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Board members' educational backgrounds and branding success in Taiwanese firms

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ABSTRACT

Initiation and support from boardrooms are factors that are important to a Taiwanese firm's ability to change its strategic orientation from manufacturing to branding. We examine whether board members' educational backgrounds contribute to firms' branding success. We find that firms are more likely to be successful in brand development when their board members have been educated at top-ranked universities, foreign universities, and top MBA programs. The results are more robust when branding is successful at a global rather than a domestic level. Our argument is further supported by the finding that the educational background of board members is more relevant for branding success in industries with more mature branding practices.

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1. Introduction

Successful brands are intangible assets that sustain firm value (e.g., Abdel-khalik, 1975; Hirschey & Weygandt, 1985; Simon & Sullivan, 1993; Aaker & Jacobson, 1994; Barth, Clement, Foster, & Kasznik, 1998). Taiwanese firms are taking part in the growing trend of changing their strategic orientations from manufacturing to branding (Birnik, Birnik, & Sheth, 2010; Roll, 2006; Temporal, 2005). A board of directors influences firm-level strategic decisions based on individual board members' values and cognitive bases, which are shaped by board members' educational backgrounds (Hambrick, 2007; Herrmann & Datta, 2006; Hambrick & Mason, 1984). This study examines the relationship between board members' educational backgrounds and the success of Taiwanese firms' branding strategies.

Boardrooms' support for branding strategies reflects the directors' values and cognitive bases, which are usually a consequence of board members' observable characteristics, including age, gender, education, and work experience (Forbes & Milliken, 1999; Rindova, 1999). Our paper focuses on directors' educational

backgrounds—in particular, the degrees they have earned from colleges, universities, and collegiate-level institutions. An educational background creates an information screen through which a director selectively interprets and analyzes information, causing a divergence between the situation and the eventual perception faced by the director when making strategic choices (Barro & Lee, 2013; Hambrick & Mason, 1984; Hitt & Tyler, 1991; Papadakis & Barwise, 2002; Wally & Baum, 1994; Wiersema & Bantel, 1992;). Similarly, Birnik et al. (2010) and Roll (2006) argue that developing successful brands in Asian countries requires the directors to adopt a selective mind-set that firm value should be created through intangible brand assets, rather than tangible manufacturing assets.

Roll (2006, Chapter 1) summarizes a paradigm shift from a traditional model to a leadership model in Asian brand management.¹ Thus, our study uses Aaker and Joachimsthaler's (2000) brand leadership model to identify relevant educational dimensions that could shape directors' cognitive bases for guiding their firms' branding strategies. The framework emphasizes the top echelon of organization in integrating relevant branding practices in global markets. The strategic management of brand equity is carried out in the following ways. First, brand development should

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¹ The authors appreciate the anonymous reviewer for pointing out that the demand for the brand leadership model may arise from a paradigm shift in brand management.

consider both tangible and intangible dimensions, such as firm reputation, country of origin, and product quality (Mudambi, 2002). Second, a brand is more likely to be successful when the firm commits long-term financial and human resources to sustain the delivery and images of brands (Michell, King, & Reast, 2001). Third, the framework implies the importance of marketing efforts across nations and customer segments (Webster & Keller, 2004).

According to upper echelons theory, corporate strategic moves reflect top management's experience, values and personalities that are partially shaped by educational backgrounds (Hambrick & Mason, 1984; Wally & Baum, 1994). The educational programs that emphasize premium quality, business management skills, global cultural diversity, leadership, and innovation could equip directors with cognitive skills and abilities necessary for the realization of the brand leadership model (Forbes & Milliken, 1999; Rindova, 1999). Thus, our study characterizes the educational backgrounds of successful directors as including top universities, foreign universities, business-related majors, and top MBA programs.

Our research responds to the call within corporate governance literature for a better understanding of a board's contribution to its firm's strategic performance (Pugliese et al., 2009; Van Essen, VanOosterhout, & Carney, 2012; Young, Ahlstrom, Bruton, & Chan, 2001). We argue that educational backgrounds could affect directors' control, service, and resource dependency functions in firms' branding decisions (Johnson, Daily, & Ellstrand, 1996; McNulty & Pettigrew, 1999; Pugliese et al., 2009). First, the purpose of a board's control function is to avoid agency problems between shareholders and managers by monitoring managerial decisions (Fama & Jensen, 1983; Mizruchi, 1983). Board members' educations affect how they supervise managers' branding strategies (Forbes & Milliken, 1999; Rindova, 1999). Second, a board could provide service functions in the form of strategic consultation for managers (Dalton & Daily, 1999; Lorsch, 1995; Westphal, 1999). Board members' educated expertise and skills could be translated into their service in the context of branding activities (Rindova, 1999). Lastly, a board could carry out a resource dependency function with regard to a firm's strategy (Hillman & Dalziel, 2003; Pfeffer, 1972; Pfeffer & Salancik, 1978). Board members' educational backgrounds imply that their membership in a particular socio-economic group could sustain a firm's brand development by means of interorganizational ties (Collins, 1971; Hillman & Dalziel, 2003; Pfeffer, 1972; Stevenson & Radin, 2009).

To empirically answer for our research question, we started by identifying a group of 87 successful branding firms from three well-known brand-ranking surveys in Taiwan: Interbrand's Top Taiwan Global Brand, Taiwan Superior Brand Awards, and Ideal Brand for Consumers in Taiwan (Barth et al., 1998; Chu & Keh, 2006). A control sample was then formed by matching each successful branding firm with another firm in the same industry and with the nearest revenue while not being included in the three aforementioned brand-ranking surveys. Further, we used a logistic regression model to express a firm's probability of branding success as a function of board members' educational background variables. The empirical evidence reported in this study shows that firms that have board members who were educated at top universities, foreign universities, and top MBA programs are more likely to become successful in branding strategies.

To avoid potential endogeneity problems when providing empirical evidence for our research questions, we adopted a few empirical settings. First, we reduced omitted variable bias by matching successful branding firms with control firms to avoid possible omitted variables regarding incentives to adopting branding strategies (Winship & Morgan, 1999). Second, to minimize possible simultaneity between board members' educational

background variables and branding performance, we followed Cornett, Marcus, Saunders, and Tehranian (2007) and lagged all board education variables by one year. Third, successful branding firms might select directors with specific educational backgrounds (Hambrick, 2007), so, to mitigate biases caused by reverse causality, we employed exogenous instrumental variables (IVs) for the endogenous board education variables using the 2SLS estimation method (Larcker & Rusticus, 2010).

Our study is intended to make contributions by providing empirical evidence with regard to the relationship between board members' educational backgrounds and the success of branding strategies. First, our study adds to the literature a better understanding of a board's cognitive contribution to a firm's strategic decision making. Rindova (1999) develops a model in which directors' expertise and composition affect the firm's strategic decision-making quality. Our study extends Rindova's model by providing empirical evidence with regard to the relevance of directors' educational backgrounds to the abilities necessary to making competitive branding strategies. Second, we contribute to the line of studies seeking to develop best practices for brand management (Birnik et al., 2010; Roll, 2006). Our study suggests that firms should consider the educational backgrounds of board members in branding practice.

2. Hypotheses development

A successful brand is a name, symbol, design, or some combination thereof that identifies the "product" of a particular organization as having a sustainable differential advantage (Aaker, 1996; Doyle, 1990). Boards of directors are particularly relevant for Asian firms' brand development for three reasons. First, Asian companies have long believed that tangible assets are more important than intangible brand assets in creating firm value. Thus, the support of the boardroom is essential for Taiwanese firms to be able to reorient their business focuses toward branding strategies (Temporal, 2005). Second, a board of directors plays a key role in corporate governance and assumes responsibility for assessing conflicts of interest with current clients when a firm develops its own brand (Hambrick, 2007; Hambrick & Mason, 1984; Yan, 2012). Third, a board monitors major branding decisions, such as resource allocation and the choice between an organic and an acquisition approach to brand growth strategy (Birnik et al., 2010; Forbes & Milliken, 1999).

Board members' educational backgrounds equip them with sets of skills and knowledge that can be applied to branding decisions (Forbes & Milliken, 1999; Rindova, 1999). Educated expertise allows directors to engage in cognitive tasks, such as environmental scanning, interpretation, and formulation of strategy, to resolve branding complexity and uncertainty (Milliken and Vollrath, 1999). As a corporate governance mechanism, board members are able to apply educated skills to serve control (Fama & Jensen, 1983; Mizruchi, 1983), service (Dalton & Daily, 1999; Lorsch, 1995; Rindova, 1999; Westphal, 1999), and resource dependency (Collins, 1971; Hillman & Dalziel, 2003; Pfeffer, 1972) functions when monitoring the firm's branding decisions (Johnson et al., 1996; McNulty & Pettigrew, 1999; Young et al., 2001).

According to upper echelons theory, organizational strategic choices are a function of the top management's educational background (Hambrick & Mason, 1984; Wally & Baum, 1994). Hence, we propose that a firm's branding success is related to its board's educational background. In our research framework, board members' educational backgrounds at top-ranked universities, at foreign universities, in business-related majors, and in top MBA programs are hypothesized to affect such board members' decisions regarding the key aspects mentioned in Aaker and Joachimsthaler's

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