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Antecedents of Board Involvement in Overseas Chinese Firms

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Abstract:
The paper examines two prominent theories of strategic behavior that originated within western societies; the institutional and strategic choice theories to describe and explain board involvement in the strategic decision-making process in privately incorporated Chinese firms. These theories have been used extensively by researchers researching in the 'western' environment of public listed companies, but little conclusive evidence exists regards the issues of board involvement and management practices of privately incorporated Chinese firms. It also looks at the intersection of these theories and Chinese cultural values to provide a rich picture of board behavior in these firms. Its richness are apparent at macro level, examining the relationship between Chinese characteristics and organization structure, and at the micro level for investigating the similarities and differences in attitude of board members with given characteristics. The cultural perspectives at both micro and macro levels able to offer complementary views of Chinese board behavior. The importance of this study is to provide an initial step to help to conceptualize the complexity of board involvement in privately incorporated Chinese firms.

1. Introduction

The board of directors is the most prominent mechanism for shareholder accountability in the company. They are looked upon to serve as both sources of corporate direction and as a body responsible for attending to and making sure that shareholders' interests are looked after (Lim, 1997; Yadav and Baxi, 2010). The board of directors of an organization therefore has formal and legal responsibility for controlling and maintaining organizational performance (Lattin, 1959; Mintzberg, 1983; NACD, 2007).

Increasingly, the pressure for greater accountability has focused on board involvement in strategic decision-making processes (Lim, 1997; Robinson, 2008, Klijin et al, 2010). Power (1987) points out those individual shareholders are no longer passive and are asserting themselves. Other stakeholders, ranging from employees to the communities are demanding a "voice". He also notes that institutional investors are pressuring boards to challenge management's strategic leadership. Tay and Tang (1988) comment that the company directors are perceived as having growing exposure to legal action, often because of their insufficient involvement in the strategic decision-making process. Weidenbaum (1985) suggests that the best defense against corporate raiders is increased board involvement in the strategic-decision making process.

Against this background, little conclusive evidence exists regarding the issues of board involvement and management practices of private incorporated Chinese firms (Lim, 1997). Furthermore, board involvement is such a complex phenomenon that no one theoretical perspective could adequately capture the process (Judge and Zeithaml, 1992, p767). To capture this complexity, two different, and sometimes conflicting, perspectives to describe and explain board involvement in the strategic decision-making process – the institutional perspective (Myer and Rowan, 1977) and the strategic choice perspective (Child, 1972). The institutional perspective is a relatively deterministic theoretical framework that places great emphasis on environmental norms, the weight of firm history and rationalized activity as explanations of organizational actions (Eisenhardt, 1988; Rumelt, Schendel and Teece, 1994). The strategic choice perspective emphasizes non-deterministic explanations of organizational process and outcomes. Strategic choice theorists acknowledge the influence of the external environment, but their focus is on adaptive actions within that environment. In its broadest sense, this perspective represents an evolving, relatively non-deterministic paradigm, or "meta-model", for explaining how organizations adapt to environmental forces (Ansoff, 1987).

In addition, many prior studies fail to recognize the important role culture plays in shaping board involvement attitudes and behavior of individual members (Lim 1997, 2014). The behavior of individuals in the organization is influenced by the values, orientation; attitudes and beliefs individuals bring with them to their job (Lachman et al., 1994). Cultural values are an important part of organizational life (Morgan, 1980) and the recognition of this is linked to organizational success (Deal and Kennedy, 1982). It is there

a crucial and beneficial to review and understand the Chinese cultural values and their implications on board involvement (Lim 1997, 2014).

Researchers in the study of Chinese cultural values find that Chinese values have formed a clear and consistent framework or understanding organizational relationships for generations (Hsu, 1983; Lim, 1997). Of course, it does not imply that the cultural values and the system have not been changed. In fact, the Chinese cultural value systems have been undergoing change in countries such as Taiwan, Hong Kong, and Singapore in conjunction with the process of rapid social and economic change (Redding, 1990; Yang, 1993; Lim, 1997). However, their findings also imply that some of the traditional Chinese values are still held by Chinese nowadays. According to Lim (1997), the mentality of Chinese-Singaporeans is still shaped largely by the teachings of Confucius, who lived more than 2,500 years old. He comments that Confucianism is not so much a religion as it is a code of social conduct and its influence is so pervasive that Chines function unconsciously in a Confucian manner. Yau (1988) and Lim (1997) note that Chinese cultural values are largely formed and created from interpersonal relationships and social orientations, which as shown in the work of Confucius, whose doctrine is still a basic pillar of Chinese life today. The dimensions of the Chinese cultural values can be identified with Kluckhohn and Strodbeck (1961)'s classification, and their potential board involvement implications in the strategic decision-making process.

2. Literature Review and Critiques

Very little has been written about board involvement in overseas Chinese incorporated firms in Southeast Asia generally, and in Singapore in particular (Lim, 1997, p8). More specifically, little evidence exists about the issues of corporate governance and management practices of private incorporated Chinese firms in Singapore. The changing economic environment in Singapore, together with increasing competition from foreign companies, has resulted in Chinese firms having to adopt "western" management structures to remain competitive (Tong, 1991, Lim 1997). As such, some clues can be found in the growing literature on the subject of board involvement in private incorporated firms in the "western" context. We can look for parallels that may apply in an "oriental" environment. However, until more empirical research is undertaken, one can only make assumptions in this area.

Accordingly, to Judge and Zeithaml (1992), institutional theory addresses the issue of how and why organizational structures and processes come to be taken for granted and the consequences of this institutionalization process (Selznick, 1949, 1957; Zucker, 1987; Myer and Rowan, 1997; Angert and Pathak, 2010; Wheelen and Hunger, 2014). The key idea behind institutionalization is that much organizational action reflects a pattern of doing things that evolves over time and becomes legitimized and institutionalized within an organization and environment (Pfeffer, 1982). Therefore, organizational practices can be predicted and explain by industry traditions and firm history (Eisenhardt, 1988).

Although there are several different schools of thought within this perspective (Scott, 1987), much of the institutional literature focuses on the concept of isomorphism, whereby organizations conform to the accepted norms of their populations (DiMaggio and Powell, 1983; Rowan, 1982). In Judge and Zeithaml (1992) view, an environment legitimizes certain ways of operating. Further, Hirsch (1975) found that industry "gatekeepers" had a major impact on organizational structure and effectiveness.

The other theory that can provide insight into board behavior is the strategic choice theory (Child, 1972; Whisler, 1983; Andrews, 1986; Mintzberg, 1990). It focuses on the behavior that organizational members take in response to the environment as an explanation for the performance of the organizations. Strategic decision-makers seek to optimize their firm's performance (Hambrick and Mason, 1984). Its proponents argue that purposeful actions abound in organizations and that organizational members have substantial leeway in shaping their own fate. As such, the perspective focuses attention on individuals and groups within organizations to explain organizational processes.

A number of schools exist within the strategic choice theory. These schools vary about their conceptions of the degree and type of deliberateness by which information is gathered and strategies are formed (Mintzberg, 1990). Although it is beyond the scope of this study to address the conflicting viewpoints of these various school of thoughts, most strategy choice theorists have agreed that for specific strategic decisions, there is (or at least should be) first a formation, or pre-choice phase (Fredrickson, 1983; Neubauer and Demb, 1990). Therefore, researchers have generally accepted a two-phase model of the strategic choice process and have given primacy to internal explanations for variations in strategy formation, such as the board behavior of a firm's upper echelon (Judge and Zeithaml, 1992; Lim, 1997)

2.1. Board Involvement

Institutional theory is at its strongest in explaining those aspects of organizational life that are taken for granted (Rumelt , Schendel and Teece, 1994). One such aspect is the way organizations behave over time. For instance, several studies have shown that the age of an organization affects organizational processes (Tolbert and Zucker, 1983; Eisenhardy, 1988; Boeker, 1989). Hannan and Freeman (1984) also note that organizations change slowly; those founded earlier than others in different environmental conditions are expected to demonstrate different behavior than those founded later. Empirical studies have supported this view (Tolbert and Zucker, 1983; Eisenhardt, 1988) and suggest that organizational age may influence board behavior as well. Hannan and Freeman (1984) further explain that because older organizations were formed at a time when external pressures for board involvement were weaker that they are now, these organizations may demonstrate more resistance to increasing board involvement as compared to younger organizations that may be more susceptible or open to external pressures for greater board involvement.

- Proposition 1: Older Chinese organizations in Singapore, consistent with their institutionalization of Confucian values are more likely to engage in more patriarchal governance that avoids involvement in strategic-decision of others as compared to younger organizations.

Another aspect of organizational life and corporate governance that is taken for granted is diversification. An organization's level of diversification can be conceptualized as the extent to which it is simultaneously active in many distinct businesses (Pitts and Hopkins, 1982). Although, a rich and growing tradition of research addresses the level of diversification, very little is known about its relationship to organizational processes (Ramanujam and Varadarajan, 1989). D'Aunno, Sutton and Price (1991) explain that the level of diversification does affect organizational processes through isomorphism. Several studies have demonstrated how organizations conform, or become isomorphic, to industry rules or expectations (Huff, 1982; Tolbert, 1985). DiMaggio and Powell (1983) comment that diversification to a certain extent dilutes the pressures of environmental isomorphism by making an organization less dependent on any one particular industry. Oliver (1991) explains that activity in multiple environments usually leads to "constituent multiplicity," a term she defines as the number of conflicting constituent expectations exerting on an organization. This multiplicity, she argues, dilutes environmental pressures for a certain way of operating. She further notes that given this divergence of external pressures, diversified organizations may be freer to ignore pressures for change. Consequently, the pressures of environmental isomorphism may be less focused for diversified organizations.

- Proposition 2: Chinese organizations that operate business activities in multiple environments usually dilute environmental pressures on environmental isomorphism and these organizations are less likely to focus on strategic decision-making and are freer to ignore pressures for change.

Numerous studies have advocated that outside directors provide more objective views of the strategic decision than inside directors (Judge and Zeithaml, 1992). Zahra and Pearce (1989) note that observers of this trend have largely speculated about the impact of inside directors on board behavior, and suggest that empirical results have been equivocal. Strategic choice theory advocates have argued that inside directors contribute valuable insight and information to boardroom discussions and hence allow boards to be more involved in the strategic decision process (Baysinger and Hoshisson, 1990). Rosenstein (1987) also notes that, as a result. A balance between informed discussants of strategy and objective monitors of strategic behavior emerges. This internal balance arguments have some empirical support in the literature (Ford, 1988; Tashakori and Boulton, 1983; Hill and Snell, 1988; Goodstein and Boeker, 1991) and suggests that boards are more effective and involved when inside directors are better represented because there may have been better information flows within the boardrooms.

- Propositions 3: Chinese boards are likely to be more effective and involved in strategic decision-making when more than one insider director takes an active role within the board.

Previous research on group decision-making processes has shown that large groups may experience problems with coordination and organization (Hackman and Morris, 1975) and low motivation (Herold, 1979). This led Gladstein (1984) to conclude that as group size increases, the level of members' participation often decreases. Several researchers have noted the negative impact of too large a board on board involvement (Herman, 1981; Kovner, 1985; Lauenstein, 1997; Reed, 1978). A large board may inhibit effective participation by board members in the strategic decision-making process because of its negative impact on group dynamics. A large board may inhibit effective participation by board members in the strategic decision-making process because of its negative impact on group dynamics. As such, it is more likely that there will be discrepancies between the board members and the CEOs (managing directors) on each other's duties and strategic decisions (Lim, 1997). However, with a smaller board, it is more likely for a close working relationship between chairperson and board members to emerge with greater board involvement.

- Proposition 4: Corporate governance structures in Chinese organizations that are unwieldy because of large board size will be inefficient in calling upon the insights that its board members can offer in strategic decision-making.

The most controversial issue surrounding the strategic role of the board concerns board involvement and its impact on the organizational performance (Zahra and Pearce, 1989). Clearly, many issues influence organizational performance, such as competitive intensity and organizational size (Lim, 1997). The incremental impact of board behavior on organizational performance is unclear. Accordingly, to the strategic choice theory, strategic decision-makers seek to optimize their firms' organizational performance (Hambrick and Mason, 1984). A fundamental assumption of this theory is that organizational strategy and its processes affect organizational performance. (Miles and Snow, 1978). Andrews (1986) contends that boards are an important and neglected strategic resource within firms. The primary basis for this argument is that increased board involvement forces managers to check their assumptions and do their homework before advancing strategic proposals. Baysinger and Hoskisson (1990) also argue that directors can bring objectivity to the decision-making process that can help to challenge narrow thinking, escalating commitment, and weak analysis. These researchers suggest a positive relationship between board involvement and the performance of an organization (Pearce, 1983; Pearce and Zahra, 1991; Baysinger and Butler, 1985; Lynch, 1979).

- Proposition 5: Chinese boards are likely to influence the organizational performance of the firms when they are more involved in strategic Decision-making.

Both institutional and strategic choice perspectives operate under different theoretical assumptions, but proponents of each appear to be moving closer together. Empirical works (for example, Kurke, 1987; Powell, 1987; Covaleski and Dirsmith, 1988) employing the institutional framework have shown that organizations do not passively adapt to their environment. Similarly, strategic choice theorists are recognizing institutional aspects of the strategic decision process. For example, Fredrickson and Iaquinto (1989) identified industry influences on strategy reformation and implied that examination of just strategic decision-makers was overly narrow. Further, Hitt and Tyler (1991) found that industry characteristics significantly influence the strategic decision process. Therefore, both theories are useful for providing a comprehensive view of board behavior.

2.2. Chinese Cultural Values as a Social- Institutional Force
Researchers in the study of Chinese cultural values find that Chinese values have formed a clear and consistent framework for understanding organizational relationships for generations (Hsu, 1983, Schwartz, 2006, 2009). Of course, it does not imply that the cultural values and the system have not been changed. In fact, the cultural value systems have been undergoing change in countries such as Taiwan, Hong Kong, and Singapore in conjunction with the process of rapid social and economic change (Yau, 1988; Redding, 1990; Yang, 1993; Lim, 1997). However, their findings also imply that some of the traditional values are still held by Chinese nowadays. According to Hinkelman (1994) and Lim (1997), the mentality of Chinese-Singaporean is still shaped largely by the teachings of Confucius, who lived more than 2,500 years ago. They comments that Confucianism is not so much a religion as it is a code for social conduct and its influence is so pervasive that Chinese function unconsciously in a Confucian manner.
According to Yau (1988), Chinese cultural values are largely formed and created from interpersonal relationships and social orientations which are shown in the work of Confucius, whose doctrine is still a basic pillar of Chinese life today. To describe the Chinese culture values, I adopt the value-orientation model of Kluckohn and Strodbeck (1961). The descriptions of the cultural values according to Kluckohn and Strodbeck's classification is as follows:

2.2.1. Respect for Authority
The Chinese have a strong respect for authority and are prone to trust totally without questioning (Hinkelman, 1994). The early root of the Chinese respect for authority is in Confucius's five cardinal relations; between sovereign and minister, father and son, husband and wife, old and young, and between friends (Hchu and Yang, 1972). These relations have served effectively to control social behavior in society (Yau, 1988). Chinese have to observe and act accordingly to the norms prescribed for each instance of interpersonal relations (Wimalasiri, 1988). It is not surprising to see that Chinese today still prefer to address someone in more structural or hierarchical-type terms than Westerners (Yau, 1988).

2.2.2. Interdependence
The flexibility of the Chinese in dealing with interpersonal relations comes from the principle of "doing favors and giving trusts", which literally signifies one's honor to another (Tong, 1991). Favors and trusts carried out for others carried out for others are often considered what may be termed "social investments", for which handsome returns are expected (Yau, 1988).
Almost every Chinese is brought up to be highly conscious of "doing favors and giving trust" and to practice it heartily (Yau, 1988). Chinese believe that the reciprocity of doing favors and giving trusts between persons should be as certain as a cause-and-effect relationship and it should be continuous so that affinity for each other is well established (Yau, 1988).
The application of the principle of "doing favors and giving trust" has a tremendous influence on social as well as business behavior (Tong, 1991). It maintains relations among Chinese people by the presentation of favors and trusts which they regard as a form of "li" – propriety. Small business people often believe that following the principle of "doing favors and giving trust" is of utmost importance in enabling the business to operate smoothly so as to earn more money (Yau, 1988). They exchange their favors and trusts when supplying goods or credits without signing any legal documents, and believe that the signing of any legal document will terminate the reciprocity of doing favors and trusts (Westwood and Chan, 1992).

2.2.3. "Face"
"Face" is a concept of central importance because of its pervasive influence in interpersonal relations among Chinese (Hinkelman, 1994). Having "face" means having a high status in the eyes of one's peers, and it is a mark of personal dignity. Chinese are actually sensitive to having and maintaining "face" in all aspects of social and business life (Hinkelman, 1994). Hu (1944) examined 200 Chinese's proverbs and classified "face" into two types "lien" and "mien-tsu".
"Lien" represents the confidence of society in the integrity of ego's moral character, the loss of which makes it impossible for a person to function properly within the community (Hu, 1944). "Mien-tsu", on the other hand, stands for the kind of prestige that is emphasized … a reputation achieved through getting on in life, through success and ostentation (Hu, 1944). "Mien-tsu" can be characterized in both quantitative and qualitative terms (Ho, 1972). The amount of "mien-tsu" a person has is a function of his or her social status (Yau, 1988). It varies accordingly to the group with which he or she is interacting. Yau (1988) notes that "mien-tsu" may be claimed on a variety of grounds. It may be obtained either through personal qualities, or derived from non-personal characteristics, such as wealth, social connections and authority through personal efforts (Ho, 1972).
"Mien-tsu" can be lost or gained when there are changes that constitute a departure from the quality or quantity of one's claim. "Mien-tsu" can normally be gained by obtaining favorable comments from the interacting group or community, through exemplary behavior, superior performance or knowledge, or enhancement of statue (Yau, 1988). "Mien-tsu" may be lost when conduct or performance falls below the minimum acceptable standard, or when some essential requirements corresponding to one's social positions are not satisfactorily met (Yau, 1988). Since acceptable standards and requirements are social expectations held by the group with whom a person is interacting, the possibility of losing "mien-tsu" may not only come from his or her own actions or behavior, but from how he or she is expected to behave or be treated by other members in the group (Yau, 1988). Chinese are always under strong constraint to meet the expectations of others so as to maintain their "mien-tsu", as well as to reciprocate a due regard for the "mien-tsu" of others (Yau, 1988). The concern for "mien-tsu" exerts a mutual restrictive, even coercive, power, on each member of the social network. Thus, the Chinese always try to avoid causing others to lose "face", which is regarded as an aggressive act by those "face" has been discredited. Instead, they should protect others from losing it, which is an act of consideration (Yau, 1988).

"Lien" differs from "mien-tsu" in that "lien" is something that everyone is entitled to by virtue of his or her membership in society, It can only be lost through misconduct (Yau, 1988). Thus, it is meaningful to speak not losing "lien", but not gaining it. The losing of "lien" is more serious that that of "mien-tsu". This is because when "mien-tsu" is lost, it can more easily be regained (Yau, 1988). But when "lien" is lost, an individual's integrity of character is cast in doubt, or even destroyed (Yau, 1988).

The significance of "lien" cannot fully appreciated without realizing its close relationship with the concept of "ch'ih" which, in the Chinese context has iterally the same meaning as the word "shame" in English. King and Myers (1977) suggest that in Chinese culture, "lien" is an incomplete concept. They demonstrate a dichotomy between the Chinese "face-shame" complex, in contrast with the western sin-guilt complex. "Lien" implies the presence of "ch'ih", which fundamental requirement of being human. According to a Chinese philosopher, Mencius, "a man without sense of "ch'ih" (shame) is not a man."

2.2.4. Group Orientation

Hofstede (1980, 2001, 2003), a European scholar, used the term "collective" instead of "group oriented". He indicates that the Chinese, as well as other Asians, are collectivistic, although his list of values was incomplete. The collectivistic nature of the Chinese is reflected in the Chinese family and kinship system (Hsu, 1968, 1983; Schwartz, 2009). Hsu (1983) argues, "The primary concern of a majority of Chinese was to protect and enhance their private kinship interests." He notes that the Chinese regard the kinship system as a basis for relating to others. He further comments that there exists in the family system dividing lines which made the boundaries clearly defined, and human ties supersede each other rather than being additive.

Yau (1988) cites that Chinese may well be able to sacrifice themselves for benefits that largely accrue to a particular social unit, or even in a society as a whole. He also notes that when making decisions, an individual Chinese should always take into account other members of the family. He points out that Chinese are more motivated towards achieving the goal of the (extended) family or the group that they affiliated with than of individual self-fulfillment. Wilson and Pusey (1982) have confirmed this in the investigation of achievement motivation and small-business relationship patterns in Chinese society. They found that group orientation correlates significantly with achievement motivation in the Chinese sample. Redding (1990) notes that Chinese are only group oriented towards those social units with whom interactions have been established. He comments that the Chinese follow the appropriate social norms regardless of their own private views. But they appear to be quite suspicious and cold towards strangers with whom relationships have not been established.

3. Conclusion

In sum, the institutional perspective predicts that organizational age will be negatively associated with the board involvement in the strategic decision process because older organizations were formed at a time when external pressures for board involvement were low, and inertia prevents the organizations from adapting to the new situation. Further, the institutional perspective also suggests that external pressures for board involvement will be different for diversified organizations than for non-diversified ones. That is, it predicts that an organization's level of diversification will be negatively associated with board involvement because isomorphic pressures should be more diffuse for diversified firms than for-non-diversified ones. Whereas, the strategic perspective predicts that insider representation is positively related to board involvement in the strategic decision process. However, it suggests that board size is negatively related to board involvement in the strategic decision-making process. Finally, it also predicts that board involvement in the strategic decision-making process is positively related to an organizational performance. Thus, this paper proposes two prominent theories of strategic behavior that originated within western societies; the institutional and strategic choice theories to describe and explain board involvement in the strategic decision-making process in private incorporated Chinese firms.

Also, highlights in the discussion of this paper is the importance of Chinese cultural values as a useful "societal-institutional" framework for understanding the patterns of involvement of board members in these Chinese firms and the performance of these firms. The value of respect for authority has particular implications for board involvement. It is argued that, if in a society in general, there is a wider power and authority "gap" between seniors and juniors, the same pattern may be reflected in an unequal power relationship between chairperson and board members in work organizations in that society, in the form of high centralization and low consultation. These may imply that the preference for the chairperson's decision-making is highly centralized, with low consultation from the board. The values of interdependence and "face" are particularly meaningful to the study of board behavior. To the Chinese, doing favors and giving interpersonal trust is one of the ways to build up relationships with friends. The extent to which one is willing to ascribe good intentions to and confidence in the words and actions of the other people should be strong enough to match favors and trusts of the givers so that they are giving "face' to those who receive their favors and trusts and that they gain "face" at the same time because they are thought of as being sincere. It suggests that the positions of trust to be given to the Chinese chairperson by board members to run and manage the business. Finally, several aspects of the value of group orientation are noteworthy for the study. First, Chinese tending to be collectivistic may imply that informal channels of communications are important in Chinese society and the chairperson engaging in decision-making may rely on personal networks and linkages for information. Second, Chinese are group oriented towards social units with close interaction. As such, it is expected that board of directors participate actively in the achievement of the collective goals of the group. Strategic decision-making at both board and management levels may be confined to a small social circle. In sum, cultural values have an important role of legitimizing the organization's existence and its modes of functioning as well as the patterns of behavior of its members.

The intersection of organization theory (institutional and strategic choice theories) and culture perspective provides a rich picture of board behavior in Chinese organizations. Its richness is apparent at macrolevel, examining the relationship between Chinese

characteristics and organization structure, and at the micro level for investigating the similarities and differences in attitude of board members with given characteristics. The combined use of organizational theories and cultural perspectives at the micro and macro levels able to offer complementary views of activities. Working together, they offer a more complete view of Chinese board behavior than each does operating separately. This paper offers the first step towards an explanation of overseas Chinese board involvement in the strategic decision-making process.

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