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THE INFLUENCE OF CORPORATE BOARD ON FORMING
FIRM-SPECIFIC ASSETS: EVIDENCE FROM JAPAN

Abstract:
In this study, I have examined the relationship between the corporate governance structure and corporate strategy. While many research works have successfully revealed coherence between board structure and environmental elements, a few studies eliminate the effect of corporate governance on corporate strategy and strategic choice. Previous studies around corporate governance and strategy have focused mainly on the influence of shareholders on corporate diversification and R&D policy, as well as the ownership structure and board’s risk attitude on strategic choice. However, previous studies failed to reveal the effect of corporate governance on accumulating distinctive capabilities that would be the source of competitive advantage.

The rent appropriation perspective is applied in this study to consider the effect of corporate governance on accumulating firm-specific assets. The rent appropriation perspective advocated by Coff (2010) gives hints on considering this problem. Dynamic capabilities orchestrate and reconfigure the existing resources into new markets and coordinate appropriate distribution of resources into production factors. The consideration and discretion of the corporate board can lead to changing the allocation of these distinctive resources and accumulate distinctive capabilities. In other words, the configuration of corporate governance would discipline and stimulate innovation in the corporation. Corporate governance would be appropriate when this configuration fits for environmental demand.

I have considered the strategic implications of corporate governance by studying recent corporate governance reforms in Japanese electronics corporations that have struggled in sluggish performance for many years. Using quantitative methods, this study has examined the interaction effects of ownership structure and growth opportunities on R&D investment mediated by the corporate board. It also explores the influence of the corporate board on accumulating firm-specific assets by employing firm-specific assets as variables.

In this study, I have successfully revealed the mediating role of the corporate board in allocating corporate rent to stakeholders, which creates distinctive capability. Further, this study has found that coherent patterns among board governance structure and ownership characteristics and product architecture do exist.

Keywords:
Corporate Governance, Board of Director, Strategy, Firm-specific assets

JEL Classification: M10, D23, M16

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