International Journal of Economic Research

ISSN : 0972-9380

available at http: www.serialsjournal.com

Volume 14 • Number 11 • 2017

What Makes Outside Directors Not to be Reappointed? A Comparative Analysis of Behavioral Characteristics and Expected Roles

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ABSTRACT

The literature on outside directors explains that those who focus on monitoring roles are more likely to get disincentives, such as 'not to be reappointed', than those who emphasize advisory roles with ingratiating behavior. This study, in contrast, suggests that the probability of outside director's reappointment is more affected by his/her disciplinary behaviors regardless of whether he/she seeks for monitoring or advisory roles. Further, the negative effects of disciplinary behaviors are not much influenced by his/her personal connections on the board. With the survey data on outside directors in Korea, this study classifies outside director's behaviors in two dimensions: disciplinary vs. favorable in addition to monitoring and advisory roles. The empirical analysis supports that contrary to agency theory and social networks framework, firms utilize outside directors according to their behavioral characteristics rather than assumed roles, in which the moderating effects of personal connections are not as large as expected.

Keywords: Advisory, disciplinary, favorable, Korea, monitoring, outside directors.

1. INTRODUCTION

The literature on corporate governance has examined the effects of behaviors in top management team (TMT) on various firm activities (Bolino, Kacmar, Turnley, & Gilstrap, 2008; Westphal & Clement, 2008; Hilao, 2016; Widilestariningtyas & Karo, 2016), especially drawing on behavioral characteristics of outside directors (Carcello, Neal, Palmrose, & Scholz, 2011). Regarding selection of outside directors, they explain that those who focus on monitoring roles are less likely to be (re) appointed as outside director than those who seek for advisory roles, while their personal networks mitigate the negative influence of behavioral characteristics on appointment (Kim & Cannella, 2008; Westphal & Stern, 2007). The explanation indicates that firms prefer advisory roles of outside directors and consequently avoid their monitoring roles expected by agency theory.

However, the literature does not provide a persuasive answer to such a question: why CEO involvement in selecting board members has negative effects on audit committee effectiveness? According to the literature, it is because the preference of advisory roles to monitoring ones on the board cannot effectively guarantee the quality of financial reporting and auditing processes. Nevertheless the answer is not substantial, given that advisory roles are also necessary for effective decision-making (Hillman & Dalziel, 2003). The gap between theory and practice might be attributable to the ignorance of a more fundamental issue in a behavioral dimension. That is, the preference of firms for advisory roles to monitoring ones could imply that firms would like to avoid harsh behaviors of outside directors regardless of whether they assume monitoring or advisory roles. This indicates that even those who emphasize advisory roles might not be (re) appointed on the board, if their behaviors are disciplinary (acting in accordance with rules and enforcing corrective actions) rather than favorable (characterized by approval and support) for the firm or CEOs who make decisions for the firm. This alternative approach points out that firms or CEOs would like to ward off regulating and strict behaviors as far as possible and instead seek for agreeable and supportive characters. With this, we can understand more correctly why CEO involvement in selecting board members often leads to undesirable outcomes, such as fraudulent financial reporting.

For the empirical analysis of whether outside directors who show disciplinary behavioral characteristics are less likely to be reappointed on the board than those who display favorable behaviors, this study surveys 157 outside directors who worked on the board of South Korean (hereafter Korea) firms from 2000 to 2013. Governance mechanisms in Korean firms are characterized by family control (Yoo & Koh, 2014) and ownership-control discrepancy (Yoo & Sung, 2015). However, since the Asian financial crisis of 1997, the Korean government has put pressure on firms to consolidate board member's independence due to the prevalence of appropriation (Bae, Kang, & Kim, 2002). Accordingly, firms have increased outside directors. Nevertheless, not all outside directors who are expected to fulfill their monitoring roles independently are in fact actually independent, because many outside directors have personal connections to CEO or chairman of the company in various forms, such as similar academic backgrounds. The influence of personal connections on economic activities is particularly conspicuous in socio-politically centralized countries such as France and Korea (Yoo & Lee, 2009). The characteristic phenomenon above in Korea provides a valuable opportunity for analyzing the effects of behavioral characteristics of outside directors on their appointment in comparative terms of roles (monitoring vs. advisory) and behaviors (disciplinary vs. favorable).

This study is structured as follows. In the second section, the literature on outside directors and behavioral characteristics is reviewed and the hypotheses are developed. In the next two sections, the data and methodology are explained and the empirical outcomes are reported. Regarding empirical analysis, a logistic regression estimation is adopted to examine what behavioral characteristics affect the reappointment of outside directors. In the conclusion, theoretical and practical implications for effective monitoring are discussed under the contexts of behavioral characteristics and personal connections.

2. THE LITERATURE AND HYPOTHESES

Outside Directors and Expected Roles

Inappropriate resource allocation, such as expropriation, is prevalent owing to the lack of effective monitoring mechanisms (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998) and thus increases the need for shareholder-oriented mechanisms for desirable firm activities. Particularly, the family control in many countries, such as Korea, the sample case of this study, has been characterized by ownership-control discrepancy (Joh, 2003), low dividend (Faccio, Lang, & Young, 2001), and connections with the government (Yoo & Lee, 2009). All these traits could function against shareholders' interest. Enhanced monitoring mechanisms will discipline the improper behavior of managers and improve the capability of a firm to adjust its investment strategy according to changes in its business environment (Allen, 1993). For these reasons, outside directors, non-management members of the board (Johnson, Daily, & Ellstrand, 1996), have become a critical monitoring mechanism.

Even though some studies on the effects of outside directors on performance are not conclusive (Dalton, Daily, Ellstrand, & Johnson, 1998; Rhoades, Rechner, & Sundaramurthy, 2000), a body of literature has suggested that outside directors substantially affect a firm's decision making and performance, such as M&A decisions and Tobin's Q (for instance, Barnhart, Marr, & Rosenstein, 1994; Hillman, Nicholson, & Shropshire, 2008). Outside directors reconcile conflicts about strategic decision-making between managers, evaluate corporate agendas independent of corporate routines, and reduce potential agency problems. In addition, the role of outside directors in acquiring relevant expertise is critical, and their network ties expedite knowledge transfer (Westphal, Seidel, & Stewart, 2001). The expansion of a firm's boundaries through outside directors will help the firm enjoy timely fund-raising as well as improve its learning experience for innovation activity (Fried, Bruton, & Hisrich, 1998).

Outside Directors and Practical Behavioral Characteristics

However, the expected roles of outside directors, particularly monitoring ones, are not always fulfilled, owing to CEO involvement in the selection process (Carcello et al., 2011) or selective appointment of those who focus on advisory roles rather than monitoring ones (Westphal & Stern, 2007). Despite the 2002 Sarbanes-Oxley Act (SOX), which intends to consolidate the independence of board members' activities, personal connections, such as friendship or academic backgrounds, between CEOs and directors on board are still prevalent. The connections could limit the fulfillment of outside director's monitoring role. Here we face a question of why CEO involvement could limit outside director's independence. The literature explains that CEOs prefer outside director's advisory roles to monitoring tasks in appointment (Westphal & Stern, 2007). Therefore outside directors who constraint themselves from monitoring roles could keep their places on the board. This phenomenon consequently requires reconsideration of the theoretical expectation of agency theory for effective monitoring.

However, the literature has not fully considered fundamental characteristics in behavior: the preference of advisory roles to monitoring ones could imply that CEOs make distance from those who show harsh behaviors, regardless of whether they assume monitoring or advisory roles. An empirical analysis suggests that CEOs render personal and professional favors for security analysts who provide positive ratings for their firms, of which task is monitoring-oriented rather than advisory-oriented, while they retaliate on those who report negative information (Westphal & Clement, 2008). Furthermore, the analysis shows that analysts who aware of their peer's loss of favors from CEOs restrain themselves from downgrading the firms.

The findings help to reconsider two critical issues in outside director's behavioral characteristics. First, behavioral characteristics (disciplinary vs. favorable) could overwhelm the effects of expected roles (monitoring vs. advisory) in predicting who will be (re) appointed as outside director. CEOs might deliberately (re) appoint those who show favorable attitudes rather than who show harsh or disciplinary behaviors. In this case, advisory roles could not be more critical than monitoring roles in predicting who will be (re) appointed as outside director. Consequently, second, those who want to be (re) appointed as outside directors constrain themselves from doing harsh behaviors in fulfilling both monitoring and advisory roles. Recent empirical studies support the two issues: human beings are presupposed to show punitive reactions to negative behavior (Carpenter, Matthews, & Ong'ong'a, 2004; Friedman & Singh, 2004), which could be greater than expected by economic interests (Fehr & Gachter, 2000).

Furthermore, CEOs could get benefits by developing a reputation for sacking noncooperative exchange partners (outside directors in this study), because such retaliating action could help to promote favorable behaviors from noncooperative exchange partners in future (Figueredo, Tal, McNeil, & Guillen, 2004). Given that CEOs could feel that outside director's disciplinary behaviors are more likely to be noncooperative than helpful for their decision-making, this study raises the following:

Hypothesis 1a: Regarding general behavior, outside directors who show disciplinary characteristics rather than favorable ones will be more likely not to be reappointed to the board of a focal firm.

Hypothesis 1b: Regarding expected roles, such as monitoring or advisory, outside directors who show disciplinary characteristics rather than favorable ones will be more likely not to be reappointed to the board of a focal firm, regardless of whether they are performing monitoring or advisory roles.

Outside Directors and Social Networks

A concern regarding independence of outside directors is that some of them are grey directors, who have family relationships to the company or keep personal connections with CEOs (Klein, 1998). This indicates that the selection of outside directors, who show social networks with CEOs, could not perform their expected roles, e.g., monitoring tasks.

However, the negative effects of outside director's social connections on monitoring roles reveal another critical implication: their social connections could help them to maintain their seats on the board despite their disciplinary behaviors. Even though CEOs prefer favorable behaviors to monitoring roles and would retaliate on deviant behaviors from CEO's expectation, outside director's personal connections with CEOs could deter such retaliations as not to be reappointed.

Nevertheless, the influence of personal connections on reappointment of outside directors has limitations. First, initial appointment and reappointment rely on contrasting criteria. Initial appointment of outside directors depends on the expectations of CEOs, such as preferable roles and behaviors, in which personal connections make a contribution to the appointment (Kim & Cannella, 2008). In contrast, reappointment is based on experiences rather than expectations. Therefore personal connections which is evaluated as 'not met the expectations' could have limited influences on the reappointment. Second, as discussed for the first two hypotheses, human beings are negatively reacting to defection from expectations. More critically, the negative reciprocity can be amplified by different degree of motivation between punishment and reward. The motivation to punish harmful actions may be even stronger and more reliable than the motivation to reward helpful behavior (Charness & Rabin, 2000; Westphal & Clement, 2007: 879). The two things indicate that outside director's personal connections to CEOs have limitations to their reappointment to the board, when their behavioral characteristics are evaluated. Thus this study suggests the following:

Hypothesis 2a: Outside director's personal connections with CEOs or other members on the board will be positively related to their reappointment to the board of a focal firm.

Hypothesis 2b: Outside director's disciplinary behavior will decrease the positive relationship between outside director's personal connections with CEOs or other members on the board and their reappointment to the board of a focal firm.

3. METHODS

Sample and Data Collection

The data of this study are two kinds: survey and secondary disclosed financial data. For survey, outside directors in Korean listed firms were contacted through emails in 2013. 157 outside directors responded to the survey questionnaires. Table 1 presents their socio-demographic information. The financial data of the firms, at which the survey respondents have worked or been working, were also collected. Due to the different working period of the respondents, the period of the data is from 2000 to 2013. For the financial data, this study used the databases of NICE information service (KIS-value) and DART of Financial Supervisory Service. DART also provided personal information, such as age, gender, and academic backgrounds.

Table 1
Socio-demographic profile of outside directors in this study

Items	*Observable conditions N = 157 (%)*
Gender	
Female	2 (1.3)
Male	155 (98.7)
Age mean	56.2
30 ~ 39	3 (1.9)
40 ~ 49	14 (8.9)
50 ~ 59	92 (58.6)
60s ~	48 (30.6)
Elite undergraduate	
Yes	113 (72.0)
No	44 (28.0)
Industries	
Manufacturing	107 (68.2)
Service	28 (17.8)
Finance	15 (9.6)
Others	7 (4.5)

Measures

Dependent variable was measured by reappointment failure of outside directors to the board of a focal firm, when their term was due. The variable is set to 1 if a focal director did not appear on the board next year when his/her term was due and 0 otherwise. The data were hand-collected from DART.

Independent variables were measured by both survey and secondary disclosed financial data. First, outside director's behavioral characteristics were based on the survey data. The questionnaires were constructed through a face-to-face interview of three outside directors and three professors, and tested by a pilot survey. Three to six questions were asked to capture each variable of the concepts in different ways, because one question is not likely to fully capture a variable as intended. The survey questionnaires consisted of six parts: (1) *disciplinary monitoring* (6 items); (2) *favorable monitoring* (5 items); (3) *disciplinary advising* (5 items); (4) *favorable advising* (4 items); (5) *disciplinary general behavior* (3 items); and (6) *favorable general behavior* (3 items).

Second, outside director's personal connections were identified by the information collected from DART. They were coded dummy, set to 1 if they show connections and 0 otherwise in three categories: (1) *academic connections with CEO or chairman*; (2) *academic connections with executive directors on the board*; and (3) *academic connections with other outside directors on the board.*

Control variables were included according to the literature (Carcello et al., 2011; Westphal & Clement, 2008; Westphal & Stern, 2007). Such items were measured: *elite undergraduate degree, elite MBA degree, gender, age,* and *focal firm's Tobin's q, cash flow, auditing by big 4 firms, ROA, leverage, size, foreign ownership,* and *age.*

Analysis

A factor analysis was employed using principal components in order to conceptually find the integrated variables from the survey data, because three to six questions were asked to capture each variable of the concepts in different ways. Specifically, using principal-component factors extraction this study performed an exploratory factor analysis and rotated the factors with a varimax rotation (see Table 2). Validity of the selected factors and common method variance were also investigated (see Table 3).

To investigate the influence of the six explanatory variables, i.e., disciplinary monitoring, favorable monitoring, disciplinary advising, favorable advising, general favorable behavior, and general disciplinary behavior, on outside director's reappointment, this study used maximum-likelihood logistic regression analysis (see Table 5). This study also examined the moderating effects of outside director's behavioral characteristics on the relationship between their connections on the board and their reappointment to the board. To find out the moderating effects of behavioral characteristics, the interactions between connections and behavioral characteristics were analyzed. If their interactions are meaningful while each of them is still significant in affecting reappointment, it can be concluded that outside director's behavioral characteristics moderate the effects of their connections on reappointment (Baron & Kenny 1986). Table 5 presents the empirical outcomes.

4. RESULTS

The explanatory factor analysis produced more than 20 principal factors, but the six factors with eigenvalues over 1 were included in this study. Table 2 shows the selected factors and their eigenvalues, Cronbach's alpha, and questionnaire items. 'disciplinary monitoring,' 'favorable monitoring,' 'disciplinary general behavior,' 'disciplinary advising,' 'favorable general behavior,' and 'favorable advising' represented factor_1, factor_2, factor_3, factor_4, factor_5, and factor_6 respectively. As illustrated in Table 2, some factor loadings did not exceed 0.7, which were excluded from each variable (see the bold figures in Table 2).

Table 2
Factor loadings rotated

Variables	*Means*[a]	*factor_1 disciplinary monitoring*	*factor_2 favorable monitoring*	*factor_3 general disciplinary behavior*	*factor_4 disciplinary advising*	*factor_5 general favorable behavior*	*factor_6 favorable advising*	*Eigenvalue*	*Cronbach's alpha*
1. disciplinary monitoring 1	3.26	0.65						5.31	0.7144
2. disciplinary monitoring 2	3.81	0.77							
3. disciplinary monitoring 3	3.69	0.53							
4. disciplinary monitoring 4	2.90	0.43		0.51					
5. disciplinary monitoring 5	3.76	0.76							
6. disciplinary monitoring 6	3.86	0.70							
7. favorable monitoring 1	3.65		0.48				0.30	2.92	0.7250
8. favorable monitoring 2	3.75		0.62				0.38		
9. favorable monitoring 3	3.45		0.76						
10. favorable monitoring 4	3.73		0.80						
11. favorable monitoring 5	3.29		0.70						
12. disciplinary advising 1	3.99							2.08	0.8387
13. disciplinary advising 2	4.17				0.48				
14. disciplinary advising 3	2.92				0.74				
15. disciplinary advising 4	2.73				0.78				
16. disciplinary advising 5	3.66			0.47					
17. favorable adivising 1	3.55			-0.37	0.31		0.46	1.61	0.7008
18. favorable adivising 2	4.01						0.70		
19. favorable adivising 3	3.62						0.77		
20. favorable adivising 4	3.32								
21. disciplinary general behavior 1	2.34			0.77			0.33	1.47	0.7911
22. disciplinary general behavior 2	3.10			0.70					
23. disciplinary general behavior 3	2.79				0.60				
24. favorable general behavior 1	2.62					0.46		1.30	0.8838
25. favorable general behavior 2	2.73					0.89			
26. favorable general behavior 3	2.50					0.87			

[a] Mean values were computed on the basis of a 5-point Likert-type scale from 1 (strongly disagree) to 5 (strongly agree).

Table 3
Correlations of the common factors rotated

Variables	1	2	3	4	5	6
Factor_1	1					
Factor_2	.365	1				
Factor_3	–.148	–.132	1			
Factor_4	.233	.252	–.054	1		
Factor_5	.206	.130	–.244	.124	1	
Factor_6	–.160	–.105	.140	.219	–.059	1

A confirmatory factor analysis, run by STATA software (version 13.0), supported the inclusion of the six factors. The model with the six constructs displayed good fit, as shown by the CFI (Comparative Fix Index) value of .8562 and the RMSEA (Root Mean Square Error of Approximation) value of .0498. Furthermore, as Table 3 indicates, any interfactor correlation was not above the guided level of .65 (Tabachnick & Fidell 1996). Therefore, statistical support was achieved for the discriminant validity of the six constructs. For each of the six variables, a composite measure was constructed based on the factor loadings. To test the reliability and internal consistency of each of the six factors, Cronbach's alpha estimates were employed. The Cronbach's alpha estimates in Table 2 are above the standard of 0.7 (George & Mallery 2003).

Table 4 presents the means, standard deviations, and correlations of the variables in this study. Table 5 illustrates the results of the maximum-likelihood logistic regression. Hypotheses 1a and 1b propose that outside directors who show disciplinary behaviors rather than favorable ones will be more likely not to be reappointed to the board of a focal firm, regardless of whether they are performing monitoring or advisory roles. Models 2, 4, 5, and 6 in Table 5 partly support the hypotheses. Particularly, disciplinary general behavior ($p < 0.01$ or 0.05) and disciplinary advising ($p < 0.01$, 0.05 or 0.1) increase the probability of not being reappointed.

Hypotheses 2a and 2b state that outside director's personal connections with CEOs and other members on the board will be positively related to their reappointment to the board of a focal firm, while outside director's disciplinary behavior will decrease the positive relationship between outside director's personal connections and their reappointment to the board. Models 3 to 6 in Table 5 partly support the hypothesis ($p < 0.01$ or 0.05). Specifically, model 4 of Table 5 shows that outside director's academic connections with peer directors on the board decrease the probability of not being reappointed ($p < 0.05$). Regarding moderating effects of disciplinary behaviors, model 6 of Table 5 illustrates that disciplinary general behavior negatively moderates (decreases) the positive effects of outside director's connections with peer directors on their probability of reappointment ($p < 0.05$).

5. DISCUSSION AND CONCLUSION

The logistic regression analysis of outside directors in Korean firms shows that disciplinary characteristics in general behavior and advisory roles negatively affect their reappointment to the board. Also noteworthy is that disciplinary characteristics negatively moderate (decrease) the positive influence of outside director's personal connections on their reappointment. This study sheds light on a couple of theoretical and practical implications for the research on corporate governance and monitoring.

Table 4
Means, standard deviations, and correlations

Variables	*Ob.*	*Mean*	*S.Dev.*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
1. reappointment	157	.12	.32	1.00									
2. disciplinary monitoring	157	3.81	.75	0.13	1.00								
3. favorable monitoring	157	3.51	.64	–0.20*	–0.20*	1.00							
4. disciplinary advising	157	2.82	.75	0.06	0.26*	0.03	1.00						
5. favorable advising	157	2.61	.79	–0.18*	–0.08	0.26*	0.13	1.00					
6. disciplinary general behavior	157	3.82	.62	0.10	0.36*	–0.33*	0.16*	–0.12	1.00				
7. fvorable general behavior	157	2.71	.68	0.19*	0.15*	–0.22*	0.17*	0.05	0.24*	1.00			
8. peer connections on board	157	6.68	79.78	–0.03	0.05	0.12	–0.03	0.03	0.02	–0.02	1.00		
9. connection with exe. director	157	6.61	79.78	–0.02	0.05	0.12	–0.03	0.03	0.02	–0.02	1.00*	1.00	
10. connection with CEO/chair	157	6.64	79.78	–0.02	0.05	0.12	–0.03	0.03	0.02	–0.02	1.00*	1.00*	1.00
11. elite undergraduate	157	.71	.45	–0.02	0.06	–0.06	–0.10	0.02	0.03	–0.05	–0.12	–0.12	–0.12
12. elite MBA	157	1.50	.80	0.01	–0.06	–0.06	0.11	–0.02	–0.25*	–0.02	–0.14	–0.14	–0.14
13. gender	157	.98	.11	–0.13	0.09	0.01	0.01	0.01	0.14	–0.04	0.01	0.01	0.01
14. age	157	56.19	5.85	0.16*	0.14	–0.08	0.02	–0.12	0.02	0.01	–0.07	–0.07	–0.07
15. Tobin's q	155	1.26	.76	–0.03	0.05	0.01	0.05	0.01	0.20*	0.12	–0.02	–0.02	–0.02
16. cash flow/sales	143	.29	4.22	0.23*	–0.08	0.00	–0.12	–0.12	0.02	–0.11	–0.04	–0.03	–0.04
17. big4 audit firm	157	.42	.49	0.11	0.07	0.01	–0.01	0.14	0.09	0.05	–0.06	–0.06	–0.06
18. ROA	143	.04	.07	–0.02	0.06	0.20*	–0.06	0.11	0.15	0.01	0.11	0.10	–0.01
19. leverage	157	.46	.21	0.10	0.11	–0.03	0.05	–0.07	0.03	–0.06	0.16*	0.16*	0.16*
20. firm size	157	20.51	1.81	0.05	0.30*	–0.02	0.03	–0.13	0.32*	–0.08	0.11	0.11	0.11
21. foreing ownership	155	.15	.17	–0.01	0.17*	0.03	0.04	–0.01	0.23*	0.01	–0.01	–0.01	–0.01
22. firm age	157	3.25	.96	0.08	0.01	0.11	–0.07	–0.16*	–0.13	–0.15	0.10	0.10	0.10

Variables	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*	*21*	*22*
11. elite undergraduate	1.00											
12. elite MBA	0.23*	1.00										
13. gender	0.05	0.07	1.00									
14. age	–0.01	–0.05	0.03	1.00								
15. Tobin's q	–0.03	–0.03	0.00	–0.05	1.00							
16. cash flow/sales	–0.09	–0.01	0.01	0.03	–0.03	1.00						
17. big4 audit firm	0.04	–0.00	–0.13	–0.08	0.09	0.11	1.00					
18. ROA	0.11	–0.01	–0.05	–0.07	0.34*	0.01	0.07	1.00				
19. leverage	–0.1	–0.01	0.15	0.09	–0.02	0.03	–0.10	–0.26*	1.00			
20. firm size	0.1164	–0.04	0.13	0.23*	0.06	0.13	0.15*	0.25*	0.27*	1.00		
21. foreing ownership	0.11	–0.05	–0.01	0.12	0.37*	0.11	0.27*	0.41*	–0.19*	0.63*	1.00	
22. firm age	–0.13	–0.08	–0.02	0.09	–0.12	0.06	–0.19*	–0.04	0.17*	–0.01	–0.15*	1.00

Note: $^{*}p < 0.05$.

Table 5
Results of logistic regression of outside director's reappointment failure

Dependent variable	*Reappointment failure*					
Explanatory variables	*Model1*	*Model2*	*Model3*	*Model4*	*Model5*	*Model6*
disciplinary monitoring		–0.018		0.040	–0.061	0.095
		(0.458)		(0.468)	(0.451)	(0.469)
favorable monitoring		–0.057		–0.084	–0.255	0.385
		(0.754)		(0.776)	(0.832)	(1.168)
disciplinary advising		1.015**		0.972*	1.421*	1.134+
		(0.371)		(0.427)	(0.666)	(0.669)
favorable advising		–0.060		0.072	–0.047	–0.133
		(0.616)		(0.664)	(0.666)	(0.781)
disciplinary general behavior		1.397*		1.354**	1.337**	0.810
		(0.585)		(0.490)	(0.483)	(0.519)
favorable general behavior		–1.478		–1.516	–1.579	–1.845
		(1.006)		(1.069)	(1.022)	(1.423)
peer connections on board			–0.778	–1.413*	1.412	–13.891**
			(0.824)	(0.658)	(2.638)	(5.289)
connection with exe. director			–0.185	0.040	0.225	–0.065
			(0.700)	(0.712)	(0.718)	(0.830)
connection with CEO/chairman			1.052	1.202	1.287	1.153
			(0.702)	(0.798)	(0.839)	(0.828)
disciplinary advising * peer connection					–0.982	
					(0.880)	
disciplinary general behavior * peer connection						3.943*
						(1.596)
elite undergraduate	0.532	1.692*	0.691	1.855*	2.170**	1.914*
	(0.667)	(0.808)	(0.703)	(0.806)	(0.733)	(0.762)
elite MBA	0.253	0.007	0.248	0.033	–0.047	–0.053
	(0.370)	(0.413)	(0.348)	(0.478)	(0.480)	(0.445)
gender	–3.024*	–2.597+	–3.186*	–3.149+	–3.178+	–3.491*
	(1.450)	(1.527)	(1.474)	(1.646)	(1.645)	(1.770)
age	0.170**	0.208**	0.165*	0.195**	0.206**	0.220*
	(0.061)	(0.066)	(0.069)	(0.068)	(0.071)	(0.093)
Tobin's q	0.163	0.119	0.225	0.071	0.110	0.275
	(0.439)	(0.470)	(0.474)	(0.533)	(0.570)	(0.586)
cash flow/sales	5.043+	5.515	5.494+	5.770	5.548	7.862+
	(2.836)	(3.917)	(2.982)	(4.406)	(4.468)	(4.239)
big4 audit firm	1.470*	2.608*	1.540*	2.528*	2.639**	3.287*
	(0.574)	(1.100)	(0.605)	(1.050)	(1.016)	(1.647)
ROA	1.214	3.475	2.627	4.726	5.351	5.402
	(3.353)	(4.562)	(3.660)	(4.157)	(4.369)	(5.143)

Dependent variable	*Reappointment failure*					
Explanatory variables	*Model1*	*Model2*	*Model3*	*Model4*	*Model5*	*Model6*
leverage	2.871+	2.933	2.845+	3.238	3.024	3.484
	(1.670)	(2.226)	(1.726)	(2.487)	(2.507)	(2.910)
firm size	–0.067	–0.213	–0.008	–0.093	–0.073	0.115
	(0.262)	(0.296)	(0.296)	(0.326)	(0.314)	(0.328)
foreign ownership	–2.858	–3.557	–3.555	–4.590	–5.288	–5.805
	(3.540)	(4.271)	(3.349)	(4.793)	(4.946)	(4.732)
firm age	0.503	0.639	0.640	0.689	0.708	0.833+
	(0.452)	(0.626)	(0.499)	(0.652)	(0.647)	(0.496)
constant	–12.589*	–16.794*	–14.123*	–18.606**	–19.539**	–24.537**
	(5.761)	(7.177)	(5.993)	(7.217)	(7.485)	(8.520)
observations	141	141	141	141	141	141
Wald chi2	30.44**	40.03**	40.40***	56.29***	53.34***	54.52***
pseudo R2	.2259	.4140	.2513	.4395	.4467	.4972

Note: Robust standard errors in parentheses; + $p < 0.1$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$.

In theoretical aspects, this study advances the existing studies on the behavioral characteristics of outside directors. While the literature indicates the importance of favorable behaviors on their reappointment to the board, it has only identified the favorable characteristics according to specific roles in corporate governance, i.e., monitoring vs. advisory. However, as denoted by the behavioral studies, human beings tend to positively respond to favor rendering (Ellis, West, Ryan, & DeShon, 2002; Gordon, 1996). Therefore this study has explored outside director's behavioral characteristics according to their disciplinary versus favorable ones, complementing the literature which is based on their monitoring and advisory roles. This study thereby suggests a comprehensive framework to identify outside director's behavioral characteristics. Beyond the boundaries of expected roles on the board, what matters in predicting outside director's reappointment to the board is their favorable behaviors in performing the expected roles. This highlights that even those who emphasize advisory roles might not be reappointed to the board if their behavioral characteristics are disciplinary rather than favorable, regardless of whether they are assuming monitoring or advisory roles.

Further, this study has examined the moderating effects of outside director's behavioral characteristics on the relationship between their personal connections on the board, such as academic connections with CEO or executive directors, and their reappointment to the board. The literature on social networks explains that outside director's personal connections affect their appointment to the board (Kim & Cannella, 2008). However the extant studies have not answered to the relative effects between social networks and behavioral characteristics on the appointment of outside directors. The results of this study reveal that the effects of social networks, compared with those of behavioral characteristics such as disciplinary and favorable, are not as critical as expected in explaining the reappointment of outside directors to the board. Even the positive influence of outside director's connections with peer directors on the board on their reappointment is negatively moderated (decreases) by their disciplinary behaviors. This finding indicates that social networks are critical when making a decision for an expected role (monitoring role in this study), but not so much influential when making a decision by an experienced outcome (disciplinary behavior in this study).

With regard to practical implications, this study raises a fresh concern that for full-fledged implementation of monitoring tasks in corporate governance, the suggestions from agency theory and auditing fields have still focused on the institutional dimension, i.e., control power such as CEO's involvement in the selection process (e.g., see Carcello et al., 2011). Although the results of this study uphold the suggestions of the literature, they also demonstrate that the consideration of human being's behavioral characteristics could complement the power (political economic influence of CEO) for effective monitoring. This finding provides a critical implication for improving the quality of monitoring. To improve the independence of outside directors, CEO power in selection and reappointment process should be constrained. Furthermore, given that outside directors might feel a pressure and thus voluntarily align their behaviors to the appetite of their appointers, the diversity of interests outside directors represent should be institutionalized in corporate governance system. This indicates that diverse groups, in addition to CEO, should assume the power of appointment of outside directors. For instance, if an outside director is appointed by employees or consumer groups, his/her independence will not be significantly influenced by CEO, which enhances their independence for effective monitoring.

Limitations and Future Research

This study, however, has some limitations: the limited number of respondents in the survey. To generalize the practical implications of this study, it would be useful to employ a comparative study across countries. Given that outside director's personal connections can be also found in other areas in addition to academic backgrounds, membership in professional associations for instance should be included in the analysis.

Acknowledgement

This work was supported by the Ministry of Education of the Republic of Korea and the National Research Foundation of Korea (NRF-2016S1A5A2A01023205) and by Hankuk University of Foreign Studies Research Fund of 2016-2017.

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