBPR with foreign ownership and DBPR with foreign directors with the same nationality. In Table 3, which uses the reduced sample to test Hypotheses 4, Model 1 includes all the control variables and moderators, Model 2 adds DBPR on the basis of Model 1, and Model 3 further adds the interaction of DBPR and host country public sentiment. We mean-centered the independent variables and moderators to avoid multicollinearity with the interaction terms.

In Model 2 of Table 2, the coefficient deterioration of bilateral political relations is 1.55 ($p=0.000$), with a 95% confidence interval between 0.99 and 2.12. The result in the full model (Model 5) remains consistent ($b=1.40$, $p=0.000$). Therefore, Hypothesis 1 is supported. In Model 3 of Table 2, the coefficient of the interaction term of DBPR and foreign ownership is −2.87 ($p=0.002$), with a 95% confidence interval between −4.72 and −1.03. The coefficient of this interaction term is −1.84 ($p=0.078$) in the full model, and hypothesis 2 is moderately supported. In Model 4 of Table 2, the coefficient of the interaction term is −11.74 ($p=0.001$), with a 95% confidence interval between −18.60 and −4.89. The result in the full model is also significant ($b=-9.70$, $p=0.012$). Hypothesis 3 is supported. Finally, in Model 3 of Table 3, the coefficient of the interaction term of host country public sentiment and bilateral political relations is 1.42 ($p=0.000$), with a 95% confidence interval between 1.07 and 1.78, supporting Hypothesis 4.

We further used the marginal effects approach, which summarizes the changing effect of the independent variable on the dependent variable at different values of the moderator and depicts whether this change in the dependent variable is statistically different from 0 (Busenbark, Graffin, Campbell, & Lee, 2022), to unpack the boundary conditions of interaction effects. In semiparametric survival models like Cox models and competing risk models, hazard (or subhazard) ratios are estimated without specifying the baseline hazard (or

Table 1
Descriptive Statistics

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Foreign director exit	0.19	0.39																
2. Deterioration of Bilateral Political Relations	0.00	0.12	0.07															
3. Firm foreign ownership	0.17	0.31	−0.04	0.00														
4. Foreign directors with the same nationality	0.06	0.11	0.02	−0.01	0.32													
5. Host country public sentiment	−2.22	2.97	0.05	0.06	−0.16	−0.02												
6. Firm size	22.54	2.22	0.02	−0.01	−0.08	−0.12	−0.05											
7. Firm age	15.58	6.19	0.03	−0.01	−0.03	0.01	0.03	0.29										
8. Firm leverage	0.48	0.37	0.06	0.00	0.01	−0.07	−0.12	0.38	0.12									
9. Firm prior performance	0.05	0.16	−0.05	−0.01	0.03	0.05	0.00	−0.07	−0.01	−0.23								
10. State ownership	0.08	0.17	−0.00	0.01	−0.10	−0.05	−0.06	0.18	−0.24	0.14	−0.02							
11. Ownership concentration	58.66	17.79	−0.00	0.01	0.12	0.17	−0.10	0.16	−0.18	−0.04	0.07	0.20						
12. TMT communist ideology	0.51	1.91	0.02	0.00	0.02	0.04	−0.01	−0.06	−0.09	−0.02	−0.02	−0.01	−0.03					
13. Number of foreign subsidiaries	0.25	0.85	0.02	0.01	−0.09	0.00	0.07	0.06	0.04	−0.04	0.01	0.03	−0.03	−0.00				
14. Number of financial frauds	0.17	0.57	0.05	0.00	−0.01	−0.04	−0.04	−0.02	0.07	0.04	−0.07	−0.07	−0.10	0.02	0.02			
15. Director age	53.57	9.12	0.04	0.00	0.03	0.10	0.12	0.22	0.13	0.04	0.01	−0.02	0.03	−0.00	0.10	−0.05		
16. Director gender	0.93	0.26	0.03	0.03	0.02	0.01	0.03	0.02	−0.01	0.05	−0.02	0.09	−0.09	−0.00	−0.07	−0.01	0.11	
17. Independent foreign director	0.26	0.44	−0.02	−0.03	−0.16	−0.15	0.02	0.29	0.10	0.08	−0.01	0.03	0.06	0.01	0.05	0.03	0.14	−0.03
18. Director ownership	0.01	0.07	−0.04	−0.01	0.04	−0.00	0.02	−0.10	−0.05	−0.07	0.02	−0.06	0.08	−0.01	0.04	−0.02	−0.02	−0.05
19. Director FG500 experience	0.41	0.49	−0.12	−0.01	0.05	0.03	−0.09	0.17	0.05	0.07	−0.02	−0.00	0.03	0.03	0.07	−0.02	0.03	0.01
20. Director salary	0.32	1.14	−0.02	−0.01	0.03	−0.02	−0.03	0.07	0.08	−0.02	0.03	−0.05	−0.07	−0.03	0.16	0.01	0.08	−0.01
21. Director outside work experience	0.65	0.48	−0.29	−0.04	0.09	0.01	−0.03	0.04	0.09	−0.02	0.04	−0.04	0.03	0.02	0.01	−0.04	−0.00	−0.01
22. Appointed after chair	0.72	0.45	−0.10	−0.02	−0.02	0.03	0.11	−0.09	−0.11	−0.06	0.03	0.01	0.10	0.04	0.01	−0.04	−0.06	−0.05
23. GDP per capita	46.01	13.00	0.00	0.02	−0.13	−0.09	0.18	0.02	0.14	−0.04	0.01	−0.20	−0.03	0.04	0.09	0.04	−0.04	−0.10
24. Geographic distance	8.21	3.25	−0.03	−0.06	−0.11	−0.18	0.07	0.06	0.03	−0.02	0.01	−0.05	−0.03	0.02	0.06	0.04	−0.10	−0.08
25. Economic distance	12.15	8.10	−0.04	0.04	−0.03	−0.12	0.40	0.00	−0.04	0.04	−0.01	0.01	−0.02	−0.00	0.06	−0.00	−0.07	−0.05

(continued)

Table 1 (continued)

Variables	17	18	19	20	21	22	23	24
18. Director ownership	−0.08							
19. Director FG500 experience	0.05	0.02						
20. Director salary	−0.07	0.02	0.01					
21. Director outside work experience	0.12	−0.02	0.17	−0.10				
22. Appointed after chair	−0.02	0.06	0.07	−0.10	0.03			
23. GDP per capita	0.14	0.06	0.08	0.05	0.05	0.05		
24. Geographic distance	0.22	0.05	0.10	0.02	0.02	0.00	0.45	
25. Economic distance	0.09	−0.00	−0.03	−0.01	0.06	0.03	0.42	−0.13

Note: N=4,042 for variables except host country public sentiment, and N=2,836 for host country public sentiment.

Table 2
Competing Risk Event History Analysis Predicting Foreign Director Exit (Full Sample for H1-H3)

	Model 1	Model 2	Model 3	Model 4	Model 5
Deterioration of Bilateral Political Relations		1.55 (0.29) *0.000*	1.45 (0.29) *0.000*	1.44 (0.30) *0.000*	1.40 (0.30) *0.000*
Deterioration of Bilateral Political Relations × Firm Foreign Ownership			−2.87 (0.94) *0.002*		−1.84 (1.05) *0.078*
Deterioration of Bilateral Political Relations × Foreign Directors with the Same Nationality				−11.74 (3.50) *0.001*	−9.70 (3.85) *0.012*
Firm foreign ownership	0.02 (0.16) *0.876*	−0.00 (0.16) *0.984*	0.05 (0.16) *0.755*	0.01 (0.16) *0.974*	0.04 (0.16) *0.820*
Foreign directors with the same nationality	1.31 (0.51) *0.010*	1.33 (0.51) *0.010*	1.33 (0.51) *0.009*	1.28 (0.50) *0.011*	1.27 (0.50) *0.011*
Firm size	−0.08 (0.04) *0.048*	−0.08 (0.04) *0.069*	−0.08 (0.04) *0.070*	−0.08 (0.04) *0.064*	−0.08 (0.04) *0.064*
Firm age	0.02 (0.01) *0.034*	0.02 (0.01) *0.035*	0.02 (0.01) *0.029*	0.02 (0.01) *0.030*	0.02 (0.01) *0.028*
Firm leverage	−0.07 (0.09) *0.396*	−0.08 (0.09) *0.373*	−0.06 (0.08) *0.477*	−0.07 (0.08) *0.424*	−0.06 (0.08) *0.483*
Firm prior performance	−0.85 (0.35) *0.016*	−0.87 (0.34) *0.010*	−0.81 (0.33) *0.014*	−0.83 (0.33) *0.012*	−0.80 (0.33) *0.015*
State ownership	0.16 (0.29) *0.578*	0.14 (0.29) *0.621*	0.14 (0.29) *0.632*	0.15 (0.29) *0.601*	0.15 (0.29) *0.613*
Ownership concentration	0.01 (0.00) *0.024*	0.01 (0.00) *0.033*	0.01 (0.00) *0.033*	0.01 (0.00) *0.040*	0.01 (0.00) *0.038*
TMT communist ideology	0.02 (0.02) *0.437*	0.01 (0.02) *0.565*	0.01 (0.02) *0.599*	0.01 (0.02) *0.621*	0.01 (0.02) *0.639*
Number of foreign subsidiaries	0.14 (0.04) *0.002*	0.14 (0.04) *0.001*	0.14 (0.04) *0.001*	0.14 (0.04) *0.001*	0.14 (0.04) *0.001*
Number of financial frauds	0.11 (0.05) *0.030*	0.11 (0.05) *0.026*	0.12 (0.05) *0.013*	0.12 (0.05) *0.022*	0.12 (0.05) *0.014*
Director age	−0.01 (0.01) *0.241*	−0.01 (0.01) *0.264*	−0.01 (0.01) *0.249*	−0.01 (0.01) *0.244*	−0.01 (0.01) *0.235*
Director gender	0.22 (0.17) *0.195*	0.21 (0.17) *0.219*	0.22 (0.17) *0.208*	0.23 (0.17) *0.177*	0.23 (0.17) *0.174*
Independent foreign director	0.12 (0.11) *0.258*	0.13 (0.11) *0.224*	0.13 (0.11) *0.228*	0.13 (0.11) *0.245*	0.13 (0.11) *0.251*
Director ownership	−4.27 (2.40) *0.075*	−4.13 (2.34) *0.078*	−4.06 (2.32) *0.081*	−4.11 (2.34) *0.078*	−4.08 (2.33) *0.080*
Director FG500 experience	−0.17 (0.10) *0.099*	−0.16 (0.10) *0.109*	−0.16 (0.10) *0.114*	−0.15 (0.10) *0.133*	−0.15 (0.10) *0.131*
Director salary	−0.11 (0.10) *0.252*	−0.11 (0.10) *0.262*	−0.11 (0.10) *0.252*	−0.10 (0.09) *0.259*	−0.11 (0.09) *0.252*
Director outside work experience	−1.22 (0.09) *0.000*	−1.21 (0.09) *0.000*	−1.21 (0.09) *0.000*	−1.21 (0.09) *0.000*	−1.21 (0.09) *0.000*
Appointed after chair	0.13 (0.09) *0.151*	0.14 (0.09) *0.138*	0.13 (0.09) *0.150*	0.14 (0.09) *0.119*	0.14 (0.09) *0.129*
GDP per capita	−0.00 (0.00) *0.890*	−0.00 (0.00) *0.787*	−0.00 (0.00) *0.770*	−0.00 (0.00) *0.780*	−0.00 (0.00) *0.776*

(continued)

Table 2 (continued)

	Model 1	Model 2	Model 3	Model 4	Model 5
Geographic distance	−0.00 (0.02)	−0.00 (0.02)	−0.00 (0.02)	−0.00 (0.02)	−0.00 (0.02)
	0.911	*0.978*	*0.999*	*0.898*	*0.915*
Economic distance	−0.00 (0.01)	−0.00 (0.01)	−0.00 (0.01)	−0.01 (0.01)	−0.01 (0.01)
	0.485	*0.465*	*0.465*	*0.443*	*0.442*
Log likelihood	−5463.875	−5452.075	−5448.700	−5446.743	−5445.513

Note: N = 4,042. Two-tailed tests. Robust standard errors in parentheses; p values in italics. Industry dummies are included in the models.

subhazard) function. While this approach helps avoid errors stemming from the specification of the function, it comes with the drawback that using *margins* command to calculate the marginal effects, which depend on the baseline hazard (or subhazard) function, becomes problematic (Bigelow, Nickerson, & Park, 2019; Wang, Zhu, Avolio, Shen, & Waldman, 2023). Therefore, we calculated marginal effects based on the regression results of parametric model with exponential distribution since the regression results are highly consistent with the main results. In Figure 2a, the marginal effects of deterioration of bilateral political relations on foreign director exit decrease with increases in foreign ownership. This effect remains statistically significant until the value of foreign ownership (centered) reaches 0.27 (approximately 83th percentile; the kernel density of foreign ownership is shown in Figure 2b). In Figure 3a, the marginal effects decrease with increases in foreign directors with the same nationality. This effect remains statistically significant until the value of foreign directors with the same nationality (centered) reaches 0.06 (approximately 83th percentile; the kernel density of foreign ownership is shown in Figure 3b). In Figure 4a, the marginal effects increase with increases in host country public sentiment. The relationship between deterioration of bilateral political relations and foreign director exit is negative and significant when public sentiment is less negative (approximately 32th percentile; the kernel density of foreign ownership is shown in Figure 4b) and turns positive and significant when public sentiment is more negative (approximately 35th percentile).[2]

For economic significance, the regression results of parametric model with exponential distribution indicate that when deterioration of bilateral political relations increases for one standard deviation, the natural logarithm of hazard rate for foreign director exit increases by 0.186. Figures 2c–4c show the interaction plot of the moderating effects. When the level of foreign ownership is at its low (the minimum value) and high (80th percentile) levels, the natural logarithm of hazard rate for foreign director exit increases by 0.223 and 0.117 respectively, when the deterioration of bilateral political relations increases by one standard deviation. When foreign directors with the same nationality is at its low (the minimum value) and high (80th percentile) levels, the natural logarithm of hazard rate for foreign director exit increases by 0.247 and 0.110 respectively, when the deterioration of bilateral political relations increases by one standard deviation. When the level of host country public sentiment is at its low (one standard deviation below the mean) and high (one standard deviation above the mean) levels, the natural logarithm of hazard rate for foreign director exit decreases by 0.277 and increases by 0.603 respectively, when the deterioration of bilateral political relations increases by one standard deviation.

Table 3

Competing Risk Event History Analysis Predicting Foreign Director Exit (Reduced Sample for H4)

	Model 1	Model 2	Model 3
Deterioration of Bilateral Political Relations		2.16 (0.33) *0.000*	1.42 (0.39) *0.000*
Deterioration of Bilateral Political Relations × Host Country Public Sentiment			1.42 (0.18) *0.000*
Host country public sentiment	0.10 (0.02) *0.000*	0.09 (0.02) *0.000*	0.06 (0.02) *0.002*
Firm foreign ownership	0.12 (0.20) *0.542*	0.07 (0.20) *0.721*	0.06 (0.20) *0.782*
Foreign directors with the same nationality	2.03 (0.56) *0.000*	2.07 (0.58) *0.000*	1.95 (0.57) *0.001*
Firm size	−0.11 (0.05) *0.034*	−0.09 (0.05) *0.081*	−0.09 (0.05) *0.067*
Firm age	0.01 (0.01) *0.385*	0.01 (0.01) *0.420*	0.01 (0.01) *0.331*
Firm leverage	−0.01 (0.19) *0.948*	−0.03 (0.19) *0.867*	0.05 (0.20) *0.806*
Firm prior performance	−0.85 (0.49) *0.083*	−0.89 (0.46) *0.056*	−0.56 (0.44) *0.202*
State ownership	0.65 (0.34) *0.055*	0.57 (0.34) *0.093*	0.54 (0.35) *0.129*
Ownership concentration	0.01 (0.00) *0.072*	0.01 (0.00) *0.081*	0.01 (0.00) *0.095*
TMT communist ideology	0.02 (0.03) *0.392*	0.02 (0.03) *0.541*	0.02 (0.03) *0.509*
Number of foreign subsidiaries	0.14 (0.05) *0.003*	0.15 (0.05) *0.001*	0.13 (0.04) *0.003*
Number of financial frauds	0.15 (0.06) *0.013*	0.14 (0.06) *0.017*	0.16 (0.06) *0.011*
Director age	−0.01 (0.01) *0.107*	−0.01 (0.01) *0.135*	−0.01 (0.01) *0.101*
Director gender	0.43 (0.22) *0.046*	0.45 (0.22) *0.045*	0.46 (0.22) *0.034*
Independent foreign director	0.15 (0.13) *0.240*	0.18 (0.13) *0.166*	0.16 (0.13) *0.218*
Director ownership	−2.84 (2.46) *0.249*	−2.73 (2.27) *0.229*	−2.39 (2.01) *0.234*
Director FG500 experience	−0.18 (0.12) *0.148*	−0.16 (0.12) *0.185*	−0.15 (0.12) *0.224*
Director salary	−0.07 (0.07) *0.327*	−0.06 (0.07) *0.346*	−0.07 (0.07) *0.283*
Director outside work experience	−1.09 (0.11) *0.000*	−1.09 (0.11) *0.000*	−1.09 (0.11) *0.000*
Appointed after chair	0.08 (0.11) *0.435*	0.09 (0.11) *0.385*	0.12 (0.11) *0.268*
GDP per capita	0.01 (0.01) *0.108*	0.01 (0.01) *0.141*	0.01 (0.01) *0.527*

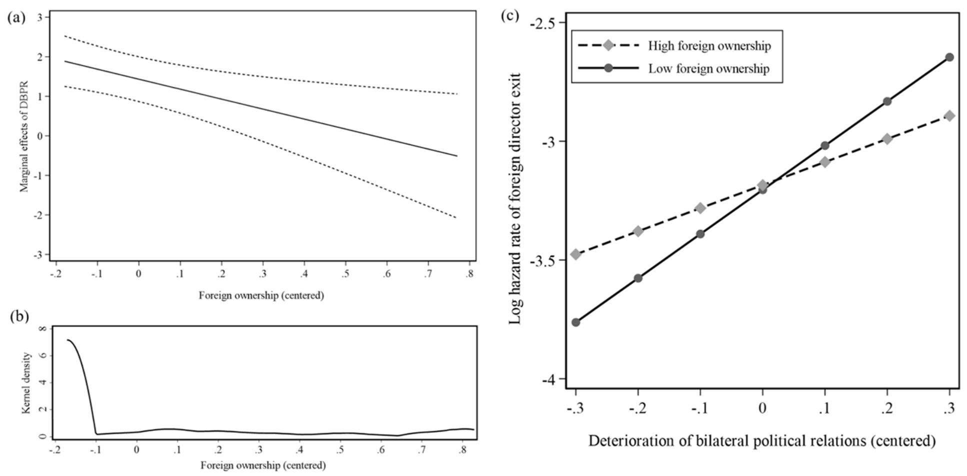
(continued)

Table 3 (continued)

	Model 1	Model 2	Model 3
Geographic distance	0.04 (0.02)	0.03 (0.02)	0.03 (0.02)
	0.109	*0.162*	*0.282*
Economic distance	−0.08 (0.03)	−0.07 (0.03)	−0.05 (0.03)
	0.003	*0.011*	*0.096*
Log likelihood	−3723.118	−3705.266	−3671.928

Note: N=2,836. Two-tailed tests. Robust standard errors in parentheses; p values in italics. Industry dummies are included in the models. The results remain robust if we impute the missing values of host country public sentiment as 0.

Figure 2
Moderating Effect of Foreign Ownership

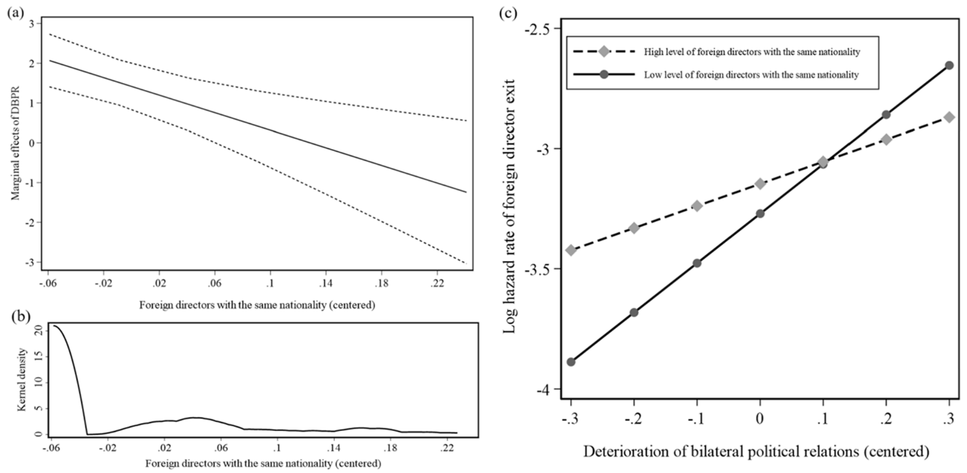


Note: The plots display the (a) marginal effects (b) kernel density (c) interaction plot of foreign ownership.

Endogeneity

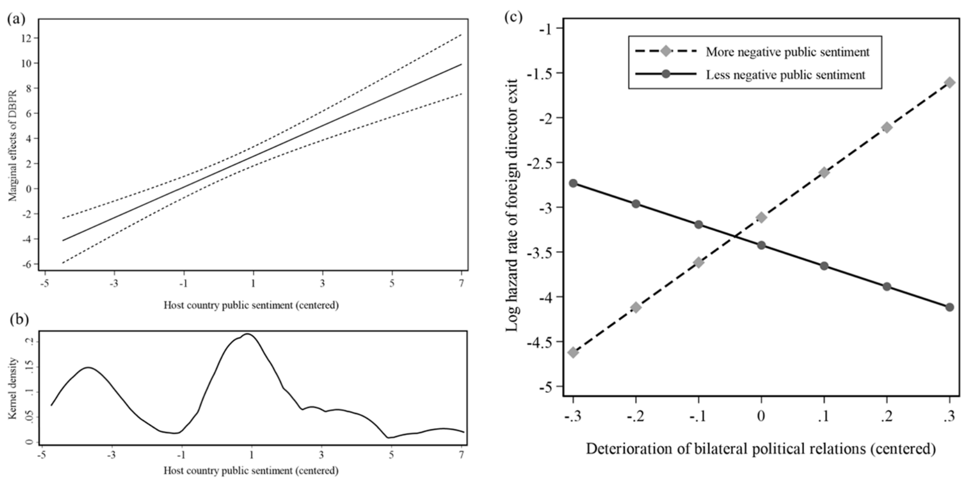
Sample selection bias. Our study may suffer from sample selection bias since our sample only includes firms that appoint foreign directors. We applied a Heckman two-stage model to deal with such a problem. In the first stage, we used a Probit model to run a regression of whether a firm has foreign directors on all the firm-level control variables. We included two exclusion restrictions: 1) *industry average number of foreign directors*, which is measured using the average number of foreign directors in firms excluding the focal firm in each industry, and 2) *province average number of foreign directors*, which is measured using the average number of foreign directors in firms excluding the focal firm located in each province. These two exclusion restrictions are theoretically correlated with whether a firm intends to appoint a foreign director, but less likely correlated with the exit decision of a specific foreign director. The coefficients of the two exclusion restrictions were positive and statistically significant. The second-stage models then included the inverse Mills ratio as an additional

Figure 3
Moderating Effect of Foreign Directors with the Same Nationality



Note: The plots display the (a) marginal effects (b) kernel density (c) interaction plot of foreign directors with the same nationality.

Figure 4
Moderating Effect of Host Country Public Sentiment



Note: The plots display the (a) marginal effects (b) kernel density (c) interaction plot of host country public sentiment.

control variable. The regression results in Online Appendix Table A1 show that the coefficients of the inverse Mills ratio are not significant, indicating that sample selection bias may not be a major problem in our study.

Omitted variable bias. We performed additional analyses to deal with endogeneity caused by unobservable factors that are related to both bilateral political relations and foreign director exit. First, we used coarsened exact matching (CEM) to select foreign directors for comparison. For each director from a country that had worsened relations with China, we used one-to-one matching to select a director from another country based on pretreatment variables.[3] We obtained a matched pair for each of the 796 observations at the director-year level, and then compared the mean differences of foreign director exit in the following year. The univariate *t*-test shows that the mean value of foreign director exit from countries that have worsened relations with China (0.173) is significantly higher ($p=0.013$) than that from other countries (0.217), supporting Hypothesis 1.

Second, we conducted a synthetic control method (SCM) to test the influence of bilateral political relations on the total number of directors from each country in each year. We chose Japan as the treated country because a relatively large number of foreign directors have Japanese nationality and the bilateral political relations between China and Japan dropped dramatically after 2012. We constructed a synthetic control for Japan using the rest of countries in our sample[4] and plotted the evolution of number of foreign directors from Japan versus that of synthetic Japan. Online Appendix Figure A1 shows that synthetic Japan closely resembles real Japan in terms of number of directors over the period prior to the deterioration of bilateral political relations. However, the discrepancy between the two after 2013 increases dramatically. After bilateral political relations deteriorated, the number of Japanese directors decreased significantly, which implies that Japanese directors were more likely to exit than before the deterioration, supporting Hypothesis 1.

As a more general endogeneity check, we used the robustness of inference to replacement (RIR), which is suitable for nonlinear models for testing whether omitted variables could be a primary source of endogeneity. Because the *konfound* command suggested by Busenbark, Yoon, Gamache, and Withers (2022) cannot be used to calculate RIR for event history models, and our results of logit model are consistent with those of Cox model, we calculated RIR using results from the logit model following Wang et al. (2023). The RIR results suggest that to invalidate the causal inference of the relationship, 67.63% of cases would have to be replaced with cases for which there is an effect of 0, giving us confidence that our findings are not likely to suffer from omitted variable bias.

Robustness Tests

Excluding ethnic Chinese directors who later obtained foreign nationalities. To alleviate the concern that some directors were actually born in China and later obtained foreign nationalities, we determined whether the director's name includes Chinese characters and whether his or her last name is one of the common Chinese family names based on a foreign director's curriculum vitae. We excluded 476 directors whose names contain Chinese characters and whose last names are common Chinese family names. The results shown in Online Appendix Table A2 remain consistent.

Alternative measure of DBPR. In the main analyses, we considered abstentions when measuring DBPR. As a robustness test, we used the two-category vote data (1 = "yes" or approval; 2 = "no" or disapproval) to measure DBPR. The results in Online Appendix Table A3 are largely consistent with our main results, except that the significance of the interaction term of DBPR and foreign directors with the same nationality in the full model (Model 5) becomes weaker.

Alternative event history models. We tried to use Cox proportional hazards model without considering the competing risks of appointing to other positions. The results shown in Online Appendix Table A4 are consistent with our main result.[5] We also used alternative models including the parametric model with exponential distribution, the parametric shared frailty survival model with exponential distribution, the parametric model with Weibull distribution, and the parametric shared frailty survival model with Weibull distribution, and the results using these alternative models remain consistent.

Discussion and Conclusions

The growing trend of geopolitical tensions and deglobalization has led to a series of consequences for firms (Witt, 2019). This study focuses on the influence of bilateral political relations on foreign directors and builds a theoretical framework based on the sensemaking perspective (Thomas, Clark, & Gioia, 1993; Weick, 1995) to examine the influence of deterioration of bilateral political relations on foreign director exit. We propose that foreign directors' sensemaking of dual identity conflict and identity threat can be triggered by the unexpected event of deterioration of bilateral political relations and shaped by social cues that are associated with three distinctive mechanisms, including identification with the organization indicated by foreign ownership, socialization and homophily represented by foreign directors with the same nationality, and socioemotional climate reflected in host country public sentiment. These factors collectively influence foreign directors' decisions on whether to exit from or stay on the board.

Our empirical tests using a sample of foreign directors in Chinese listed firms provide strong evidence for the hypothesized relationships. The finding that the deterioration of bilateral political relations has a positive impact on foreign director exit provides solid evidence that geopolitical conflicts do have an impact on the behaviors of individual directors by triggering their sensemaking (Brown et al., 2015). Such a finding provides evidence for the "intertwined and recursive nature of micro-macro sensemaking processes" (Brown et al., 2015: 268).

Our findings about the moderating effects of social cues confirm the argument in the literature that the sensemaking process is also a social process in which a sensemaker's creating, interpreting, and enacting the unexpected event is embedded in the social context (Allport, 1985; Weick, 1995). It enriches our understanding of how organizational identity as a social cue shapes individuals' interpretation and behavioral reaction to the unexpected event, which is less studied in prior literature (Sandberg & Tsoukas, 2015). In addition, our finding about the moderating effect of foreign directors with the same nationality illustrates the socialization of foreign directors with surrounding others in the process of sensemaking. It shows the situational-shaped interactional engagement of sensemakers (Di Paolo, Rohde, & De Jaegher, 2010). Given that the sensemaking literature "overlooks larger contexts (institutional and epistemic) in which sensemaking takes place" (Sandberg & Tsoukas, 2015: 26), our findings go beyond past literature by demonstrating how social cues interact with the disrupted situation to shape individuals' situated sensemaking.

Moreover, although scholars have acknowledged the influence of social contextual factors in sensemaking, very few studies have empirically investigated such influence (Sandberg & Tsoukas, 2015). Our finding about the moderating effect of host country public sentiment demonstrates how the broad social contexts interact with the identity-based schema activated by overarching and unpredictable events to shape situated cognition. This finding affirms the crucial role of country-level sentiments in recent international business studies (Tian, 2022; Yiu et al., 2022). We find that when host country public sentiment is less negative, the impact of deterioration of bilateral political relations on foreign director exit becomes negative. It indicates that by picking up cues from the socioemotional context, foreign directors feel less unwelcomed by local stakeholders, and are thus less likely to exit from the firm board.[6]

Theoretical and Practical Implications

Our study makes important contributions to the literature and practice. First, this study advances the existing body of work that emphasizes the influence of geopolitics and political risks. As foreign directors can be categorized in multiple ways including nationality, a focus on their behaviors in response to the deterioration of bilateral political relations is particularly important and can bring valuable insights into the stream of research that concentrates on country-level relations (Bertrand et al., 2016; Li et al., 2018; Li et al., 2020). Although past studies have documented the impact of bilateral political relations on firm behavior, few have examined their impact on the behavior of important individuals in firms. This paper builds on and extends these studies by suggesting that the deterioration of bilateral political relations can be a macro stimulus of sensemaking of foreign directors, as reflected in their exit behavior, and such a sensemaking process is also affected by the proximate social context factors, such as foreign ownership, foreign directors with the same nationality, and host country public sentiments. It provides novel insights into this vibrant research area by enriching our understanding of the consequences of the macro environment on the micro processes and behaviors, thereby bridging the macro-micro divide (Foss & Pedersen, 2019).

Second, our study contributes to the research on foreign directors and board internationalization, which promotes the transformation of corporate governance and has gained increasing attention in recent studies (Oxelheim et al., 2013). Extant literature has focused mainly on the benefits and costs of including foreign directors on the board (Iliev & Roth, 2018; Masulis et al., 2012; Miletkov et al., 2017), whereas few have examined the factors preventing board internationalization. Our study demonstrates that deterioration of bilateral political relations can lead to changes in the level of board internationalization, which enriches our understanding of the internationalization of firms and their directors in emerging markets.

Third, the findings of this study also shed light on sensemaking theory. First, previous studies have predominantly concentrated on societal crises as the trigger of organizational sensemaking. By highlighting that unforeseen macro events (e.g., geopolitical events) can initiate the sensemaking of individual foreign actors with dual identities through eliciting identity conflicts and threats, it expands our understanding of the triggers of sensemaking by geopolitical tensions. Second, while previous studies have been engaged in a debate over whether sensemaking is primarily retrospective or prospective, our study offers a novel perspective by showing the short-term temporality of sensemaking processes (Weick et al., 2005). Third, by focusing on foreign directors with dual identities and their interaction with surrounding others, it responds to the call for studies on how cognitive schema interacts with social contexts to influence situated cognitions in the sensemaking process (Elsbach et al., 2005; Sandberg & Tsoukas, 2015). Our research sheds light on how the socially situated cognitions of foreign directors in a host country are shaped by the congruence between individual and organizational identities, the homophily effect stemming from social interactions with home country nationals in the host country, and the socioemotional support provided by the constituents of the host country. Fourth, our finding regarding the moderating effect of socioemotional climate in the host country also answers the call for a deeper examination of the roles of emotions in sensemaking (Maitlis & Christianson, 2014) and enriches our understanding of how emotions influence sensemaking in the midst of geopolitical events.

In addition, our study also has some practical implications. Given that director diversity can enhance the quality of firm decision-making (Masulis et al., 2012) and foreign directors are important conduits for firms to obtain resources and legitimacy from foreign markets (Miletkov et al., 2017), it is important for firms in emerging markets to attract and retain foreign directors. Specifically, our findings suggest that the retention and exit of foreign directors are subject to the influence of bilateral political relations and social context factors. Directors and firms in emerging countries should be aware of the underlying mechanisms of such influences, and proactively take action to influence their sensemaking process. Given that director exit may influence firm strategies and investor reactions, firms should also be prepared and ready for changes in the board composition and the related outcomes. Furthermore, we find that when host country public sentiment is less negative, deterioration of bilateral political relations is negatively related to foreign director exit. Therefore, local government can guide the public to tackle international conflict events rationally and treat foreigners in a friendly manner, thereby better retaining foreign directors in times of deteriorating bilateral political relations.

Future Research Directions

By focusing on foreign director exit as an outcome of deterioration of bilateral political relations, this paper opens a new avenue for future research. International business scholars can continue this line of research by looking for more predictors and underlying mechanisms of foreign director exit. Additionally, director exit from a firm does not mean a director's exit from the country forever, since the director may reenter this or another firm in the same country in the future. Future studies can also examine the temporal effect of deterioration of bilateral political relations on the reentry of foreign directors. Moreover, given that identification with the organization may lead to many other possible behavioral outcomes such as director dissent, monitoring behavior, and resource provision behaviors (Cannella et al., 2015; Zhu & Yoshikawa, 2016), future research can investigate these behavioral outcomes of the sensemaking process.

Our theoretical framework is built on sensemaking theory. While our study provides strong theoretical linkage and solid evidence using archival data, future studies can go deeper and test the assumptions and underlying logics directly using survey data, undertaking experiments, or conducting case studies. For example, since sensemaking is a social constructive process (Weick et al., 2005), foreign directors and local directors may give sense to each other and trigger each other's sensemaking. In-depth case studies may help us unpack the sequential and reciprocity fashion of sensemaking and sensegiving.

In addition, although China is an appropriate context to test our theory, our analysis of host country public sentiment only covers eight major countries due to data limitations. Future research can use data from other countries to verify our findings and test if they vary across countries. Particularly, directors in developed countries may differ from their emerging country counterparts due to situated sensemaking, and thus may react differently when bilateral political relations deteriorate. Similarly, public sentiment toward other countries may have distinct characteristics in developed countries. It would also be intriguing to compare the impacts across countries.

Conclusion

Our study draws attention to an under-examined phenomenon of the exit of foreign directors and highlights the transcending impacts of geopolitical tensions from bilateral country level to individual foreign actors in a host country. Our study has elucidated this transcending impact using a sensemaking logic focusing on situated cognitive stimulus, processing and interpretation of disrupted situations and social cues, and behavioral enactment. With the significance and robustness of empirical findings, this study points to the importance of delving deeper into foreign actors' situated cognitive processing triggered by geopolitical tensions between home and host countries. We hope the insights drawn here can widen the paths of studies on the impact of geopolitical tensions on foreign entities in international management.

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Notes

1. As a robustness test, we also measured foreign directors with the same nationality using the number of other directors who share the same nationality as the focal foreign director and controlled for board size. The results remain consistent.
2. When host country public sentiment is less negative, one plausible explanation for the significantly negative influence of deterioration of bilateral political relations is that the foreign director may personally experience and embrace the culture of social inclusion in the host country and foster a deep sense of connection and identification with the focal firm and community.
3. Including director age, director tenure, director gender, director ownership, firm size, firm age, firm leverage, and firm foreign ownership.
4. Based on factors including geographical distance, administrative distance, economic distance, and inward FDI from each country.
5. We also used alternative models including the parametric model with exponential distribution, the parametric shared frailty survival model with exponential distribution, the parametric model with Weibull distribution, and the parametric shared frailty survival model with Weibull distribution, and the results using these alternative models remain consistent.
6. It is somewhat surprising that the direct effects of foreign directors with the same nationality and number of foreign subsidiaries on foreign director exit are both positive and significant. For foreign directors with the same nationality, the reason might be that when a firm has more foreign directors from the same country, each foreign director has a higher level of overlap with other directors and fewer unique resources and knowledge to contribute, which may obstruct the elevation of social status and attenuate the value of the foreign director, leading to higher

intention to exit. For number of foreign subsidiaries, one possible explanation is that the role of a foreign director is most crucial in the process of establishing a foreign subsidiary. After the establishment of the subsidiary, the foreign director has less influence gradually, potentially leading to a higher likelihood of resignation. In addition, director outside work experience is negatively related to foreign director exit. We speculate that directors who hold part-time positions in other companies may have access to a broader network of resources, which can assist them in attaining more power in the focal company, thereby less likely to consider leaving the company.

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