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Do board directors affect the export propensity and export performance of Korean firms? A resource dependence perspective

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ABSTRACT

Using the Heckman two-stage method, this study empirically investigates whether board directors' work experience in government and multinational corporations (MNCs), as well as the proportion of outside directors affects export propensity and export performance based on a sample of Korean firms. We find that the Korean firms with former government officials on the board are more likely to engage in exporting, although there is no empirical evidence supporting export performance. The findings also show that firms with former MNC employees on the board demonstrate higher levels of export propensity and export performance. Similarly, firms with a higher proportion of outside directors exhibit a higher level of export propensity and export performance. These findings highlight the importance of the board of directors in Korean firms' first stage of internationalization and provide new insights into which type of board members can benefit their firms in terms of export propensity and export performance.

1. Introduction

Exporting is considered as the first step to internationalization because it requires the commitment of minimal resources, involves lower risks compared to other international strategies and allows for greater flexibility (Czinkota & Ronkainen, 2007; Leonidou, Palihawadana, & Theodosiou, 2011). Firms engaging in exporting, however, encounter various obstacles that may negatively affect their overall performance (Leonidou et al., 2011). Obstacles to exporting are associated both with internal resource constraints and external barriers (Leonidou, 1995a; Miesenbock, 1988). Contemporary organizations, therefore, are constantly leveraging internal resources and seeking external resources that will enable them to overcome the barriers to exporting, mitigate the associated risks and boost export performance.

Previous studies on export performance have tended to focus on various aspects related to firms' capabilities, industry competition and institutional environments (Buck, Liu, Wei, & Liu, 2007; Chen, Sousa, & He, 2016; Gao, Murray, Kotabe, & Lu, 2010). A major limitation of this stream of research is that it has overlooked the role of the board of directors in facilitating export performance (Barroso, Villegas, & Pérez-Calero, 2011; Herrera-Echeverri, Geleilate, Gaitan-Riaño, Haar, & Soto-Echeverry, 2016). Despite the role that the board of directors plays in achieving key organizational outcomes, such as exporting, our understanding of the relationship between the board of directors and export performance remains relatively fragmented (Barroso et al., 2011; Herrera-Echeverri et al., 2016; Rivas, Hamori, & Mayo, 2009).

A related issue is that prior literature in corporate governance has mainly focused on examining the role of the board of directors in enhancing firm financial performance (Chizema, Liu, Lu, & Gao, 2015; Hillman, Withers, & Collins, 2009; Johnson, Daily, & Ellstrand, 1996; Liu, Wei, & Xie, 2014, Ntim, 2015) and firm value (Ntim, Opong, & Danbolt, 2012). There is less research examining the effect of the board of directors on other types of business activities, such as exporting. In particular, the extent to which the composition of the board of directors affects exporting is underexplored (Rivas, 2012a, 2012b; Rivas et al., 2009; Sanders & Carpenters, 1998). This neglect, therefore, limits our understanding of which types of board directors can benefit exporting.

Another limitation of prior literature is that although it has extensively recognized the monitoring or governance role of the board of directors, as suggested by agency theory (Hillman, Cannella, & Paetzold, 2000; Pfeffer & Salancik, 1978), it has overlooked board directors' resource provision role, especially in supporting

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exporting (Hillman et al., 2009; López Rodríguez & García Rodríguez, 2005). In the context of international business (IB), this neglect is paradoxical, as the role of a board in gaining access to specialized knowledge concerning foreign markets and acquiring other types of resources necessary for exporting can be crucial (Rivas, 2012a, 2012b; Rivas et al., 2009).

A further weakness of previous investigation in this area is that much research has focused on Western contexts (Chizema et al., 2015; Ntim, Lindop, & Thomas, 2013; Ntim, Opong, & Danbolt, 2015). However, corporate governance mechanisms, such as the board of directors in emerging countries, differ from those in Western countries (Buck, Liu & Skovoroda, 2008; Chizema et al., 2015; Ntim, Opong et al., 2015). There have been many regulatory changes aimed at improving the effectiveness of corporate governance in many emerging countries (Chizema et al., 2015). Such changes are very prominent in Asia, as a result of the Asian financial crisis in 1997–1998. It is widely recognized that Asian corporate governance differs from the Anglo-American model and German model and, hence, an investigation into the role of directors in the Asian context is crucial in order to better understand the resource provision role of the board of directors in exporting. In particular, the Korean government leads the market economy system, and the relationship between businesses and the government is closely intertwined. Government officials can use their power to provide preferential treatment for the firms with which they have developed close links. Seeking crucial resources from the government through political ties is a fact of Korean business life (Siegel, 2007). Such an institutional setting makes the role of the board of directors even more pivotal in gaining access to the external resources needed for exporting. Thus, Korea represents an interesting and important context for such an investigation.

To address the research gaps identified above, we aim to investigate the role of the board of directors as resource providers in exporting by adopting a resource dependence perspective based on a sample of Korean firms. Specifically, we examine to what extent a board's specific characteristics and outside directors affect a firm's export propensity and export performance.

Our paper makes three main contributions to IB and corporate governance research. First, this study reveals that the role of the board of directors is more than just monitoring and controlling, thus expanding our understanding of the impact of the board of directors as critical resource providers on exporting. Specifically, we focus on two types of board directors: those who are former government officials, and those who have multinational corporation (MNC) experience. In doing so, this study delineates the resource dependence logic of board directors and offers new insights into which type of board members can be of benefit to their firms' export propensity and export performance.

Second, we examine the unique context of Korea, where so far there has been scarce academic investigation. Our study extends prior research based on developed country contexts to the Korean context and sheds new light on the effects of the unique institutional characteristics of Korea, as well as the government imposed changes on the composition of company boards, particularly with regard to their impact on the firms' export propensity and export performance. Our research responds to the call for more context-specific approaches in the study of board directors (Ntim, Lindop, Osei, & Thomas, 2015; Chizema et al., 2015).

Finally, this study adds much needed empirical evidence on the link between the board of directors and exporting in the Korean context. We have adopted the Heckman two-stage model to control for endogeneity problems. Moreover, we have provided additional evidence on the impact of different types of the board of directors on export propensity and performance using the simultaneous quantile regression.

2. Research context

The Asian financial crisis in 1997–1998 led many countries in the continent to undertake significant corporate governance reforms. These reforms did not completely follow the Western models of corporate governance and, for this reason, studies into corporate governance, such as the role of board directors should pay particular attention to the unique features of the Asian context (Chizema et al., 2015; Lu, Xu, & Liu, 2009). Thus, in this section, we present three unique institutional characteristics of corporate governance in the Korean context.

First, the Korean government has historically implemented various policies to support exporting and has played a dominant role in firm internationalization (Chang & Hong, 2002). Elite public officials have access to significant government-related resources (including information on public policy changes, government funds, links to government owned financial institutions etc.). When retired public officials move to work for private firms they are able to utilize their links to the government, work as lobbyists and receive preferential treatment. These former government officials can support firms by obtaining resources from their previous government bodies called '*jeongwan yeu*'. Such resources include important information in relation to government policy changes, but also other government-related resources such as trade finance and trade insurance from the state-owned banks and institutions (Anti-Corruption & Civil Rights Commission of Korea, 2012). According to the Anti-Corruption and Civil Rights Commission of Korea (2012), these former government officials are well known in Korea both for their networks and contacts in the public sector, but also their ability to lobby in favour of the companies that they later on work for.

Second, the Asian financial crisis impacted on Korean firms' recruiting strategies to shift the emphasis from hiring lifetime employees to recruiting experienced employees (Kim & Kim, 2003; Kim & Yu, 2000). Before the Asian financial crisis, Korean firms dominated the Korean market. However, a number of Korean firms were sold to MNCs such as GM and Renault during the financial crisis (Chang, 2006). Spontaneously, Korean firms tried to hire MNC-experienced board members in order to benefit from their international experience and the MNCnetworks with which they had previously worked (Bae, Chen, David Wan, Lawler, & Walumbwa, 2003). Thus, this new trend in the hiring strategy adopted by Korean firms after the Asian financial crisis raises an important research question with regard to the role of board members with MNC experience in their firms' export propensity and export performance.

Third, the reform of corporate governance regulations in Korea after the Asian financial crisis required Korean firms to have at least 25% of their boards made up of outside directors. This development resulted from changes in the Commercial Code in 1998 and the Securities and Exchange Act in 1999. Furthermore, the International Monetary Fund (IMF) obliged large Korean firms with total assets over two trillion Korean won to be composed of at least 50% outside directors (Chizema & Kim, 2010). Given the importance of the board system, its relatively short history in the Korean economy, and the rapid changes in related government regulations, we maintain that the Korean context represents a unique but also immensely fruitful setting for investigation.

3. Theoretical framework

Pfeffer and Salancik (1978) introduced RDT to explain how organizations reduce environmental interdependence and uncertainty. According to RDT, organizations are open systems which are not self-sufficient due to their dependence on the external environment to gain the material or symbolic resources that they require (Durand & Jourdan, 2012; Pfeffer & Salancik, 1978). To ensure their existence and their sustainable growth, organizations must manage environmental demands to secure a stable supply of critical resources, such as financial capital, production inputs and legitimacy. Organizations are both supported and constrained by their external environments (Garud, Jain & Kumaraswamy, 2002; Oliver, 1991). Thus, successful organizations must develop ways to effectively cope with their