G Model
WORBUS 833 No. of Pages 13
ARTICLE IN PRESS

Journal of World Business xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Original Article

Making the foreign familiar: The influence of top management team and board of directors characteristics on the adoption of foreign practices

Donghoon Shin[a,*], Russell Seidle[b], Ilya Okhmatovskiy[c]

[a] College of Business and Economics, University of Wisconsin Whitewater, Hyland Hall, Room 4518, 800 West Main Street, Whitewater, WI 53190, USA
[b] Sawyer Business School, Suffolk University, 8 Ashburton Place, Boston, MA 02108, USA
[c] NOVA School of Business and Economics, Universidade Nova de Lisboa, Campus de Campolide, 1099-032 Lisboa, Portugal

ARTICLE INFO

Article history:
Received 19 October 2015
Received in revised form 14 September 2016
Accepted 15 September 2016
Available online xxx

Keywords:
Foreign practice adoption
Six Sigma
Upper echelons theory
Foreign ownership

ABSTRACT

This paper examines the firm-level antecedents of Six Sigma adoption in Korea. Our results indicate that firms with top executives and board members having work experience in the foreign country where the focal management practice originated and was popularized are more likely to adopt this practice. Furthermore, firms' exposure to foreign investors exerts a direct effect and also moderates the impact of foreign work experience on adoption. Prior work experience in the country of practice origin reduces the uncertainty inherent in cross-border adoption by providing executives and board members with greater insight into the presumed benefits of the focal practice.

1. Introduction

Organizational practices are institutionalized methods of performing tasks (Kostova, 1999). Although an organizational practice is developed and institutionalized within an organization over time, practice adoption studies have tended to focus more on practices tagged with particular labels such as the long-term incentive plan (Westphal & Zajac, 1998), Total Quality Management (Kennedy & Fiss, 2009), and Six Sigma (Yu & Zaheer, 2010), to name a few. In spite of longstanding academic interest in the adoption of new management practices, studies that identify the firm-specific factors influencing the cross-border adoption of foreign-born practices remain relatively scarce (Galang, 2012; Gooderham, Nordhaug, & Ringdal, 1999; Guler, Guillen, & Macpherson, 2002). Instead, consistent with the tradition in the international business literature that stresses the effects of national context, previous studies have focused more on country-level factors that facilitate or constrain cross-border transfer of management practices (e.g. Caselli & Coleman II, 2001; Guler et al., 2002; Haxhi & van Ees, 2010). This paucity is surprising considering the extensive research undertaken both on globalization and on practice adoption in domestic settings. We know that cross-border practice adoption does occur, though its uptake by firms in a given country is often uneven. What factors might then explain the variance in firm-level adoption of a management practice originating in a foreign country?

Adoption of a new practice often involves challenges arising from uncertainties (Kostova & Roth, 2002; Rogers, 1983). Potential adopters are likely to have limited understanding about the effectiveness of a new practice and cause-effect relationships are difficult to discern (Lenox & King, 2004). Although such uncertainty exists to some degree with any new practice, this challenge is heightened when the focal practice has been developed in a foreign country (Guler et al., 2002; Sanders & Tuschke, 2007). Even when the effectiveness of a practice is somewhat proven in different countries, its local applicability may remain in question (Yu & Zaheer, 2010). Pathways such as interlocking directorates through which information about a practice flow (and through which uncertainty could be reduced) are also likely to be limited between firms in different countries. Finally, greater institutional distance between companies from separate countries hampers the shared understanding necessary to overcome the lack of certainty that results. For all the above reasons, it seems clear that uncertainty could be a significant impediment to the adoption of practices originating in countries outside the domestic context of a focal firm.

In this paper we examine the underexplored role of upper echelons characteristics and firm-level exposure to foreign

* Corresponding author.
E-mail addresses: shind@uww.edu (D. Shin), rseidle@suffolk.edu (R. Seidle), ilya.okhmatovskiy@novasbe.pt (I. Okhmatovskiy).

http://dx.doi.org/10.1016/j.jwb.2016.09.003
1090-9516/

Please cite this article in press as: D. Shin, et al., Making the foreign familiar: The influence of top management team and board of directors characteristics on the adoption of foreign practices, Journal of World Business (2016), http://dx.doi.org/10.1016/j.jwb.2016.09.003

investors in adoption of foreign practices. According to Rogers (1983), practice adoption is mainly an 'information-seeking and information-processing activity' (p. 167). If, as we believe, uncertainty is one of the strongest obstacles to practice adoption, the existence of relevant information and the acceptance of it by recipient organizations should attenuate this problem and increase the likelihood of adoption. Upper echelons, consisting of top management teams (TMT) and boards of directors (BOD), make strategic choices—including practice adoption decisions (Young, Charns, & Shortell, 2001)—as a group based on cognitive capabilities and personal values (Finkelstein, Hambrick, & Cannella, 2009). Hambrick and Mason (1984) suggest that executive characteristics become more important in strategic choices when a situation is uncertain since executives then rely on heuristics and try to simplify the information at hand.

We are specifically interested in the roles that international experiences of top managers and outside directors play in this regard. Top managers' international experiences have received some scholarly attention in the international business literature. A firm's degree of internationalization (Athanassiou & Nigh, 2002), foreign investments (Herrmann & Datta, 2002), and entry mode choice (Herrmann & Datta, 2006; Nielsen & Nielsen, 2011), to name but a few examples, have been found to be related to international experiences of firms' upper echelons. Previous studies show that internationally experienced top managers contribute to corporate international expansion based on risk-taking and global competency (Carpenter, Pollock, & Leary, 2003). In spite of the salience of upper echelons characteristics in organizational decision-making situations, their impact on the adoption of foreign management practices has received limited attention. However, as we argue in this paper, the adoption of foreign practices offers a decision-making setting where such upper echelon characteristics might be expected to play a prominent role in addressing uncertainty associated with the adoption of a new practice.

Furthermore, adoption of an unfamiliar management practice originating from a distant source entails high risks, making such decisions likely to be subjected to special scrutiny. We shed light on a firm's exposures to foreign investors by examining the role of foreign ownership. Foreign ownership has been found to play a significant role in firms' strategic actions, particularly when the organizations are based in emerging economies (Park & Kim, 2008; Yoshikawa & Gedajlovic, 2002). Given that the international transfer of management practices is the focus of our study, we expect that a firm's exposure to foreign investors would have an impact on such adoption.

The current study strives to answer the following research questions: 1) Do foreign work experiences of TMT members and outside directors gained in the country of practice origin affect the adoption of a foreign-born management practice?; 2) How does a firm's exposure to foreign investors affect adoption of this practice? We test our hypotheses by tracing adoptions of Six Sigma by 122 large Korean firms between 2000 and 2008. The Asian Financial Crisis and subsequent IMF bailout in the late 1990s dramatically increased exposure of Korean firms to foreign management practices and foreign investors, thus creating an ideal empirical context to examine our research questions.

We make the following contributions with our paper. First, we extend the previous literature on practice adoption to the international setting. Facing barriers to practice adoption in a cross-border setting, we identify the international experiences of firms' upper echelons as facilitating factors of adoption that reduce uncertainty about the practice. Second, our results contribute to upper echelons theory by examining the importance of high-status managers' previous foreign experiences. Through such experiences, upper echelon teams accumulate the collective knowledge and information-processing capability that affect the strategic moves of their firms. The international business setting is one where upper echelons characteristics become more salient due to the high level of risks involved. Third, we contribute to the corporate governance literature by showing that exposure to foreign investors exerts both direct and indirect influences on firms' strategic decisions in the context of foreign practice adoption.

2. Theoretical background and hypothesis development

2.1. Determinants of practice adoption

Uncertainty hampers the ability of a firm to interpret information related to management practices that could provide organizations with economic and/or social gains. This is a central concern in practice adoption, since the basis for adoption of a management practice is the existence of and access to relevant information (Rogers, 1983). One way of gaining information about a certain practice is through direct observation of other firms' adoption of the practice. This direct observation can then trigger imitation by providing information about the focal practice and initial evidence of practice effectiveness (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983). The existence and characteristics of channels through which information about the practice flows are important considerations in this regard. Interlocking directorates have received scholarly attention as the major conduits for the transfer between different firms of new management practices such as golden parachutes, poison pills, multidivisional form, and board reform and independence (e.g. Davis & Greve, 1997; Palmer, Jennings, & Zhou, 1993; Shipilov, Greve, & Rowley, 2010). Theorization of a practice can facilitate adoption by organizations in locations remote from practice origin; this may occur through either direct observation or networks (Strang & Meyer, 1993). A common assumption underpinning these literature streams is the importance of information availability in driving the adoption of management practices, since decision-making related to adoption is ultimately about seeking and processing information for the purpose of reducing uncertainty (Rogers, 1983).

Past research on practice adoption in domestic contexts has indicated the importance of numerous distinct predictors. In two separate studies related to adoption of TQM among U.S. hospitals, top manager and network/institutional factors were seen as key in influencing adoption (Young et al., 2001) and the overall compatibility of efficiency and legitimacy considerations was discerned (Kennedy & Fiss, 2009). Evidence of the joint importance of legitimacy and knowledge-seeking in inter-firm networks was also found in Taiwanese high-tech firms adopting supply chain management systems (Cheng, 2010). Finally, both relational ties in professional networks and an appropriate set of organizational routines, structures, and resources predict adoption of corporate social responsibility practices (Raffaelli & Glynn, 2014).

Apart from decisions to adopt as an ultimate firm-level outcome, researchers have also undertaken to examine the adoption process as it either manifests itself over time within a set of similar organizations or becomes implemented (to varying degrees) in the same firm. Early research into such temporal patterns of diffusion indicated that internal processes were key considerations for early adopters, while legitimacy was central for later adopters (Tolbert & Zucker, 1983). In a related vein, top manager factors were more important in influencing TQM adoption in a sample of U.S. hospitals during the early phase of the diffusion process (Young et al., 2001), while institutional effects gained in importance subsequently. Within an organization, theorizing similarities – that is, emphasizing similarities to others