

Revisiting the Asian Financial Crisis: Is Building Political Ties with Emerging Political Elites Beneficial during a Crisis?*

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Abstract

Purpose – Drawing on relational institutional theory, we explored how demographic similarity between board members of a firm and newly emerged political elites led to firms' increased financial resource acquisition such as leverage ratio and decreased export intensity amidst the Asian financial crisis. We also studied how a firm's leverage ratio and export intensity can further affect firm profitability and financial credit rating.

Design/methodology – We revisited and explored a unique, unprecedented crisis that affected most Korean firms: the Asian financial crisis that coincided with a governmental shift from a conservative to a liberal party. We collected demographic information from 432 listed Korean firms' board members and 43 political elites of the Blue House from 1998–2000 to create a demographic similarity measurement. We collected firms' financial information, built panel data, and used ordinary least squares regression to test our theory.

Findings – Our results showed that demographic similarity between a firm's directors and newly emerged politicians had a positive association with a firm's leverage ratio but a negative association with a firm's export intensity. A firm's leverage ratio had a negative relationship with firm performance measured by firm profitability and financial credit rating. A firm's export intensity showed a positive effect on firm performance.

Originality/value – We highlighted that during an economic crisis that coincided with a governmental shift and change of leading political actors, firms exerted efforts to survey the environment and build new external stakeholder relationships to cope with the changing landscape. We proposed that in an emerging market like Korea where low levels of trust and favoritism are prevalent across society, one of the relational institutional strategies that firms can employ is the selection of directors with similar demographic characteristics to political elites based on factors including birthplace and school affiliations. We examined the efforts of firms to build political networks with newly empowered political elites during a financial crisis, and the consequences of establishing such networks. We highlighted that during a financial crisis, the demographic similarity between a firm's board members and newly emerged politicians can provide firms with access to financial resources but can also result in poor management and reduced effort to enhance its international competitiveness.

Keywords: Emerging Market, Export Intensity, Firm Performance, Financial Crisis, Political Connection

JEL Classifications: C33, G32, M16

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1. Introduction

Firms operate in ever-changing economic and political environments. They navigate their sociopolitical and economic environments, and make strategic decisions to overcome difficulties when uncertainties arise from external shocks (Hillman and Hitt, 1999; Lounsbury and Glynn, 2001; Marquis and Raynard, 2015; Marquis and Qian, 2014; MellahI et al., 2015). A financial crisis is an external shock that can pose significant challenges to firm operations. Prior research has suggested that a financial crisis affects firms in two main domains: capital market cash flows and product market sales (Ma and Meng, 2009). During a financial crisis, financial institutions, such as banks, enact stringent credit policies (He et al., 2013) and reduce loans to minimize risks. As a result, firms face a short supply of financial resources to cope with instability in capital markets. Because the purchasing power of customers decreases during a crisis (Tridico, 2012), firms compete fiercely for limited resources and customers in the domestic product market (Arogyaswamy et al., 1995). Consequently, access to sufficient financial resources in capital markets and maintaining a competitive edge in the product market are important for firms during a crisis. These tasks are even more challenging for firms operating in emerging markets, where capital and product markets are relatively less developed (Marquis and Raynard, 2015).

Emerging markets often lack of formal institutions governing capital and product market transactions (Marquis and Qian, 2014). One of the strategies that firms employ to maintain their competitive position is a relational institutional strategy to manage their dependency on external stakeholders (Kostova and Roth, 2002; Marquis and Raynard, 2015; Peng et al., 2009; Zhu and Chung, 2014). Governments are important actors because they often control critical resources in capital and product markets. The relationship created between firms and their important external stakeholders, such as the government, has recently drawn substantial attention from scholars (e.g., Hillman et al., 2004; Sun et al., 2012; Zhu and Chung, 2014). In an emerging market, firms can enhance their legitimacy and secure resources (Marquis and Raynard, 2015) by managing political connections (Chung, 2006; Faccio et al., 2006; Hillman et al., 2004; Johnson and Mitton, 2003; Li and Zhang, 2007; Peng and Luo, 2000; Zheng et al., 2017; Zhu and Chung, 2014).

A limited number of studies have examined how firms' efforts in building political connections can assist them in acquiring critical resources, such as loans (Tsai et al., 2016) and subsidies, (Johnson and Mitton, 2003) during an economic crisis, while others examined how these relational institutional strategies could negatively affect firms' management through politicians' misappropriation (Xu et al., 2020). Although the positive and negative effects of political connections to firms have been documented, prior research assumed that political connections are often stable. However, a financial crisis can coincide with a change in the governing political party in a democratic country such as South Korea. A firm's prior political connections may lose its political power when a change of government occurs. Little research has been conducted on how firms adopt relational institutional strategies to cope with market deficiencies when a governmental transition creates uncertainty for firms amid an economic crisis.

To fill these research gaps, we revisited an unprecedented crisis that affected most Korean firms: the Asian financial crisis of 1997–2001. We highlighted that the crisis coincided with a governmental change in Korea from a conservative to a liberal party in early 1998. This unique research context allowed us to evaluate how firms developed political connections

with emerging political elites of the new government, such as the incoming president and presidential staff, to overcome instability in both capital and product markets. We also examined how capital and product markets assisted by political connections affected firm performance.

Drawing on the perspective of relational institutional strategy (Marquis and Raynard, 2015), we argued that a firm's strategic alignment of similar demographics between its board members and newly emerged political elites plays an important role in dealing with uncertainties that arise from external shocks. This strategy enhanced the legitimacy of firms and provided favorable treatment from the government to firms in capital markets, thereby increasing the leverage ratio of such firms. However, politically connected firms were likely to leverage political power to compete in the domestic market at the expense of competitiveness building through firm internationalization, which resulted in low export intensity. Lastly, we investigated how a firm's leverage ratio and export intensity affected firm performance such as return on equity (ROE) and financial credit rating differently during a financial crisis.

2. Literature Review and Theoretical Development

2.1. Relational Institutional Strategies, Political Connections, and Consequences

Relational institutional strategies refer to “networking efforts to cultivate and manage dependency relationships with the government and key stakeholder groups” (Marquis and Raynard, 2015: 294). Recently, scholarly research has increasingly focused on the relational institutional strategies of firms in emerging markets. In emerging markets, a firm's political connections are widely considered to be a type of relational institutional strategy because they serve as a method for securing legitimacy and resources from key stakeholders in sociopolitical arenas (Hillman et al., 1999; Hoskisson et al., 2013; Khanna et al., 2005). Studies in management and financial discipline have demonstrated that politically connected firms receive preferential treatment from the government (Sun et al., 2012). This favoritism results in an improved financial and strategic performance of firms in several emerging countries (Hillman et al., 2004), which include the following: 1) the high market share and returns on assets of Chinese firms (Peng and Luo, 2000), the various financial performance of new ventures (Li and Zhang, 2007), firms exit through sell-offs (Zheng et al., 2017), and entry into a deregulated industry by business groups (Chung, 2006); 2) subsidy gains of Malaysian firms during the financial crisis (Johnson and Mitton, 2003); and 3) high profitability of Vietnamese family firms (Dinh et al., 2021).

In this body of research, scholarly attention focused not only on the positive effects of political ties of firms in emerging markets but also on the adverse influence of political connections on the performance of firms (Leung and Sharma, 2021). In emerging markets where non-market forces dominate, the negative effects of political ties include the political authority's enforcement of regulations against firms for violations of securities laws (Leung and Sharma, 2021), high interest rates charged by banks on debt (Liedong and Rajwani, 2018), and politically connected outside directors' ineffective monitoring of managerial decision making (Shi et al., 2018). Additional negative effects of political ties in emerging markets include low acquisition success of firms due to relations with a rival government (Yan and

Chang, 2018), rent appropriation of firm wealth by blockholders or political institutions (Sun et al., 2016; Sun et al., 2011), and adverse effects of political embeddedness with a stable local regime on multinational firms' performances (Sun et al., 2010). Even though the positive and negative effects of political connections to firms have been widely studied, how firms manage political connections during an economic crisis at the same time as new politicians are empowered following a presidential election has yet to be explored. How a firm's strategic decision to connect with important external forces such as newly emerged politicians, particularly during a financial crisis, can affect a firm's performance is also not yet fully understood.

To fill this research gap, we revisited the Asian financial crisis of 1997–2001, which was a disruptive economic shock to firms in Korea. To evaluate the relational institutional strategy of firms for building political connections, we highlighted that in Korea, the financial crisis coincided with the governmental transition from the Kim Young Sam government to the Kim Dae Jung government in 1998. This unique context, which presented both economic and political uncertainties, allowed us to analyze the institutional strategic action of firms in establishing political ties by aligning the demographical characteristics of board members, such as birthplace and school affiliation, with those of emerging political elites of the incoming government.

In this paper, we examined how firms connecting to newly emerged political elites enabled access to financial resources to alleviate debt but led to the reduced willingness of firms to restore and develop their competitiveness. Selecting board members who are similar demographically to emerging political elites was one of the relational institutional strategies that firms could employ to deal with economic instability. We further examined how the financial privileges attained by firms through political ties and efforts to reestablish their competitiveness through internationalization affected firm performance during times of financial crisis and political change. In the following sections, we will discuss how instability resulting from the Asian financial crisis and governmental change simultaneously affected Korean firms, and how associations based on regional origin and school affiliation are related to political network building in Korea.

2.2. Asian Financial Crisis and Change of Governing Political Party

We used the instability created by the Asian financial crisis (1997–2001) as the context to empirically demonstrate our theory. The crisis erupted mainly because of Korean firms' low transparency (Chang et al., 2007), poor corporate governance structure (Kim and Lee, 2003; Mitton, 2002), and moral hazards (Hahm and Mishkin, 2000), which lead to rapid capital outflow from Korea. The financial crisis brought considerable uncertainties and risks to Korean firms, and quickly caused the bankruptcy of dominant Korean firms. The financial crisis adversely affected Korea because it created a sharp drop in domestic demand and employment rates, as well as the depreciation of the Korean currency (Lee et al., 2009). As a result, firms needed to mitigate these unprecedented damages and recover to pre-financial crisis levels.

When Korean firms entered the cold winter of 1997–1998, they experienced a governmental change from a conservative to a liberal party for the first time. For several decades before the governmental transition in 1998, many Korean firms built political networks with previous authoritarian regimes and conservative parties (Siegel, 2007). Those governments pursued rapid industrialization and implemented business-friendly policies. In the course of

industrialization, Korean firms and the government established a symbiotic relationship. Adding to the financial crisis, the governmental change in 1998 was an additional unique event that firms had to manage because it disrupted Korean firms' prior political connections.

In Korea, political power is highly concentrated in political elites, such as the president and his or her staff. Informal ties to these elites can enable firms to effectively adapt to abnormal and extraordinary situations during times of crisis caused by external disruptive events. After the 1998 presidential election, when the governing party changed, firms explored methods to build political connections with newly emerging political elites. These elites comprise a cohesive community through common socialization experiences, including attendance at elite prep schools and universities, membership in social clubs and policymaking organizations, as well as social and kinship ties (Domhoff, 2017). In the Korean context, demographic similarity based on school and birthplace ties between economic actors and political elites plays an important role in establishing business networks and economic connections (Siegel, 2007).

2.3. Building Political Connections in Korea

Common educational backgrounds and regional affiliations constitute the fundamental basis for sociopolitical network formation in Korea (Siegel, 2007). In a low-trust society like Korea (Fukuyama, 2000), individuals attempt to create informal networks based on birthplace or school affiliation because those in these networks are expected to be loyal. In Korea, people largely acquire regional history and learn personal values from networks based on the region they are born in and the regional schools they attended from childhood (Yu, 1990). Because people provide preferential treatment to people in these networks and require faithful behavior, they strengthen the network loyalty (Yu, 1990). Thus, favoritism, which is a longstanding practice in Korea, continues to be prevalent within these informal social ties. Accordingly, firms seek to gain access to social power by utilizing the informal social ties of directors based on demographic characteristics, such as kin, regional origin, or school affiliation.

When a governmental transition occurs and new political elites emerge, firms must react. In Korea, when faced with such change, firms are likely to investigate whether the educational background, kinship, and regional affiliation of potential new board members sufficiently match those of the new political elites to build informal social connections. According to Jang Hoon (2013), Korea's modern presidential system developed following an authoritarian legacy characterized by a powerful executive branch. In the current system, the head of state and the top executive body of Korea wield considerable power over the bureaucracy. The authority of the executive branch is not effectively balanced or checked by the legislature or the judiciary. The president also exerts control over powerful agencies such as state prosecution. Hence, to cultivate potential links with powerful politicians, selecting board member candidates with similar demographic backgrounds to emerging political elites belonging to the executive branch would be preferable.

3. Hypotheses Building

3.1. Building Political Ties with Emerging Political Elites during a

Financial Crisis and Its Consequences

When critical events, such as the financial crisis and governmental shifts, occur simultaneously, firms may explore how they can build political ties with newly emerged political elites to secure financial resources including funds to alleviate debt. In emerging markets characterized by centralized state power, firms that are politically embedded with the government can receive access to preferred resources (Marguis and Raynard, 2015; Marquis and Qian, 2014; Zhu and Chung, 2014). For example, several studies showed that politically linked firms enjoyed greater access to credit in Pakistan (Saeed et al., 2015) and Brazil (Claessens et al., 2008). In Korea, favoritism based on birthplace and school affiliation is one of the key mechanisms used to form informal networks (Siegel, 2007). Thus, selecting board members who are similar demographically to emerging political elites of the new government is one of the most effective relational institutional strategies that firms can utilize. These board members would be expected to be a potential link to a new executive branch. In the Korean context, the relational institutional strategy of connecting firms to key institutional actors can secure supplies of critical or scarce resources (Pfeffer and Salancik, 1978).

Among various emerging political elites, the incoming president and chiefs of staff in the Blue House (the former official presidential office and residence) would be the optimal targets for firms to establish informal political networking connections. As the principal political advisor to the president, the chief of staff in the Blue House processes important information on public issues and advises the president. This input has a direct influence on the president's formal and informal decision-making in Korea, where the power of the president is absolute. Both the president and the chief of staff have enormous power to influence the trajectory of organizations in the country. During a financial crisis, capital markets can experience severe shortages of available credit (Xu et al., 2020). Financial institutions become very cautious when providing loans to firms (He et al., 2013). However, firms that successfully build ties with political elites may receive direct financial support from the state (Faccio, 2006). Alternatively, the state and private banks may be forced to extend credit to firms or troubled lenders might receive offsetting benefits, such as implicit confirmation that they will be bailed out (Faccio, 2006). Previously published studies have shown that ties with influential politicians will increase the access of firms to debt financing in emerging markets (Sun, 2019).

H1: The demographic similarity between board members of a firm and emerging political elites is positively related to a firm's leverage ratio.

During the Asian financial crisis, significant competitive pressure was placed on Korean firms because of a marked drop in domestic demand and severe competition in local markets but the depreciation of the Korean currency provided Korean firms with the opportunity to increase their export intensity and mitigate losses (Lee et al., 2009). However, not all firms were incentivized to expand into foreign markets to compensate for shrinking domestic demand (Lee et al., 2009). Exports are one of the most prevalent forms of internationalization strategies (Salomon and Shaver, 2005) that can enhance a firm's competitiveness (Bartlett and Ghoshal, 1998). To effectively export goods or services, a significant amount of knowledge on local competitors, suppliers, regulators, culture (He and Wei, 2011), and prior experience in export activities (Roberts and Tybout, 1997) are necessary to tailor products to the needs of local consumers and develop associated technologies (Buckley and Casson, 1976).

Among emerging market firms, those that strategically select board members who are demographically similar to emerging political elites to achieve favorable treatment during crises may end up intensifying poor corporate governance (Bliss and Gul, 2012). The selection criteria for board members of emerging market firms are less concerned with expertise to overcome adversity, knowledge to make informed judgments, or capability to provide expert advice to executives, and are more concerned with networking possibilities. Specifically, in our research context, they would lack prior experience in exports and cannot evaluate the benefits of export during crises. Indeed, in practice, these politically connected directors have limited managerial experience (Piotroski and Zhang, 2014). The resulting weak corporate governance can result in the poor evaluation of firm performance, poor monitoring of management, and flawed decision-making concerning enhancing firm competitiveness. In addition, firms that rely on relational institutional strategies, such as building political connections, are unlikely to pay attention to internal management (Xu et al., 2020) and often fail to choose strategies that improve timely operations.

Firms with emerging powerful elites as stakeholders tend to leverage political connections in distressing situations to maintain domestic product market share and enjoy favorable currency rates but consequently have decreased incentives to increase export levels to compensate for substantially diminishing domestic demand. Moreover, a new government also encounters heightened pressure to demonstrate political achievements, such as maintaining employment rates and the populations' standard of living. New governments may transfer this pressure to their connected firms to maintain large-scale operations in the domestic market, in effect obstructing firms from making optimum exporting decisions (Xu et al., 2020). In sum, firms that secured political connections with emerging political elites tend to be conservative and seek immediate benefit from political networks rather than use the opportunity to venture into foreign markets and take risks by increasing exports during a financial crisis.

H2: The demographic similarity between board members of a firm and emerging political elites is negatively related to a firm's export intensity.

3.2. Effects of the Leverage Ratio and Export Intensity on Firm Performance

Why some firms sustain their competitiveness and others suffer during financial crises is a query that has attracted the attention of previous researchers (Lee et al., 2009). Firms that utilize their political connections and increase debt levels during times of financial crisis may encounter financial distress and loss of competitiveness (Faccio et al., 2006), and may also suffer from an increased default barrier (Ben et al., 2021). Furthermore, debt financing might coincide with firms' bribery of political connections and associated corruption (Leung and Sharma, 2021). Importantly, as firms use resources to build political connections and become dependent on favorable treatment from the state, they become less likely to have the additional resources required to restore and improve their competitiveness during the crisis. Several prior studies have empirically shown that firms in emerging countries with high leverage ratios tend to financially perform worse during financial crises (e.g. Kim and Lee, 2003; Tan, 2012).

Korean firms that obtained preferential treatment from the government during the

financial crisis may disregard the transparency required by the International Monetary Fund (IMF) as way of monitoring conducted by outside directors of firms (Chang et al., 2007). These firms are given funds to alleviate debt, and thus, are less likely to attempt to address moral hazards and adverse selection issues. These firms are also more likely to conceal the source of their improperly obtained funds and misreport their financial performance (Guedhami et al., 2014). These actions will increase asymmetric information between investors and firms, leading external audiences to evaluate these firms as risky investments. (Bliss and Gul, 2012). Consequently, firms that leveraged their political connections and used debt financing during the financial crisis are highly likely to receive low financial credit ratings by credit rating agencies.

H3: A firm's leverage ratio is negatively related to firm performance including profitability and financial credit rating.

Firms that venture into foreign markets during a crisis can compensate for losses arising from disruptive external events that could result in Korean currency depreciation and domestic market shrinkage (Lee et al., 2009). These firms in emerging markets can enhance their competitiveness because they learn to tailor their products to foreign consumers' needs (Fafchamps et al., 2008), acquire advanced product knowledge and technology from foreign partners or markets (Park, Yang, Shi, and Jiang 2010), and improve production technology to meet international standards (Verhoogen, 2008). Firms that operate internationally during a financial crisis are more resilient and exhibit increased financial performance compared to firms that operate exclusively domestically (Ben Jabeur et al., 2021; Görg and Spaliara, 2014). For instance, Park et al. (2010) demonstrated that increased exports of Chinese firms during the Asian financial crisis led to enhanced profitability and sales growth. Firms that explored foreign markets during the financial crisis secured foreign capital (Baek et al., 2004), improved financial soundness, and received high financial credit ratings.

H4: A firm's export intensity is positively related to firm performance including profitability and financial credit rating.

4. Methods

4.1. Sample and Data

We chose 1998–2001 as our sampling period. During this period, Korean firms faced a significant disruptive financial crisis that coincided with an unprecedented political event in Korea, the first governmental transition from a conservative to a liberal party. The Asian financial crisis erupted in 1997 and Korea officially completed its IMF supervision system in the middle of 2001. Thus, the aforementioned sampling period allowed us to empirically examine the relational institutional strategy of firms to align demographic similarity of board members to those of the newly emerged political elites after the 1997 presidential election, and the resulting consequences.

We used the Directory of Listed Corporations to acquire demographic information on board members from 1998 to 2001. These data provided detailed demographic information

on executives of almost all listed companies in Korea, including their names, position, type of work, date of birth, hometown, educational background (high school, university, master's, and Ph.D.), previously held positions, and more. We used Power Elites in DJ Government, published by the Mae-Il Business Newspaper, to collect demographic information on emerging social elites during the 1998–2001 period. This book included information on the positions, dates of birth, hometowns, educational backgrounds, etc. In case of missing demographic information, we reviewed the Joong-Ang daily news personal information database in addition to various internet sources. Using these databases, we traced the changes in the directors of firms and the changes in the Blue House's staff from 1998–2001. For general and financial information on listed companies from 1998–2001, we used the KISVALUE database. In the study, we only considered manufacturing firms. From 1998 to 2001, there were 543 listed firms in our sample. Among them, 111 firms were excluded as their financial or demographical data were missing or they were delisted, merged, or bankrupted before 2001, leaving 432 firms in the sample. In sum, the final dataset used 1,296 firm-year observations.

4.2. Measurement and Model Specification

4.2.1. *Dependent and Independent Variables*

We divided total loans by total equity to quantify the leverage ratio of a firm. Export intensity was measured as the ratio of export sales to total sales and was expressed in percentage terms. We followed Westphal and Zajac (1995) and used Blau's (1977) index to measure demographic similarity between emerging political elites and a firm's directors including inside and outside directors. This measurement was defined as $\sum_{i=1}^N P_i^2$, where P_i is the proportion of board member political dyads sharing the i th category. Categorical measurements included hometown (province and city) and educational background (high school and university). Next, we coded "1" if the directors of a subject firm shared the same demographic category with new members of the Blue House. These values were summed and divided by the number of board members. Lastly, these similarity values were squared and aggregated. For newly emerged political elites, we counted high-ranking presidential officials, including 38 presidential secretaries, 4 chief presidential secretaries, and the president. ROE was used to measure firm profitability, calculated as shareholders' equity divided by the net income of a firm. Financial credit rating was obtained from Korea Investors Service, one of the most reliable credit rating agencies in Korea. According to Kim Min-Seo and Oh Joon-Hwan (2013), a financial score model was used to calculate the score of the rating, which ranged from 1 to 100. The factors used for the financial score model included firm profitability, growth potential, activity, and cash flow. A higher score indicated a lower possibility of firm bankruptcy, which was divided by 10.

4.2.2. *Control Variables*

We controlled several corporate governance attributes. CEO and board members' education level was defined as the proportion of board members who had a bachelor's degree or higher. To measure CEO and board members' foreign education ratio, we divided the total number of CEOs or directors who graduated from foreign colleges by the total number of CEOs or directors. The term CEO elite universities was used to indicate/describe CEOs who

attended an elite university in Korea. If a firm's representative CEO graduated from an elite university, it was coded as "1", otherwise it was coded "0". Following the Korean university rankings of 1997, we selected Seoul National University, Korea University, Yonsei University, Korea Advanced Institute of Science and Technology, and Pohang University of Science and Technology as the elite schools. Board member elite universities ratio was quantified as the total number of board members from elite universities divided by the total number of directors. Board size was defined as the total number of directors on a firm's board. We controlled for the independent director ratio, which was defined as the total number of outside board members divided by the total number of directors on a board. We controlled for profitability, firm age, firm size, government ownership ratio, and debt ratio to control for firm characteristics. Firm age was defined as the years from establishment to time t , and firm size was measured by the log of the revenue of a firm. Government ownership ratio was quantitated as the percentage of a firm's equity that was owned by the government, and we divided a firm's total liabilities by its shareholder equity to measure each firm's debt ratio. To control for industry characteristics, we controlled for industry concentration. We used the Herfindahl-Hirschman Index, which was generated by summing the squares of the market shares of all firms in an industry, to measure industry concentration.

4.2.3. Model Specification

We treated the Asian financial crisis and the presidential election as external shocks to public firms in Korea. We used the ordinary least squares (OLS) model to empirically test our hypotheses. We employed the Hausman test to select between a fixed-effect model and a random effect model (Hausman, 1978). The result of the Hausman test indicated that a fixed-effect model was more appropriate and efficient. Time-varying explanatory variables were all lagged by one year, which caused a loss of observations for 2001 and left three years of firm-level data to reduce the risk of reverse causality. We estimated the models with version 14 of the STATA software.

5. Results

Table 1 shows the means, standard deviations, and correlations among the study variables. The variance inflation factors for all models were less than 10, which alleviated multicollinearity concerns (Neter et al., 1990).

Table 2 presents the OLS regression estimates of demographic similarity in a firm's leverage ratio and export intensity. Models 1 and 3 include all control variables. Hypotheses 1 and 2 were tested by adding variables to the baseline models. Hypothesis 1 posited that demographic similarity between directors of a firm and emerging political elites has a positive effect on a firm's leverage ratio. The results in Model 2 showed that demographic similarity was significantly and positively related to the leverage ratio of a firm at $b = 0.65$, $p \leq 0.05$. The marginal effect of demographic similarity on a firm's leverage ratio was 0.65, indicating that a one-unit change in the demographic similarity between directors of a firm and emerging politicians increased the leverage ratio of a firm by approximately 0.65. Thus, hypothesis 1 is supported.

Table 1. Means, standard deviations, and correlations describing the variables

Variables	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Leverage ratio	0.43	0.43	1							
(2) Export intensity	0.30	0.30	0.03	1						
(3) Demographic similarity	0.04	0.06	0.13	0.08	1					
(4) Profitability	4.16	9.00	-0.33	0.03	0.01	1				
(5) Financial credit rating	63.07	13.57	-0.50	0.15	-0.06	0.54	1			
(6) CEO education level	0.01	0.04	-0.08	-0.02	-0.15	0.04	0.12	1		
(7) Board education level	0.08	0.13	-0.07	-0.10	-0.12	0.02	0.03	0.15	1	
(8) CEO foreign education	0.17	0.38	-0.01	0.02	-0.05	0.02	0.01	-0.11	-0.06	1
(9) Board foreign education ratio	0.10	0.14	-0.04	0.09	0.04	0.05	0.05	-0.06	-0.16	0.12
(10) CEO elite universities	0.45	0.50	0.06	0.10	0.60	-0.04	-0.05	-0.22	-0.18	0.05
(11) Board elite universities ratio	0.40	0.25	0.06	0.15	0.20	0.01	0.04	-0.11	-0.38	0.16
(12) Board size	8.56	3.30	-0.05	0.01	0.07	0.10	0.20	-0.11	-0.11	0.15
(13) Independent director ratio	0.17	0.10	0.01	0.07	-0.10	0.03	0.01	-0.05	-0.04	0.08
(14) Firm age	43.65	12.39	0.03	-0.12	0.03	0.01	-0.14	-0.00	-0.04	0.17
(15) Firm size	25.85	1.41	0.08	0.23	0.15	0.10	0.21	-0.07	-0.28	0.13
(16) Government ownership ratio	0.72	3.25	-0.02	-0.04	0.08	0.04	0.00	-0.03	-0.06	-0.01
(17) Debt ratio	1.92	26.92	0.01	0.00	-0.02	-0.12	-0.07	-0.01	0.12	-0.00
(18) Industry concentration	3,496	2,483	0.05	0.15	0.09	-0.04	-0.03	-0.06	-0.03	-0.01

Variables	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(9) Board foreign education ratio	1								
(10) CEO elite universities	0.06	1							
(11) Board elite universities ratio	0.17	0.28	1						
(12) Board size	0.17	0.03	0.17	1					
(13) Independent director ratio	0.11	0.02	0.18	-0.00	1				
(14) Firm age	0.03	0.10	0.10	0.14	-0.01	1			
(15) Firm size	0.17	0.17	0.41	0.48	0.15	0.11	1		
(16) Government ownership ratio	0.09	0.08	0.11	0.06	0.08	0.02	0.14	1	
(17) Debt ratio	-0.02	0.02	-0.05	-0.04	0.02	-0.03	-0.04	-0.01	1
(18) Industry concentration	-0.01	0.02	0.08	-0.01	0.09	-0.07	0.12	0.08	-0.01

Notes: There were 1,296 observations. Correlations in bold type are significant at the $p \leq 0.05$ level of confidence.

Hypothesis 2 predicted a negative relationship between the demographic similarity between a firm's board members and emerging political elites and a firm's export intensity. The results and figures shown in Model 4 support Hypothesis 2. The coefficient supported a negative relationship ($b = -0.184, p \leq 0.05$). The marginal effect of demographic similarity on a firm's export intensity was -0.184 , indicating that a one-unit change in demographic similarity decreased a firm's export intensity by approximately 0.184. The results appear to be meaningful, and thus, Hypothesis 2 is supported.

Table 2. Coefficients of models predicting leverage ratio and export intensity

	DV: Leverage ratio		DV: Export intensity	
	Model 1	Model 2	Model 3	Model 4
CEO education level	0.075 (0.528)	0.022 (0.170)	-0.063 (-0.552)	-0.048 (-0.429)
Board education level	-0.009 (-0.095)	-0.019 (-0.199)	0.029 (0.648)	0.032 (0.705)
CEO foreign education	-0.052* (-2.109)	-0.037 (-1.412)	-0.005 (-0.476)	-0.009 (-0.835)
Board foreign education ratio	-0.119 (-1.275)	-0.133 (-1.489)	-0.093* (-2.383)	-0.089* (-2.354)
CEO elite universities	0.021 (0.661)	-0.025 (-0.748)	-0.031** (-3.067)	-0.018† (-1.663)
Board elite universities ratio	0.156* (2.022)	0.150† (1.935)	0.004 (0.192)	0.006 (0.272)
Board size	0.002 (0.759)	0.001 (0.371)	-0.000 (-0.142)	0.000 (0.122)
Independent director ratio	0.100 (1.019)	0.114 (1.194)	0.101** (3.166)	0.097** (3.118)
Firm age	-0.033*** (-3.489)	-0.030** (-3.175)	0.006† (1.755)	0.005 (1.445)
Firm size	-0.116* (-2.537)	-0.114* (-2.562)	0.013 (0.992)	0.012 (0.932)
Government ownership ratio	-0.003 (-1.362)	-0.003 (-1.442)	-0.000 (-0.511)	-0.000 (-0.501)
Profitability	0.006*** (3.658)	0.006*** (3.745)	0.000 (0.217)	0.000 (0.249)
Debt ratio	0.000* (2.287)	0.000* (2.271)	0.000*** (4.410)	0.000*** (4.388)
Industry concentration	0.000 (0.401)	0.000 (0.289)	-0.000* (-2.182)	-0.000* (-2.114)
Demographic similarity		0.650* (2.346)		-0.184* (-2.020)
Observations	1,296	1,296	1,296	1,296
Adjusted R ²	0.089	0.097	0.064	0.069

Notes: 1. *t*-statistics are provided in parentheses.

2. †*p* < 0.1, **p* < 0.05, ***p* < 0.01, ****p* < 0.001.

Model 1 of Tables 3 and 4 include all control variables. We added variables to the baseline models and tested hypotheses 3 and 4. Hypothesis 3 predicted that the leverage ratio of a firm will have a negative relationship with firm profitability and firm financial credit rating. Model 2 of Table 3 displays the negative relationship between a firm's leverage ratio and firm

Table 3. Coefficients of models predicting firm profitability

	Model 1	Model 2	Model 3	Model 4
CEO education level	11.424 (1.250)	11.383 (1.279)	10.216 (1.108)	10.284 (1.152)
Board education level	1.535 (0.385)	1.463 (0.373)	1.061 (0.264)	1.032 (0.261)
CEO foreign education	1.588 (1.400)	1.272 (1.149)	1.459 (1.290)	1.157 (1.045)
Board foreign education ratio	1.806 (0.586)	2.054 (0.659)	1.566 (0.499)	1.834 (0.577)
CEO elite universities	0.345 (0.374)	0.350 (0.397)	0.211 (0.229)	0.228 (0.260)
Board elite universities ratio	-5.712** (-3.039)	-5.944** (-3.124)	-5.727** (-3.058)	-5.956** (-3.140)
Board size	0.129 (0.971)	0.119 (0.946)	0.127 (0.959)	0.117 (0.933)
Independent director ratio	-3.565 (-0.945)	-1.366 (-0.403)	-3.859 (-1.020)	-1.654 (-0.488)
Firm age	-0.572† (-1.736)	-0.655* (-1.997)	-0.434 (-1.306)	-0.529 (-1.597)
Firm size	4.006* (2.508)	2.915* (2.145)	4.121** (2.625)	3.029* (2.271)
Government ownership ratio	0.042 (0.342)	0.030 (0.264)	0.047 (0.380)	0.035 (0.302)
Profitability	-0.194*** (-4.026)	-0.210*** (-4.624)	-0.194*** (-4.158)	-0.209*** (-4.764)
Debt ratio	0.014*** (5.549)	0.014*** (5.475)	0.018*** (5.931)	0.017*** (5.987)
Industry concentration	0.001 (1.490)	0.001 (1.465)	0.001 (1.392)	0.001 (1.376)
Leverage ratio		-4.805*** (-6.141)		-4.760*** (-6.195)
Export intensity			8.551* (2.491)	7.788* (2.554)
Observations	1,296	1,296	1,296	1,296
Adjusted R ²	0.074	0.129	0.08	0.134

Notes: 1. *t*-statistics are provided in parentheses.

2. †*p* < 0.1, **p* < 0.05, ***p* < 0.01, ****p* < 0.001.

profitability. The coefficient was negative and significant ($b = -4.805, p \leq 0.001$). The marginal effect of the leverage ratio on firm profitability was -4.805 , which means that a one-unit change in a firm's leverage ratio decreased a firm's profitability by about 4.81. Model 2 of

Table 4 shows the effect of the leverage ratio on a firm's financial credit rating. The coefficient was negative and significant ($b = -0.213$, $p \leq 0.05$). The marginal effect of a firm's leverage ratio on its financial credit rating was -0.213 . This marginal effect indicated that a one-unit change in a firm's leverage ratio caused a decrease in a firm's financial credit rate by about 0.21. These results are meaningful, and Hypothesis 3 is supported.

Table 4. Coefficients of models predicting financial credit rating

	Model 1	Model 2	Model 3	Model 4
CEO education level	1.664† (1.699)	1.663† (1.670)	1.521 (1.605)	1.524 (1.585)
Board education level	0.138 (0.318)	0.135 (0.312)	0.082 (0.187)	0.080 (0.185)
CEO foreign education	0.137 (1.040)	0.123 (0.937)	0.122 (0.922)	0.109 (0.824)
Board foreign education ratio	0.720† (1.843)	0.731† (1.857)	0.692† (1.778)	0.703† (1.791)
CEO elite universities	0.069 (0.705)	0.069 (0.702)	0.053 (0.542)	0.054 (0.546)
Board elite universities ratio	-0.572* (-2.521)	-0.582* (-2.554)	-0.574* (-2.557)	-0.584** (-2.588)
Board size	0.007 (0.546)	0.006 (0.519)	0.007 (0.536)	0.006 (0.509)
Independent director ratio	-0.053 (-0.134)	0.045 (0.117)	-0.087 (-0.222)	0.009 (0.023)
Firm age	-0.124*** (-3.414)	-0.127*** (-3.515)	-0.107** (-2.960)	-0.112** (-3.070)
Firm size	0.407*** (3.483)	0.358** (3.304)	0.420*** (3.665)	0.373*** (3.485)
Government ownership ratio	0.005 (0.513)	0.005 (0.468)	0.006 (0.561)	0.006 (0.517)
Profitability	-0.008* (-2.032)	-0.009* (-2.229)	-0.008* (-2.074)	-0.009* (-2.266)
Debt ratio	-0.000 (-0.976)	-0.000 (-0.979)	-0.000 (-0.196)	-0.000 (-0.229)
Industry concentration	0.000 (1.036)	0.000 (1.030)	0.000 (0.944)	0.000 (0.940)
Leverage ratio		-0.213* (-2.337)		-0.207* (-2.398)
Export intensity			1.014* (2.486)	0.981* (2.445)
Observations	1,296	1,296	1,296	1,296
Adjusted R ²	0.059	0.069	0.067	0.077

Notes: 1. t -statistics are provided in parentheses.

2. † $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

In Hypothesis 4, we predicted that a firm's export intensity will have a positive relationship with firm profitability and firm financial credit rating. Model 3 of Table 3 shows the positive and significant relationship between a firm's export intensity and firm profitability ($b = 8.551$, $p \leq 0.05$). The marginal effect of export intensity on firm profitability was 8.551, indicating that a one-unit change in a firm's export intensity increased a firm's profitability by about 8.55. Model 3 of Table 4 shows the association between a firm's export intensity and financial credit rating. The coefficient was positive and significant ($b = 1.014$, $p \leq 0.05$). The marginal effect of a firm's export intensity on financial credit rating was 1.014, reflecting that a one-unit change in a firm's export intensity increased a firm's financial credit rating by approximately 1.01. Thus, these results are meaningful, and Hypothesis 4 is supported. Model 4 of Tables 3 and 4 are full models. Results consistently held.

6. Discussion

6.1. Theoretical Contributions

This study contributes to relational institutional theory because we explored how corporations in an emerging market establish networks with newly emerged political elites in the context of an economic crisis (Marquis and Raynard, 2015). In this study, we revisited and analyzed a specific period when economic and sociopolitical uncertainties simultaneously affected firms, that is, during the Asian financial crisis and a historic presidential election in South Korea. Utilizing this unprecedented context, we proposed that during a crisis, one of the relational institutional strategies that a firm can employ is an alignment of the demographic characteristics of its board members with those of newly emerged political elites. To the best of our knowledge, this study is one of the first to consider the demographical characteristics of high-ranking presidential officials of a new government to examine a firm's effort in connecting to newly emerged political elites. Although prior studies on the positive and negative consequences of political connections were conducted (Hillman et al., 1999; Hoskisson et al., 2013; Khanna et al., 2005), they placed less importance on a firm's goals of networking with political elites (Johnson and Mitton, 2003). We emphasized that emerging markets are characterized by low trust, state intervention in the market, and institutional voids (Hoskisson et al., 2000; Luo, 2006; Mair et al., 2012; Marquis and Raynard, 2015). When a transition of state power occurs, new political elites who can significantly affect a firm's performance are empowered amid a disruptive economic crisis within an institutionally rearranged sociopolitical arena. Thus, some Korean firms strategically align the demographic features of its board members to build relationships with top state executives because the birthplace and education-based networks play an important role in the establishment of favorable political networks/connections.

Although firms can expect that these connections will secure valuable resources from the government that will help them overcome difficulties during a financial crisis (Zhu and Chung, 2014), we highlighted that networking with newly emerging politicians can result in firms' oversight of competitiveness building through internationalization, including by increasing exports. International business literature regarding determinants of exports by firms has adopted several theories including industrial organization, a resource-based view, organizational learning theory, institutional theory, and agency theory (e.g. İpek, 2019; Lee et al., 2009; Lockett et al., 2008). The effect of corporate governance structure, such as

independent director ratio, board size, and ownership structure on a firm's exports has previously been examined (e.g. Dixon et al., 2016). However, a limited number of studies have explored the role of demographic similarity between board members and emerging politicians in decreasing a firm's export intensity when emerging market firms encounter a sudden and unprecedented crisis. Our results indicate that firms that do not decide to align directors' demographic similarity with those of the emerging political elites exhibit strong corporate governance and motivation to increase export levels to compensate for substantially decreased domestic demand and enjoy favorable currency rates during the financial crisis.

6.2. Practical Implications

Our research provides positive advice for practitioners. First, we demonstrated the conflicting effects of strategic alignment of demographic characteristics of board members with those of newly empowered politicians. Substantial decreases in domestic demand and escalating competition in local markets generated from a disruptive crisis can drive emerging market firm managers to be myopic and implement short-sighted solutions. Building political ties with newly emerged political elites can easily grant financially distressed firms access to financial resources through short-term funds to alleviate debt. However, this strategy can cause firms to overlook the important role of an international strategy of enhancing competitiveness by accumulating foreign experience, obtaining new knowledge, and developing advanced technologies. This paper provides implications for emerging market firm practitioners that they should devote time and effort to developing firm competitiveness through internationalization, such as increasing exports, which play an important role in enhancing firm performance during a financial crisis.

Our study provides direction specifically for emerging market policymakers. Policymakers should implement policies that disincentivize firms from leveraging political connections in favor of policies that enhance corporate transparency and competitive strategies during financial crises. Maintaining informal ties with troubled firms and providing them with favorable treatments can give firms the false impression that failure from poor management can be mitigated by building political connections in a future crisis. Particularly, newly empowered politicians need to provide a definite signal to troubled firms that the conventional method of leveraging political ties is no longer acceptable and that to gain access to financial resources, firms need to implement improved governance structure and competitiveness measures.

6.3. Limitations and Future Study Directions

This research has certain limitations that could also provide guidance for future studies. First, some of the measures used in this study were difficult to quantify. For example, similar demographics between board members of a firm and emerging political elites mean possible associations between these economic and political actors. Even though direct measurement of political connections adopted in prior studies might not be the optimal choice in the context of a low-trust society such as Korea, we encourage scholars to examine the effects of more direct measures, such as the existence of a firm's board members who are close to key government officials (e.g. Fisman, 2001; Johnson and Mitton, 2003) in future studies. Second, this study considered only ROE and financial credit rating as indicators of firm performance.

Future studies can analyze whether different quantifications of firm performance, such as sales growth or firm value, would show results similar to the indicators used in this study. Third, our findings might only be valid when firms are faced with a specific disruptive crisis in an emerging market. Hence, to further generalize our results, future studies can explore how a firm's relational institutional strategy leads to increased exports and favorable resource acquisition from the government. Future studies can also examine an emerging market firm's relational institutional strategy and its effects on a firm's performance in current crisis contexts, such as the COVID-19 pandemic, China-United States trade war, Russia-Ukraine war, an inflation surge, and the supply chain crisis.

7. Conclusion

Drawing from relational institutional theory (Marquis and Raynard, 2015) and considering the unprecedented challenge faced by most Korean firms, the Asian financial crisis of 1998–2000 and the concurrent governmental shift from conservative to liberal, this study examined the prevalence of political connection building with emerging political elites in Korea. Korean society features favoritism and has been described as a low-trust society; hence, we discussed how demographic similarity based on birthplace and school affiliations between a firm's directors and emerging political elites plays an important role in forming informal networks. We argued that when firms are faced with an irreversible and disruptive external crisis, building political networks with newly emerged political elites who dominate the power relations in Korea, where the capital market is less developed, would benefit firms because it grants access to financial resources. However, as firms focus on building political ties and receiving immediate resources from the new government, firms are likely to have less incentive to enhance their competitiveness through exporting to overcome financial challenges during a crisis mainly because of the consequential poor corporate governance and rent misappropriation from politicians. This study showed that amidst a crisis, the leverage ratio and export intensity of a firm has an opposite effect on firm performance including profitability and financial credit rating.

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