Are foreign-born CEOs held to a higher performance standard? The role of national origin in CEO dismissals

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Keywords: attribution theory | CEO dismissal | CEO liability of foreignness | foreign-born CEO | performance | social identity theory

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Are foreign-born CEOs held to a higher performance standard? The role of national origin in CEO dismissals

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KEYWORDS

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1 | INTRODUCTION

Foreign-born chief executive officers (CEOs), defined as "CEOs born outside the country of the firms they lead" (Bertrand et al., 2021, p. 525), are increasingly common in US corporations (Boardroom Insiders, 2020). According to recent data, 12% of Fortune 500 CEOs were born abroad (Gillenwater, 2020; Mahroum & Ansari, 2017), nearly mirroring the composition found in the United States, where 14% of the population is foreign-born (Budiman, 2020). Indeed, some of the most globally recognizable US firms are led by foreign-born CEOs, including Microsoft, Google, Tesla, and Nvidia (Fortune, 2022). By reaching top leadership positions, foreign-born CEOs appear to have overcome some of the employment barriers commonly faced by foreigners (Legrand et al., 2019). However, it remains unclear whether, once on the job, they are held to the same performance standard as their native-born counterparts. As it is challenging to determine whether the two groups of individuals receive equal treatment, we focus our inquiry on an observable outcome: dismissal. We ask, are foreign-born and native-born CEOs equally likely to be dismissed under comparable conditions?

CEOs' most important mandate by boards of directors is to generate economic returns for shareholders (Hubbard et al., 2017; Quigley & Hambrick, 2015). Firm financial performance represents a key criterion used to evaluate CEOs (Finkelstein et al., 2009; Graffin et al., 2013). But although firm performance is the most efficient predictor of CEO dismissal, at best it explains only half its variance (Finkelstein et al., 2009; Nyberg et al., 2021). Overperforming CEOs are sometimes dismissed while underperforming CEOs are sometimes retained (Weisbach, 1988; Wiersema & Zhang, 2011), leading researchers to explore the noneconomic determinants of dismissal. Given that boards act under incomplete information and under pressure (Boivie et al., 2016), researchers have begun to highlight the influence of socio-psychological biases on board decision making (Zhang, 2021). However, despite increased interest in understanding the consequences of bias in board behavior (Westphal & Zajac, 2013), the role of intergroup bias in CEO dismissals remains underexplored (Haleblian & Rajagopalan, 2006; Weber & Wiersema, 2017). Intergroup bias, defined as individuals' preference for similar others (Tajfel & Turner, 1979), can shift boards' attributions of performance and amplify the likelihood of dismissal for certain social groups beyond what would be expected because of underperformance. Yet, few studies have examined how ingroup and outgroup status influences CEO dismissal likelihood.

Although national origin represents a salient social category and foreignness is treated as an outgroup characteristic in numerous management studies (e.g., Mäkelä et al., 2012; Zellmer-Bruhn et al., 2008), to our knowledge, no studies have investigated the effect of foreign origin on CEOs' likelihood of dismissal. Yet, extant research and anecdotal evidence indicate that foreign-born CEOs "may face a collective reservation or negative bias due to their foreign origin" (Bertrand et al., 2021, p. 525), inviting the question of whether foreign origin represents a survival liability in the CEO role. Our use of the term "liability" is inspired by recent work theorizing that the liability of foreignness, commonly conceptualized at the firm level (Zaheer, 1995), affects individual outcomes and applies to foreign-born CEOs (Bertrand et al., 2021; Hernandez & Kulchina, 2020; Mata & Alves, 2018). Indeed, despite their great visibility and power as members of the corporate elite, foreign-born CEOs still experience prejudice (Legrand et al., 2019; Shields & Harvey, 2010), likely putting them at a disadvantage compared to their native-born counterparts, with personal and organizational consequences.

To determine whether foreign origin represents a survival liability in the CEO role, we examine the moderating effect of CEO national origin on the relationship between firm performance and dismissal. CEO dismissal is defined as "a situation in which the CEO's departure is ad-hoc (e.g., not part of mandatory retirement policy) and against his or her will" (Fredrickson et al., 1988, p. 255). To address our research question, we integrate the literatures on CEO foreign origin, social discrimination in corporate leadership, and CEO dismissal. We combine social identity theory (Tajfel & Turner, 1979) and attribution theory (Fiske & Taylor, 1991; Heider, 1958; Kelley, 1973) to argue that when firms encounter performance-related challenges, boards are more likely to attribute poor performance to foreign-born CEOs, who are perceived as members of the outgroup, than to native-born CEOs, who as members of the ingroup may be protected by ingroup favoritism and insulated from internal attribution, increasing foreign-born CEOs' likelihood of dismissal compared to their native-born counterparts. We test this argument by using a longitudinal sample of Standard & Poor's 1500 (S&P 1500).

Our study makes several noteworthy contributions. Our decision to integrate three fields of scholarship—research on CEO foreign origin, socio-psychological factors in board decision making, and bias in CEO dismissals—marks a first step in demonstrating empirically the liability which foreign-born individuals may face following their appointment to the CEO role. Our central result is that, when firm performance is low, foreign-born CEOs experience markedly higher rates of dismissal than their native-born counterparts. This finding augments the theoretical notion that disadvantages associated with foreign origin operate at a personal level and influence individual outcomes (Bertrand et al., 2021; Hernandez & Kulchina, 2020; Mata & Alves, 2018). Furthermore, we show that the survival liability experienced by foreign-born CEOs has considerable consequences for the firms they lead, as firms led by foreign-born CEOs are at a greater risk of more frequent or premature leadership turnover. Our study thus explores some unintended side effects of appointing leaders with a foreign background (Georgakakis et al., 2023; Maddux et al., 2021).

Second, the present study extends the literature on the impact of socio-psychological factors on board decision making (Westphal & Zajac, 2013) to include national origin. Despite recognition that intergroup bias may influence CEO dismissal likelihoods, national origin, as a social category, has so far been overlooked (Bertrand et al., 2021). Our findings indicate that foreign origin, akin to gender and ethnic-minority status, is a salient characteristic that influences boards' decisions to dismiss. But unlike gender and ethnic-minority status, which constitute a constant impediment to CEO survival (Gupta et al., 2020), CEO foreign origin predicts dismissal only when firm performance is poor, suggesting that boards' perceptions of ingroup and outgroup status based on national origin are activated during performance crises. Our study thus offers empirical evidence of intergroup bias in CEO dismissal (Haleblian & Rajagopalan, 2006; Weber & Wiersema, 2017).

2 | THEORY AND HYPOTHESES

2.1 | Foreign origin as a disadvantage

Foreign origin is associated with numerous negative outcomes in the labor market, including the discounting of workers' qualifications and experiences (Argue & Velema, 2022), lower earnings (Ferrer & Riddell, 2008), and higher risk of dismissal when economic conditions deteriorate (Bureau of Labor Statistics, 2021). Foreign-born workers are the object of negative attitudes (Mayda, 2006), which can range from discomfort to overt xenophobia (De Figueiredo Jr. & Elkins, 2003). Although few studies have explicitly examined the effects of foreign origin among corporate leaders, evidence is beginning to emerge that foreign-born CEOs also suffer from outgroup status (Bertrand et al., 2021; Hernandez & Kulchina, 2020; Legrand et al., 2019; Mata & Alves, 2018). For instance, Legrand et al. (2019) show that foreign-born CEOs experience stereotyping, prejudice, and discrimination due to national origin. Bertrand et al. (2021) demonstrate that foreign-born CEOs try to counter perceptions of outgroup status by overinvesting in non-market strategies that signal legitimacy and trustworthiness. Though limited in scope, these insights are further supported by case studies (e.g., Shields & Harvey, 2010) and by anecdotal evidence. For instance, when Indian-born Vikram Pandit arrived at Citibank in 2007, he was lauded as "a genius" and "a terrific strategist" by bank leadership (Hagan, 2009), becoming the firm's CEO in 2008. As Citibank's performance declined, however, a profile story in *New York Magazine* amplified his outgroup status, describing him as "a cultural outsider" and as someone for whom "subtle cultural bias ... didn't make it easy to fit in" (Hagan, 2009). In response to pressure from Citibank's board of directors, Pandit left his role in 2012.

We advance this line of research by arguing that the salience of foreign-born CEOs' outgroup status will be amplified when firm performance is poor, a pattern that will influence CEO-directed performance attributions made by the board, who represent the ingroup. From the line of reasoning offered above, foreign-born CEOs will be subject to bias from decision makers, and this bias will be discernible in the difference between foreign-born and native-born CEOs with respect to dismissal outcomes, under otherwise comparable conditions. Before we outline the presumed theoretical mechanisms underlying the hypothesized relationship, we summarize the state of the literature on bias in CEO dismissals.

2.2 | Bias in CEO dismissals

A key responsibility of boards of directors is to monitor and discipline CEOs to protect the interests of shareholders (Fama & Jensen, 1983; Finkelstein et al., 2009; Jensen & Meckling, 1976). Firm financial performance is the primary antecedent of CEO dismissal (Finkelstein et al., 2009; Nyberg et al., 2021). Based on agency, power, and resource-dependence theories, traditional explanations of board decision making with respect to CEO dismissal have assumed that board assessments of CEO quality focus on merit and that boards can accurately attribute firm outcomes to CEO action. However, there is substantial causal ambiguity regarding CEOs' abilities to influence firm performance (Pfeffer, 1981; Zhang, 2021) and "CEO dismissals are often clouded in controversy and confusion" (Gupta et al., 2020, p. 561). Since it is up to the board to determine whether firm performance is attributable to the internal factor of CEO stewardship or to the host of factors external to managerial control (Holmstrom, 1982), cognitive, affective, and attributional biases can influence boards' fulfillment of their monitoring and decision-making role (Kahneman, 2003). Indeed, empirical evidence shows that poorly performing CEOs are sometimes retained whereas well-performing CEOs are sometimes terminated (Boeker, 1992; Weisbach, 1988; Wiersema & Zhang, 2011). This indicates that factors other than rationality are present in the decision to dismiss (Fredrickson et al., 1988).

Recently, there has been increasing interest in understanding the role of socio-psychological factors that influence boards' decision making (Zhang, 2021). Although effective monitoring of managerial action is a legal obligation of boards, their directors are not exempt from the human condition of limited information processing capacity and bounded rationality (Simon, 1979). Board decision making suffers from biases as directors seek to process an abundance of information that is often incomplete and characterized by uncertainty (March, 1999). For example, when there is limited information and causal ambiguity regarding CEO quality, such as when a CEO is newly appointed (Graffin et al., 2013), board members are more likely to rely on heuristics and align their dismissal decisions with external judgments of CEO performance. However, external judgments are unlikely to accurately and objectively reflect managerial performance given that outside parties are often neither fully informed nor fully impartial (Wiersema & Zhang, 2011). Decision-making heuristics offer directors cognitive shortcuts that reduce information processing demands but these shortcuts introduce bias (Tversky & Kahneman, 1974) and affect the relationship between firm performance and CEO dismissal. Another source of bias in board decision making has been linked to CEO–board similarity. Social similarity between CEOs and directors introduces a mitigating bias, as evidenced by a performance–dismissal relationship that is weaker than expected when board members are appointed during their CEO's tenure (Boeker, 1992) or when the CEO and board members share social networks (Nguyen, 2012), share beliefs (Lee et al., 2014), or have shared experiences (Hwang & Kim, 2009), Taken together, previous research indicates that board monitoring is not perfectly efficient (Boivie et al., 2016) and that board behavior can deviate from expectations of objectivity, rationality, and fairness.

2.3 | Social discrimination in corporate leadership

Although to our knowledge no study has examined the influence of national origin on dismissal among the corporate elite, strategic leadership research has identified numerous disadvantages to outgroup status based on gender and race. For example, research broadly indicates that occupational minorities face greater barriers to obtaining corporate leadership positions (Finkelstein et al., 2009). On average, black and female directors hold higher educational qualifications and possess more management experience than, respectively, these individuals' white and male counterparts (Hillman et al., 2002; Zweigenhaft & Dommhof, 2018). Women and racial minorities, more than their male and racial-majority counterparts, are expected to engage in more ingratiatory behaviors toward CEOs to earn board seats (Westphal & Stern, 2006). Overall, it is more difficult for occupational minorities to obtain a corporate leadership position. However, upon reaching the top post, they face higher risks of dismissal. For example, recent research has uncovered significant differences in CEO dismissal rates by gender and has specifically found that female CEOs are scrutinized and evaluated more negatively than their male counterparts, leading to higher likelihoods of dismissal even if firm performance is increasing (Gupta et al., 2020). Although there remains limited understanding of the processes by which social discrimination comes to influence dismissal for outgroup members, recent studies point to social-categorization processes based on social identity, intergroup bias, and the attribution fallacy (e.g., Haleblian & Rajagopalan, 2006; Park & Westphal, 2013; Weber & Wiersema, 2017). In what follows, we connect mechanisms from social identity theory (Tajfel & Turner, 1979) and attribution theory (Fiske & Taylor, 1991; Heider, 1958; Kelley, 1973) to explain how poor performance increases the salience of foreign origin as an outgroup social category, and how activating the perception of a foreign-born CEO as an outgroup leader increases risk of dismissal relative to native-born CEOs.

2.4 | When social identities and attributions meet

Social identity theory posits that individuals use observable characteristics to categorize themselves and others into ingroups or outgroups based on social similarity (Ashforth & Mael, 1989; Tajfel & Turner, 1979). Similarity breeds familiarity, attachment, and cohesion, and ingroup membership thus confers a positive social identity. As observed by Allport (1954, p. 42), "The familiar is preferred. What is alien is regarded as somehow inferior, less 'good'." Intergroup bias, or preference for similar others, serves to uphold positive feelings by creating a perception of high social standing for ingroup members (Tajfel et al., 1971). Intergroup bias manifests itself as differential behavior toward ingroup and outgroup members (Hewstone et al., 2002).

Some scholars argue that a preference for members of one's ingroup does not necessarily imply negativity or animosity toward outgroup members, and that ingroup favoritism is a sufficient motive for differential behavior (Brewer, 1999). Others argue that positive affect toward ingroup members, negative affect toward outgroup members, and subsequent differential behavior toward the two groups are activated only in certain situations, such as when ingroup members face pressure or a perceived threat (Sidanius & Pratto, 1999). We use these two sets of insights as a foundation for arguing that poor firm performance increases the salience of national origin as a social-identity characteristic.

To understand how directors form attributions of firm performance, we turn to attribution theory, which explains how people use information to make sense of events and arrive at causal judgments (Fiske & Taylor, 1991; Heider, 1958; Kelley, 1973; Weiner, 1986). Attribution theory proposes that people tend to seek explanations for the causes of outcomes. This tendency is heightened in instances that are somehow disappointing (Lord & Smith, 1983; Wong & Weiner, 1981) as people strive to "give change its meaning" (Heider, 1944, p. 359). However, as decades of research show, the process of generating and evaluating causal explanations is not without bias (for reviews, see Kelley & Michela, 1980; Miller & Ross, 1975; Zuckerman, 1979). Indeed, the ways in which people access and select relevant information to make causal attributions are influenced not only by the circumstances surrounding the outcome itself, but also by people's general beliefs and motivations (Kelley & Michela, 1980; Kunda, 1987), with attributional biases becoming magnified in response to perceived threats (Campbell & Sedikides, 1999).

Attributional biases are typically expressed by overattributing unfavorable outcomes to external causes and favorable outcomes to internal causes (Miller & Ross, 1975; Zuckerman, 1979). Similar patterns of causal reasoning extend to intergroup interaction in the form of ingroup favoritism and outgroup negative bias (Hewstone, 1990; Pettigrew, 1979). As noted by Hewstone (1990, p. 311), "attributions made for the behavior of ingroup and outgroup members are … often ethnocentric, in the sense that members of a particular group favor members of their own group, rather than members of outgroups." Group members' preference for similar others manifests itself in two sets of likelihoods: (1) group members will engage in internal attribution for ingroup members' success but external attribution for ingroup members' failure; and, by contrast, (2) group members will engage in external attribution for outgroup members' success and internal attribution for outgroup members' failure. This "systematic patterning of intergroup misattributions" (Pettigrew, 1979, p. 464), which perpetuates negative stereotypes of outgroup members, is a form of bias (Hewstone, 1990, p. 312) known as the "ultimate attribution error" (Pettigrew, 1979).

In experimental and observational studies, attribution errors due to intergroup bias are more pronounced in cases where decision makers are motivated by ingroup protection than ingroup enhancement goals—that is, in cases where the ingroup perceives itself to be under pressure or threat (Hewstone, 1990). This component of the theory thus helps explain why intergroup bias may not create a constant heightened risk of dismissal for foreign-born CEOs but is instead activated by poor firm performance. Indeed, empirical research in organizational settings shows that intergroup bias has a substantial effect on how ingroup members explain poor performance. Park and Westphal (2013) find that ingroup members attribute firm underperformance to external, uncontrollable causes when the CEO is a member of an occupational majority (the ingroup) but to internal, controllable causes when the CEO is a member of an occupational minority (the outgroup). This dual finding indicates that directors' causal attributions of poor performance change depending on the CEO's status as an ingroup or outgroup member.

When firm performance is low, boards will make attributions regarding the cause of the underperformance. Internal attributions of poor performance are associated with more severe disciplinary action for the CEO, whereas external attributions of poor performance are likely to result in a more lenient CEO-directed response (for a review of attributions in leadership, see Martinko et al., 2007). In the null hypothesis, the salience of national origin will in no way affect directors' attributions of poor firm performance. In contrast to the null hypothesis, we identify two reasons why, when a foreign-born CEO heads a firm, its directors shift their attribution of poor firm performance from external to internal causes so that the likelihood of dismissal is greater for the foreign-born CEO than it would be for a native-born CEO (all other things equal).

First, poor financial performance alone does not result in CEO dismissals: it results in sensemaking and interpretations of causes, and these actions influence decisions to dismiss. CEO dismissal is more likely to occur when the board attributes underperformance to internal, controllable factors as opposed to external, uncontrollable factors (Haleblian & Rajagopalan, 2006; Weber & Wiersema, 2017). Second, when under the influence of intergroup bias, board members tend to absolve native-born CEOs of responsibility for poor performance but tend to blame foreign-born CEOs for similarly poor performance. Foreign-born CEOs, as outgroup leaders, are more likely than native-born CEOs to be held responsible for negative outcomes, leading to a higher likelihood of dismissal for foreign-born CEOs. Taken together, this logic leads us to theorize that attribution fallacies, combined with the outgroup status of foreign-born CEOs, will engender systematic differences in boards' perceptions of whether poor firm performance is attributable to internal or external causes, resulting in a greater dismissal likelihood for foreign-born CEOs than for native-born CEOs. For these reasons, we propose the following hypothesis:

> **Hypothesis 1. (H1).** CEO foreign origin will moderate the negative relationship between firm performance and CEO dismissal, such that CEO foreign origin increases the likelihood of CEO dismissal when firm performance is low.

3 | METHOD

3.1 | Sample

We tested our theory with a longitudinal sample of S&P 1500 firms. This sample, which allows us to capture 90% of US market capitalization, consists of firms in three S&P subcategories: the S&P 500, S&P MidCap 400, and S&P SmallCap 600. Our sample originates from the population of firms in the Standard & Poor ExecuComp database, which provides information on the characteristics and compensation of top managers of US public companies and has been employed extensively in CEO dismissal research (Chen & Hambrick, 2012; Gupta et al., 2020). We expanded the dataset with information from BoardEx—a popular source of corporate-governance intelligence—to include board-level data and information on national origin (Belderbos et al., 2022). We supplemented missing board-level data using Institutional Shareholder Services (ISS) and collected other firm-level and governance information from Compustat and Thomson Reuters. The original ExecuComp sample contained 37,173 firm/year observations. Upon merging all data sources for our 2000–2018 sample period, we obtained a total of 11,947 observations.

Because our panel data are derived from a combination of several sources and because several factors (e.g., missing BoardEx information on CEO national origin) led our sample size to be smaller than the original population, we controlled for potential sample selection bias by conducting a Heckman two-stage procedure. Using the original population of firms included in ExecuComp, we estimated the probability of selection into the final sample using a probit model. Selection is a dummy variable taking a value of "1" if a firm/year observation is included in the final sample and "0" otherwise. We used the following predictors in the first-stage model: *year dummies*, *two-digit* SIC *dummies*, *industry concentration* (the four-firm sales concentration ratio in a firm's two-digit SIC), *firm size* (log of sales), *firm performance* (industry-adjusted Tobin's Q), *CEO age*, *CEO gender*, and *percentage of immigrants in the firm's home state*. Data for these variables were obtained from the aforementioned sources and the US Census Bureau. This technique produced a selection variable based on a selectivity mode, which we subsequently used as an instrument in the second stage of our statistical testing.

Following prior research (Certo et al., 2016), we used one predictor in the first-stage model (i.e., *percentage of immigrants in the firm's home state*) as an exclusion instrument and did not include it in the second-stage model. Since data attrition in this study is due primarily to missing CEO national origin, we expect firms' broader environments to influence the probability that they report information on top managers' national origin. We posit that the *percentage of immigrants in the firm's home state* is related to the probability that an observation appears in the sample, and we include the variable as a predictor in the first-stage model. However, this variable is unlikely to influence the dependent variable (i.e., *CEO dismissal*), which speaks to its potential validity as an exclusion instrument (Certo et al., 2016). Our first-stage model is statistically significant ($\chi^2 = 2858.53$; $p = .000$), suggesting that companies that are included in the sample are different from excluded companies. The results of the first-stage model can be found in Appendix 1. We then calculated the inverse Mills ratio, which we entered as a covariate into the second-stage model.

3.2 | Dependent variable

To measure dismissal, we relied on a CEO turnover dataset recently made available by Gentry et al. (2021) on Wharton Research Data Services. To build the dataset, Gentry et al. (2021) started with ExecuComp, which provides the specific starting and departure dates of CEOs' tenures at focal companies. In cases that such information was missing or inaccurate, the authors used information found in secondary sources, such as press releases, SEC filings, and companies' websites. The authors also resolved inaccuracies in the data. For each turnover event, press coverage items and SEC filings were gathered, thus ensuring the fullest possible picture available. A coding scheme, validated by 13 prominent authors who have published in this area in top journals, was employed by 23 coders over two semesters. The coders followed detailed coding instructions available in the appendix of Gentry and colleagues' manuscript. A complete account of the authors' methodology is available on pages 974–976 of their article. Appendix 2 presents the coding scheme and summary of all types of departures found in the database.

In line with prior research (e.g., Gentry et al., 2021), *CEO dismissal* is a binary variable taking a value of "1" if the CEO left involuntarily for reasons (as cited in the media) related to either CEO job performance or personal issues (corresponding to Codes 3 and 4 described in Appendix 2). Also, in line with prior research, we excluded CEO departures due to death in office or ill health (Codes 1 and 2). We also excluded turnover events for which there were not enough data to categorize the event (Code 8). In our panel data, firms without a CEO turnover event or with a voluntary departure in a focal year were coded as "0." Of the 11,947 firm-year observations in our sample, there are 1739 CEO turnover events. Of these, 364 fall under the category of dismissal.

3.3 | Explanatory variables

We measured *firm performance* with industry-adjusted Tobin's Q using data collected from Compustat. Tobin's Q is calculated as a company's market value over the replacement value of its total assets minus the median Tobin's Q (excluding the focal firm) in the firm's core industry at the two-digit SIC level. This variable ranges from −0.10 to 4.74, with a mean of 1.41.

In line with extant research (Bertrand et al., 2021; Conyon et al., 2019; Miletkov et al., 2017), *foreign-born CEO* is a dummy variable taking a value of "1" if the CEO was born in a country different from the firm's country of origin (i.e., the United States) and "0" otherwise. The source of this variable is BoardEx. The mean is 0.06.

In our supplemental analysis, we operationalize *foreign-born CEO* as a continuous variable, where foreign origin is measured in terms of cultural distance between the CEO's birth country and the United States. This alternative operationalization contributes to the robustness of our findings by testing our hypothesized relationship with a more granular conceptualization of foreign origin. Furthermore, this operationalization enables us to test the presumption that greater cultural distance between the CEO's birth country and the United States will increase attribution biases, as evidenced by an amplifying effect of greater levels of CEO foreignness on the negative relationship between firm performance and CEO dismissal.

Here, we note that national origin represents a multifaceted construct with several potential alternative conceptualizations, such as birth country, country of citizenship, country of residence, and parents' nationality or ethnicity. Unlike one's birth country, citizenship and residency can change during one's life. Yet, the change does not always correspond with a change in others' perceptions of one's social identity. Moreover, citizenship through naturalization may be influenced by personal choice or constrained by eligibility, leading some foreign-born CEOs to become US citizens and others to not, adding some noise to citizenship as a potential measure of national origin. Using parents' ethnicity offers additional information about the ethnic origins of native-born CEOs, given that one's ethnicity reflects how one self-identifies as a member of one of five subgroups, as previously investigated by Hill et al. (2015) and Park and Westphal (2013). However, using five ethnicity categories (instead of birth country) erases granular information about foreign-born CEOs, whose national origins are of central interest in this study. Taken together, although conceptualizing foreign origin in terms of birth country is not without some drawbacks, we believe that it is effective in capturing our key construct of interest. Using birth country to conceptualize national origin is not unique to our study. It has been previously adopted by Bertrand et al. (2021), Conyon et al. (2019), and Miletkov et al. (2017).

3.4 | Control variables

To substantiate our findings and rule out alternative explanations, we used various controls (data source in parentheses). Given the sample's longitudinal nature, we included *year dummies* to account for the effect of time. At the industry level, we controlled for the *degree of industry concentration*, an important predictor of CEO dismissal considering that external competitive pressures may influence board members' evaluations of CEO performance (DeFond & Park, 1999). This variable is operationalized as the four-firm sales concentration ratio in a firm's two-digit SIC code with Compustat population data.

At the firm level, we included *firm size*, measured as the log of employees (Compustat), since large firms may have greater expectations of CEOs than small firms (Shen & Cannella, 2002; Wiersema & Zhang, 2011). We controlled for the *degree of institutional ownership* (Thomson Reuters) because previous research has shown that institutional investors influence CEO dismissal likelihood (Hubbard et al., 2017). We operationalized this variable with a Herfindahl–Hirschman (HHI) index of ownership concentration, calculated as the sum of squares of individual ownership percentages (Ramírez & Tarziján, 2018). Higher HHI values denote higher ownership concentrations. We included a firm's *degree of internationalization (DOI)* (Compustat Segment), operationalized as a firm's foreign sales ratio, because prior research has shown that corporate diversification strategy may impact CEO dismissal decisions (Tsai et al., 2009).

Regarding board-related factors, we controlled for many variables with data obtained from BoardEx and ISS. First, because of the possibility that larger boards are less cohesive, which may create factions and generate trouble for CEOs (Fredrickson et al., 1988), we controlled for *board size*, measured by the number of directors. Next, we controlled for *board gender representation*, measured by the percentage of women directors. Previous research has shown that board gender representation may improve monitoring and result in greater scrutiny of CEO performance (Adams & Ferreira, 2009). In addition, we controlled for *board foreign diversity*, measured as the percentage of foreign-born directors, as previous research has shown that demographic and experiential similarities (Hwang & Kim, 2009; Lee et al., 2014) are likely to engender biases in evaluation decisions (Byrne et al., 1996). Therefore, foreign-born directors may not view foreign-born CEOs as part of the outgroup. The last board-related control was *board independence*, measured by the percentage of independent directors, as insider directors are likely to evaluate CEOs differently than outsider directors, resulting in different dismissal probabilities. Previous research has used this variable to account for boards' abilities to fulfill their monitoring role (Fredrickson et al., 1988; Huson et al., 2001).

We factored in CEO-level variables that may impact the likelihood of dismissal. In line with prior research (Gupta et al., 2020), we first controlled for *CEO gender* by using a binary variable that takes a value of "1" if the CEO is a woman and "0" otherwise (ExecuComp). Gupta et al. (2020) demonstrated that women CEOs are more likely to be dismissed because they are evaluated more critically and negatively than men CEOs. Second, we controlled for *CEO tenure* (ExecuComp) as prior research has shown that the number of years that an individual has held the position of CEO may impact the likelihood of dismissal (Wiersema & Zhang, 2011). Third, we controlled for *CEO age* (ExecuComp) as older CEOs are more likely to be dismissed (Fiordelisi & Ricci, 2014). Fourth, we controlled for *CEO salary* (ExecuComp) as stakeholders may scrutinize the performance of CEOs more closely if they are highly compensated (Fredrickson et al., 1988; Hubbard et al., 2017). CEO salary is measured using the logged dollar value of the salary earned by the CEO during a fiscal year. Fifth, in line with previous research highlighting the link between CEO human capital and CEO job security (e.g., Elsaid & Ursel, 2018), we controlled for *CEO education* (BoardEx) with a dummy variable taking a value of "1" if a CEO possesses an MBA degree and "0" otherwise (Koch-Bayram & Wernicke, 2018). As explained in the robustness checks, we introduced other measures of *CEO education* in our models and obtained similar results. Sixth, we controlled for *CEO prior experience* measured by the number of times an incumbent CEO occupied the post of CEO at other US publicly traded corporations (Gentry et al.'s database of CEO turnover). Finally, because the more power a CEO possesses, the lower the CEO's risk of dismissal is (Wiersema & Zhang, 2011), we introduced two proxies of power in our models: *CEO duality*, a dummy that holds a value of "1" if a CEO is the chairman of the board and "0" otherwise (ExecuComp), and the *percentage of new directors appointed in a given year* (ISS), a variable that has been linked to decreased board-monitoring effectiveness (Coles et al., 2014; Khanna et al., 2015).

3.5 | Estimation

In this paper, we examine the influence of the interaction between prior *firm performance* and *foreign-born CEO* on the likelihood of *CEO dismissal*. Considering the binary nature of the dependent variable and the longitudinal character of our sample, we followed prior research (Hubbard et al., 2017) and used a probit model with standard errors clustered by firm (*xtprobit* in Stata 16) to account for potential correlation through time within the same firm. To check for robustness, we tested our models using *xtlogit* with clustered robust standard errors (Gupta et al., 2020; Wiersema & Zhang, 2011) (as reported in Table 2). Our study's findings are consistent when we used various fixed effects models and when we controlled for omitted variable-related endogeneity, as discussed in the robustness checks. In line with previous research (Hubbard et al., 2017; Louca et al., 2020), all predictors and control variables were lagged by 1 year.

4 | RESULTS

Table 1 displays descriptive statistics and the correlation matrix. We observed a few instances where the correlation between two variables is greater than .30 in absolute value, specifically between *foreign-born CEO* and *board foreign diversity* ($r = .37$) and between *board size* and *CEO salary* ($r = .36$). We therefore ran collinearity diagnostics by using variance inflation factors (VIFs); all VIFs were under 7.00, with a mean VIF of 2.82 indicating low multicollinearity threat.

Table 2 presents the study's results. Using two models, we tested H1. Model 1 shows the impact of the covariates on the dependent variable. Model 2 is a full model in which we entered the covariates and *foreign-born CEO* as the moderating variable. In Model 1, the coefficients for *degree of industry concentration* ($\beta = .42$, $p = .007$), *firm size* ($\beta = .08$, $p = .001$), *degree of institutional ownership* ($\beta = -1.06$, $p = .015$), *CEO age* ($\beta = .01$, $p = .001$), *CEO duality* ($\beta = -.14$, $p = .011$), *percentage of new directors' appointment* ($\beta = .01$, $p = .020$), and *firm performance* ($\beta = -.11$, $p = .006$) are statistically significant and the coefficient signs are in line with prior findings.

In H1, we maintained that CEO foreign origin will moderate the relationship between firm performance and CEO dismissal, such that the link between firm performance and CEO dismissal is more negative when firms are led by a foreign-born CEO than when they are led by a native-born CEO. In the full model, the coefficient for the interaction term is negative and statistically significant ($\beta = -.48$, $p = .004$), supporting H1. We plot the interaction in Figure 1, which presents the dismissal probabilities for foreign-born and native-born CEOs at several levels of performance (measured as industry-adjusted Tobin's Q, ranging from two standard deviations below the mean to two standard deviations above the mean). As can be seen from the graph, the dismissal probabilities between the two types of CEOs differ significantly at low levels of performance. At extremely low levels of performance (i.e., two standard deviations below the mean), foreign origin increases the likelihood of dismissal of a CEO by 297%, from 4.02% for a native-born CEO to 15.96% for a foreign-born CEO. At low levels of performance (i.e., one standard deviation below the mean), the dismissal probability of a native-born CEO is 3.55% compared to 8.38% for a foreign-born CEO. As performance improves, the likelihood of dismissal for the two types of CEOs equalizes. The differential pattern of CEO dismissal likelihoods supports our claim that, when firm performance is subpar, the standards to which boards hold foreign-born CEOs may be higher than the corresponding standards for native-born CEOs.

Through additional analysis, we further examined the differential effects of CEO foreign origin on dismissal in cases of low and high performance. Following the suggestions of Gupta et al. (2020), we ran two separate regressions instead of including the interaction variable in a single model. The first regression assesses the impact of *foreign-born CEO* on *CEO dismissal* when performance is above the mean and the second regression does so when performance is below the mean (we used all the controls listed above, with the exception of the inverse Mills ratio). We found that when performance is below the mean, the coefficient for *foreign-born CEO* is positive and statistically significant ($\beta = .32$, $p = .020$), indicating that foreign-born-CEOs are more likely to be dismissed when performance is low. However, when performance is above the mean, the coefficient for *foreign-born CEO* is not significant indicating that foreign-

TABLE 1 Descriptive statistics and correlations.

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. CEO dismissal	0.03	0.17	1.00																		
2. Degree of industry concentration	0.37	0.16	0.02	1.00																	
3. Firm size	22.75	65.42	0.03	0.20	1.00																
4. Degree of institutional ownership	0.06	0.08	0.00	−0.02	−0.05	1.00															
5. Degree of internationalization	0.26	0.27	0.01	−0.12	0.02	−0.01	1.00														
6. Board size	9.67	2.43	0.01	−0.05	0.24	−0.08	−0.05	1.00													
7. Board gender representation	0.17	0.21	0.01	−0.01	0.06	−0.01	−0.03	0.09	1.00												
8. Board foreign diversity	0.09	0.15	0.02	−0.02	0.11	−0.01	0.28	0.13	0.04	1.00											
9. Board independence	0.83	0.10	0.01	−0.09	0.07	−0.04	0.07	0.24	−0.25	0.08	1.00										
10. CEO gender	0.03	0.18	0.01	0.00	0.01	0.00	−0.07	−0.01	0.10	0.02	0.02	1.00									
11. CEO tenure	6.11	4.94	0.01	−0.01	−0.06	−0.01	−0.04	−0.07	−0.08	−0.04	0.00	−0.02	1.00								
12. CEO age	66.29	7.61	0.01	0.00	0.02	0.00	−0.05	0.05	0.06	−0.06	−0.14	−0.06	0.15	1.00							
13. CEO salary	844.33	382.19	0.01	0.09	0.28	−0.09	0.03	0.36	0.07	0.19	0.20	0.04	0.06	0.01	1.00						
14. CEO duality	0.55	0.50	−0.01	0.01	0.10	−0.05	−0.06	0.12	0.06	0.00	0.07	−0.02	0.23	0.27	0.21	1.00					
15. CEO education	0.17	0.37	0.00	0.02	−0.03	−0.01	0.03	0.06	0.02	−0.03	0.02	−0.04	−0.06	−0.03	0.01	0.01	1.00				
16. CEO prior experience	0.04	0.20	−0.01	−0.02	0.00	−0.01	−0.02	−0.06	0.00	0.00	−0.06	0.01	−0.13	0.12	−0.06	0.08	0.02	1.00			
17. % of new directors' appointment	3.96	7.48	0.04	0.02	0.01	0.00	0.00	−0.05	0.00	0.03	−0.02	0.01	−0.09	−0.01	0.01	−0.02	0.01	0.01	1.00		
18. Firm performance	1.41	0.78	−0.05	0.04	0.06	−0.08	0.09	−0.07	0.00	0.03	−0.04	0.01	0.04	−0.09	−0.01	−0.03	−0.01	0.00	−0.03	1.00	
19. Foreign-born CEO	0.06	0.24	0.01	−0.01	0.05	−0.02	0.16	0.00	−0.01	0.37	0.03	−0.01	−0.05	−0.07	0.05	−0.06	−0.03	−0.02	0.00	0.06	1.00

Note: Correlations greater than 0.02 in absolute value are significant at $p < .001$; firm size and chief executive officer (CEO) salary are not logged.

TABLE 2 Effect of chief executive officer (CEO) foreign origin and firm performance on CEO dismissal likelihood.

	Probit model (*panel A*)		Logit model (*panel B*)	
	Model 1	**Model 2**	**Model 1**	**Model 2**
Inverse mills ratio	0.591 [0.000]	0.598 [0.000]	1.322 [0.000]	1.340 [0.000]
	(0.17)	(0.17)	(0.36)	(0.36)
Degree of industry concentration	0.419 [0.007]	0.425 [0.007]	0.950 [0.005]	0.962 [0.005]
	(0.16)	(0.16)	(0.34)	(0.34)
Firm size	0.082 [0.001]	0.082 [0.001]	0.190 [0.001]	0.188 [0.001]
	(0.02)	(0.02)	(0.06)	(0.06)
Degree of institutional ownership	−1.061 [0.015]	−1.091 [0.015]	−2.235 [0.029]	−2.285 [0.028]
	(0.44)	(0.45)	(1.02)	(1.04)
Degree of internationalization	0.200 [0.079]	0.203 [0.077]	0.458 [0.076]	0.462 [0.075]
	(0.11)	(0.11)	(0.26)	(0.26)
Board size	−0.006 [0.644]	−0.004 [0.758]	−0.013 [0.653]	−0.009 [0.753]
	(0.01)	(0.01)	(0.03)	(0.03)
Board gender representation	0.262 [0.051]	0.271 [0.043]	0.590 [0.043]	0.603 [0.038]
	(0.13)	(0.13)	(0.29)	(0.29)
Board foreign diversity	0.150 [0.431]	0.064 [0.747]	0.321 [0.449]	0.144 [0.743]
	(0.19)	(0.20)	(0.42)	(0.44)
Board independence	0.280 [0.351]	0.271 [0.368]	0.622 [0.363]	0.615[0.370]
	(0.30)	(0.30)	(0.68)	(0.69)
CEO gender	0.037 [0.764]	0.054 [0.658]	0.132 [0.617]	0.170 [0.522]
	(0.12)	(0.12)	(0.26)	(0.27)
CEO tenure	0.007 [0.223]	0.007[0.212]	0.017[0.194]	0.017[0.182]
	(0.01)	(0.01)	(0.01)	(0.01)
CEO age	0.015 [0.001]	0.016 [0.001]	0.033 [0.001]	0.035 [0.001]
	(0.00)	(0.00)	(0.01)	(0.01)
CEO salary	−0.062 [0.062]	−0.061 [0.065]	−0.136 [0.035]	−0.135 [0.039]
	(0.03)	(0.03)	(0.06)	(0.07)
CEO duality	−0.144 [0.011]	−0.139 [0.014]	−0.329 [0.009]	−0.317 [0.012]
	(0.06)	(0.06)	(0.13)	(0.13)
CEO education	−0.007 [0.921]	−0.004 [0.947]	0.001 [0.995]	0.008 [0.957]
	(0.07)	(0.07)	(0.15)	(0.15)
CEO prior experience	−0.294 [0.062]	−0.297 [0.054]	−0.653 [0.076]	−0.642 [0.079]
	(0.16)	(0.15)	(0.37)	(0.36)
% of new directors' appointment	0.007 [0.020]	0.007 [0.020]	0.016 [0.018]	0.016 [0.019]
	(0.00)	(0.00)	(0.01)	(0.01)
Firm performance	−0.112 [0.006]	−0.084 [0.001]	−0.265 [0.007]	−0.201 [0.001]
	(0.04)	(0.04)	(0.10)	(0.10)

TABLE 2 (Continued)

	Probit model (*panel A*)		Logit model (*panel B*)	
	Model 1	**Model 2**	**Model 1**	**Model 2**
Foreign-born CEO		0.767 [0.045]		1.678 [0.044]
		(0.24)		(0.51)
Foreign-born CEO × firm performance		−0.482 [0.004]		−1.072 [0.006]
		(0.17)		(0.39)
Constant	−4.203 [0.000]	−4.337 [0.000]	−8.746 [0.000]	−9.055 [0.000]
	(0.57)	(0.57)	(1.24)	(1.25)
Wald chi-square	109.85 [0.000]	124.36 [0.000]	118.54 [0.000]	134.51 [0.000]
N	11,947	11,947	11,947	11,947

Note: Standard errors in parentheses; *p*-values in brackets; year fixed effects were included in all models.

born CEOs are not more likely to be dismissed than their native-born counterparts when performance is high. These findings provide additional support for H1 and suggest that foreign origin impacts the dismissal probability of a CEO in cases of low performance. The differential response to high and low performance strengthens the plausibility of poor performance serving as an activating mechanism for intergroup bias exhibited by boards toward foreign-born CEOs. The results of these additional tests are available in Appendix 3.

4.1 | Robustness checks

We conducted additional tests to ensure the robustness and stability of our findings. The tables showing these supplemental tests are available in Appendices 4 through 12.

4.1.1 | Addressing endogeneity

Like previous research (e.g., Hubbard et al., 2017), our analysis shares some endogeneity issues that may introduce biases into our statistical testing. One source of endogeneity originates from potential omitted variable bias; that is, unmeasured factors that affect both the likelihood of CEO dismissal and having a foreign-born CEO at the helm of a firm (Hill et al., 2021). In addition, prior research has indicated that occupational minority CEOs are likely to be hired as scapegoats and when firms face precarious financial situations (e.g., Cook & Glass, 2014). To address these concerns, we performed a two-stage instrumental variable analysis (Hubbard et al., 2017; Wiersema & Zhang, 2011). In the first stage, we created a proxy for the endogenous variable, *foreign-born CEO*, that is uncorrelated with *CEO dismissal*. We used the following variables to predict the appointment of a *foreign-born CEO*: *pre-appointment industry concentration* (HHI), *pre-appointment firm size* (log of sales), *pre-appointment firm performance* (industry-adjusted ROA), *pre-appointment DOI* (foreign sales ratio), *CEO age*, *pre-appointment average DOI* (mean DOI for a firm's two-digit SIC in the calendar year), *prevalence of foreign-born CEOs in a firm's two-digit* SIC (number of foreign-born CEOs in a firm's two-digit SIC in the calendar year), and *year dummies*. We note that we conducted this analysis using a subset of the sample

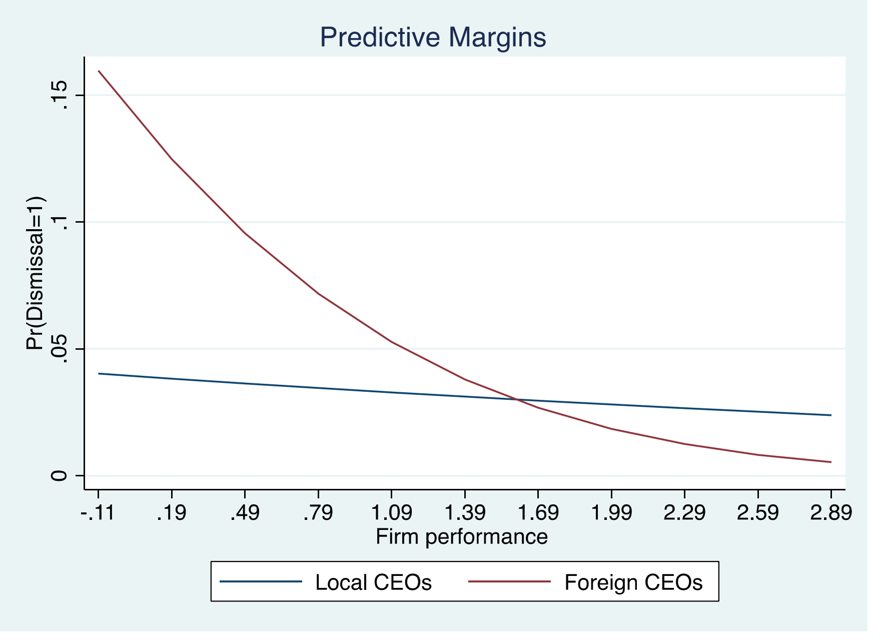

FIGURE 1 Dismissal probabilities for foreign-born and native-born chief executive officers (CEOs) as a function of firm performance (industry-adjusted Tobin's Q).

(n = 9188) because data limitations from BoardEx precluded us from obtaining information on the prevalence of foreign-born CEOs in a firm's two-digit SIC prior to 1999 (28% of CEOs in our sample were appointed before 1999). In line with existing research (Chin et al., 2013), the term "pre-appointment" refers to the calendar year prior to the year of a CEO's appointment. Information on CEO year of appointment was collected from ExecuComp and the Gentry et al. (2021) dataset.

In the second stage, we replaced the endogenous variable, *foreign-born CEO*, with the residuals from the first-stage equation. We used the *prevalence of foreign-born CEOs in a firm's two-digit* SIC as an excluded instrument. To construct this measure, we used BoardEx population data and excluded the focal firm. While no instrument is perfect, in line with institutional theory we expected firms to engage in mimetic behaviors regarding their top leaders' profiles because previous research has found that industry affiliation predicts CEO profiles (Thams et al., 2020). However, it is not clear why the profiles of other CEOs in a firm's industry would influence CEO dismissal in the focal firm, making it a potential theoretically relevant instrument. In addition to theoretical support, we found statistical evidence of the suitability of our instrument. As can be seen in Appendix 4, the model is statistically significant ($\chi^2 = 1387.30$, $p = .000$) and the *prevalence of foreign-born CEOs in a firm's two-digit SIC* is related to *foreign-born CEO* ($\beta = .082$; $p = .000$). Furthermore, correlational patterns indicate that the *prevalence of foreign-born CEOs in a firm's industry* is correlated with *foreign-born CEO* ($r = .13$, $p = .000$). However, the pairwise correlation between the *prevalence of foreign-born CEOs in a firm's industry* and *CEO dismissal* indicates no relationship ($r = .00$). Results from the second-stage model show that the coefficient of the interaction term is consistent with our primary findings ($\beta = -.06$, $p = .047$; see Appendix 5).

We followed previous research (e.g., Gupta et al., 2020; Hubbard et al., 2017) and used fixed-effects analysis to rule out the possibility that a time-invariant omitted variable may have been driving the findings (see Appendix 6). First, using industry fixed effects, the results did not change ($\beta = -.46$, $p = .006$). Second, we ran a conditional logistic model with firm fixed effects. The results did not hold but we should note that this method reduced the sample to only those companies experiencing a CEO dismissal. Finally, we retested our models with a linear firm fixed effects regression with clustered robust standard errors, which produced results similar to our primary findings ($\beta = -.03$; $p = .013$).

4.1.2 | Using other performance measures and a continuous measure of CEO foreign origin

We retested our main models using alternative measures of firm performance: *industry-adjusted Tobin's Q* by using a firm's value minus the mean Tobin's Q (excluding the focal firm) in its primary industry at the two-digit SIC level and *raw Tobin's Q*. The results are consistent with those reported in Table 2 (see Appendix 7).

We also used another measure of *foreign-born CEO* that considers the cultural distance between a CEO's country of origin and the focal firm's country of origin (i.e., the United States). We employed a distance measure computed by Berry et al. (2010). It is based on the Mahalonobis method and composed of four dimensions: power distance, uncertainty avoidance, masculinity, and individualism. The results of this test provided further evidence of the robustness of our findings ($\beta = -.03$, $p = .006$; see Appendix 8).

4.1.3 | Retesting with alternative measures of some controls and with additional controls

We used log of assets and revenues as proxies of *firm size* and obtained similar results. We tested H1 with two alternative operationalizations of *DOI*: number of foreign countries and foreign subsidiaries ratio. The results were stable. Measuring *board foreign diversity* with a dummy variable that takes a value of "1" if a board of directors has at least one foreign member and "0" otherwise (Miletkov et al., 2017) yielded the same results. For *CEO education*, we reanalyzed the models with (1) a dummy variable taking a value of "1" if a CEO possesses a graduate degree and "0" otherwise and (2) the number of secondary degrees held by the CEO. The findings were unchanged. Appendix 9 provides the full tables of these models. We also added additional controls and obtained the following results, which can be found in Appendices 10 and 11: (1) *average age of directors* ($\beta = -.49$, $p = .004$); (2) *sales growth* ($\beta = -.46$, $p = .008$); (3) *raw ROA* ($\beta = -.47$, $p = .002$); (4) *industry-adjusted ROA* ($\beta = -.49$, $p = .002$); and (5) *previous CEO is foreign-born* ($\beta = -.50$, $p = .014$).

4.1.4 | Using an alternative dependent variable

We verified whether the results remained robust when testing H1 with a subset of the sample that includes only *CEO turnover* (whether forced or voluntary turnover, $n = 1739$; we excluded departures due to sickness or death). This additional test yielded similar findings ($\beta = -.60$; $p = .003$; see Appendix 12).

4.2 | Post hoc analysis

While we controlled for *board foreign diversity* in our main models, we conducted a post-hoc test to examine whether foreign-born directors are likely to evaluate foreign-born CEOs the same way as their native-born counterparts (in case of a performance crisis). In line with social identity theory (Tajfel & Turner, 1979), one may argue that foreign-born directors are less likely than native-born directors to perceive a foreign-born CEO as an outgroup member, reducing the likelihood of dismissal. We therefore tested the three-way interaction between *firm performance*, *foreign-born CEO*, and *board foreign diversity*. The coefficient of this three-way interaction was not statistically significant ($\beta = -1.36$, $p = .118$).

We also tested whether boards of directors of firms with a high DOI evaluate foreign-born CEOs differently than those of firms with a low DOI. It could be argued that foreign-born CEOs' international perspective and foreign market knowledge constitute a valuable resource for highly internationalized firms (Carpenter et al., 2001; Thams et al., 2020), shielding foreign-born CEOs of such firms from dismissal when firm performance is low. Indeed, foreign-born CEOs of high-DOI firms may enjoy a certain degree of "immunity"—a concept borrowed from Naumovska et al. (2020). To address this possible boundary condition, we tested the three-way interaction between *firm performance*, *foreign-born CEO*, and *DOI*. The coefficient of the interaction term was not statistically significant ($\beta = -.072$, $p = .916$).

5 | DISCUSSION

5.1 | Implications of CEO foreign origin for individuals and firms

In light of the differential outcomes of foreign- and native-born CEOs with respect to dismissal, a primary implication of our research is that liabilities of foreignness pertain to individuals and apply to members of the corporate elite. Our study offers additional support to the notion put forth by Hernandez and Kulchina (2020), Mata and Alves (2018), and Bertrand et al. (2021) that foreign origin represents a liability for individuals in organizations. However, our findings also indicate that foreign origin is not a constant source of liability among CEOs. The liabilities of foreignness as they apply to CEOs appear to be activated and highly salient when firm performance is low and when there is more cultural distance between the CEO's birth country and the focal firm's country of origin. These results suggest that foreign-born CEOs are perceived as "nonprototypical (or outgroup) leaders" (Bertrand et al., 2021, p. 535) in some, but not all, circumstances. Our results also substantiate foreign-born CEOs' perception that they need to outperform their local counterparts (Legrand et al., 2019, p. 605).

For firms and their shareholders, the implications of differential dismissal rates for foreign- and native-born CEOs are subtle but potentially quite consequential. While firms benefit from having leaders with international backgrounds, as evidenced by these firms' superior financial performance (Carpenter et al., 2001; Le & Kroll, 2017) and by positive stock market reactions to the appointment of foreign and internationally experienced top managers (Schmid & Dauth, 2014), it is important to highlight the unintended firm-level consequences that follow from the pattern found in the data. In the present study, the dynamic we observe (of foreign-born CEOs being held to a higher standard and facing a higher risk of dismissal than is the case with native-born CEOs at comparable levels of underperformance) means that underperforming firms with foreign-born CEOs are more likely to face premature or more frequent CEO turnover than are firms with a native-born CEO. Premature or more frequent CEO turnover is problematic for firms because it represents human capital loss, including loss of valuable contextual know-how, the severing of important relational ties, the depletion of organizational memory, and the disruption of established routines (Klarner & Raisch, 2013). Our findings thus offer an important caveat to the notion that leaders with a foreign or international background benefit their firms.

Foreign-born leaders clearly contribute knowledge, skills, and competencies that are of great strategic value (Maddux et al., 2021). Indeed, research has uncovered several important ways in which foreigners positively influence the firm that they manage. Foreign-born leaders are adept at cross-border transfers of contextually embedded knowledge (Choudhury & Kim, 2019); the boundary-spanning social networks in which these leaders are embedded allow them to source information, talent, and other critical resources from distinct communities (Hernandez & Kulchina, 2020; Kulchina, 2017); and these leaders' very presence in a firm has been linked to growth and profits (Hernandez & Kulchina, 2020; Wang, 2020). Firms clearly derive many benefits from foreign leaders, but our empirical findings show that the presence of a foreign-born CEO at a firm has unintended side effects, as the foreign-born CEO's outgroup status may expose the firm to greater risks of CEO turnover when performance is low. Regarding firms led by a foreign-born CEO, the more their performance deteriorates relative to the industry standard, the more likely they will be to encounter a dual crisis: the underperformance itself coupled with a CEO succession event resulting from a forced dismissal. This is consequential, given that analysts estimate that forced CEO dismissals cost shareholders $112 billion globally in total returns each year (Botelho et al., 2018).

5.2 | Implications for research on bias in board decision making

Because boards vary in their response to poor performance, "with some reacting quickly with CEO dismissal and others showing far more tolerance" (Weber & Wiersema, 2017, p. 23), the notion that boards' behaviors are socially informed and subject to psychological biases (Westphal & Zajac, 2013) is capturing scholarly attention and gaining support. Research on the antecedents of CEO dismissal has thus far highlighted disparities in dismissal rates by gender (Gupta et al., 2020) and racial minority status (Hill et al., 2015). Our study contributes to this literature by demonstrating that foreign origin resembles occupational minority status in that foreign origin also negatively affects CEO survival. But there are notable differences in the findings with respect to gender, race, and foreign origin. While female and racial-minority CEOs experience a constant, heightened risk of dismissal at all levels of firm performance (Gupta et al., 2020; Hill et al., 2015), the effect of foreign origin on CEO dismissal becomes amplified when firm performance is low, suggesting that different mechanisms may be at play as directors decide whether or not to dismiss CEOs who are women or racial minorities, and those who are foreign-born. Our results suggest that directors' decision making is not affected by the mere presence of a foreign-born CEO. Instead, deteriorating financial conditions appear to activate bias, which becomes increasingly pronounced the more a given firm's performance declines (see Figure 1). Our study thus contributes to the social identity literature, which has grappled with the question of whether intergroup bias is a constant threat or, instead, whether intergroup bias is activated under threat or pressure (Brewer, 1999). Our findings support the latter interpretation.

5.3 | Implications for practice

The findings of our present study have several important practical implications. For directors, our findings highlight that, on average, foreign-born CEOs are held to a higher standard—and thus are more vulnerable to dismissal—than are native-born CEOs. Because discriminatory behavior is rooted in attitudes and perceptions, it is important for directors to become aware that bias may influence their attributions of firm performance. But such acknowledgement is often not enough. Directors then need to take ameliorative steps to manage personal bias and to change personal behavior (Gino & Coffman, 2021). These ameliorative steps may include the establishment of standardized CEO evaluations or even the introduction of software or artificial intelligence to foster objective, unbiased assessments of CEO performance. Of further benefit may be regular boardroom discussions about implicit bias and its antecedents and consequences. Finally, directors can rigorously track progress in diversity and other inclusion initiatives.

The present study also has practical implications in light of recent efforts to diversify corporate leadership. Activists, media, regulatory bodies, and employees alike appear to focus largely on reducing discrimination in hiring, with less attention paid to possible discriminatory patterns that surface after a firm retains a CEO candidate. Our study highlights just how important it is for stakeholders to broaden their effort against unfair differential treatment so that it also targets inequity in dismissals. While recent years have seen an increase in the appointments of foreign-born CEOs, more needs to be done to ensure that the standards to which directors hold foreign-born CEOs are the same as the standards applied to native-born CEOs.

5.4 | Limitations and directions for future research

As with any study, ours has several limitations that are worth noting. First, our large-sample archival dataset allowed us to examine CEO dismissal patterns across firms, industries, and time but did not offer us insights into the evaluative and decision-making processes that guide directors as they grapple with issues pertaining to CEO succession. It would be useful for future research to identify the extent to which directors' perceptions of foreign- and native-born CEOs differ, and to map changes in directors' attributions. Particularly meaningful would be research that qualitatively explores how directors' perception of CEOs shifts in relation to (1) firm performance, (2) the directors' perception of the internal vs. external causes of firm performance, and (3) the cultural distance between a CEO's birth country and the firm's country of origin.

A second limitation is our reliance on a US sample. Because boards of directors in different countries may have different expectations of leaders' contributions in the C-suite, future research can test the generalizability of our findings to other countries (Miletkov et al., 2017).

Our findings also inspire additional research questions. First, it would be interesting to examine whether additional factors moderate the effect that we have observe herein. For instance, when firm performance is low, do foreign-born CEOs' previous attendance at a US school or their previous obtention of a US university degree insulate them from dismissal?

Do foreign-born CEOs' social ties to board members mitigate the effect identified in our study? To what extent do such factors as legitimacy, access to resources, and support from key stakeholders strengthen the performance of foreign-born CEOs? Research that rigorously explores these and similar lines of inquiry will broaden our knowledge regarding high-skilled immigrants and how they can overcome important barriers that impede career success. For instance, research has shown that the wage penalty experienced by high-skilled immigrants rises with the cultural distance of their educational credentials but declines with the prestige of their educational institution (Argue & Velema, 2022). This highlights that the magnitude of differential treatment experienced by immigrants is likely contingent on additional factors, which should be explored also among the corporate elite.

Finally, we did not find significant differences between the dismissal likelihood for foreign-born CEOs in well-performing firms and the dismissal likelihood for native-born CEOs in well-performing firms. However, future research may wish to investigate this relationship further, given the accumulation of evidence highlighting the benefits that firms derive from foreign-born leaders' human capital (Campbell et al., 2023; Georgakakis et al., 2023). Replications or extensions of our study using different samples or methods could help confirm our findings or perhaps uncover additional contingencies that influence boards' perceptions of CEO performance in overperforming firms. By focusing on how CEO dismissal patterns differ in relation to foreign-born versus native-born CEOs and in relation to well-performing versus poorly performing firms, we may further clarify the underlying mechanisms driving board behavior with respect to CEO dismissal.

6 | CONCLUSION

CEO dismissal is quite common, with estimates suggesting that 25% of CEO turnover events are forced dismissals due to underperformance (Tonello et al., 2021; Weber & Wiersema, 2017). But rates of CEO dismissals in overperforming and underperforming firms are narrowing (Tonello et al., 2021), suggesting a decoupling between firm performance and likelihood of CEO dismissal. Against this backdrop, a large body of work has sought to understand CEO dismissal in terms of its antecedents (Finkelstein et al., 2009; Nyberg et al., 2021) and its strategic implications (Berns & Klarner, 2017), given that CEOs tend to exert a major influence on their organizations (Hambrick, 2007).

Despite substantial attention being paid to the broader phenomenon of CEO dismissal, extant research has not addressed an important development in corporate boardrooms: an increase in appointments of foreign-born CEOs. Because little is known about the consequences of appointing foreign-born CEOs, we explored this topic in the present study, focusing our attention on the differences between the dismissal likelihood of foreign-born CEOs and the dismissal likelihood for native-born CEOs under comparable conditions. With a rich dataset on CEO dismissal in S&P 1500 firms from 2000 to 2018 (Gentry et al., 2021), we tested our expectation that foreign- and native-born CEOs are held to different performance standards. In line with expectations, we found that at low levels of firm performance, the likelihood of dismissal for foreign-born CEOs is significantly greater than for native-born CEOs.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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