WHEN DO INTERLOCKING DIRECTORATE TIES BRING USEFUL INDIRECT EXPERIENCE DURING INTERNATIONALIZATION?

Received theories of international business (IB) consider accumulation of direct experiential knowledge (or lack thereof) a central factor that can explain how firms reduce uncertainties in foreign markets and make incremental resource commitments abroad (Eriksson, Johanson, Majkgård, & Sharma 2000; Johanson & Vahlne, 1977). Their impact on the field of international business withstanding, incremental models of internationalization have been criticized for falling short of predicting fast and irregular patterns of international expansion (Hadjikhani et al., 2014). In response, more recent studies have paid attention to vicarious learning from other organizations with which the internationalizing firm can cooperate as network partners (De Clercq, Sapienza, Yavuz, & Zhou, 2012; Oviatt & McDougall, 2005). Thus, extant IB literature has evolved from seeing direct experiential knowledge as the central explanation for gradual internationalization to giving credit to the role played by indirect experiential knowledge gained through organizational-level relationships within networks.

One important, yet underexplored, means with which firms can gain indirect experience is the relational ties formed by board members (Chen, Hsu & Chang, 2016). In this regard, interlocking directorates (i.e., two firms simultaneously have same individuals in their board of directors) could critically determine the quality and quantity of indirect experience the focal firm can tap into while making strategic decisions (Carpenter & Westphal, 2001; Hillman & Dalziel, 2003). Compared to other means of indirect experience accumulation, interlocking directorates are unique in two main ways. Firstly, board interlocks capture the cases where experiential knowledge transfers between firms through top-level individual executives rather than organization-wide arrangements (e.g., alliances, firm-level network ties). Even though firms’ accumulation of indirect experience still remains as an organizational level phenomenon, this process runs through the interlocking ties formed by individuals.¹ This aspect brings interlocking directorates closer to the fundamental idea that organizational

¹ To avoid possible confusion regarding the level of analysis, we would like to emphasize that we hereby see both the outcome (i.e., degree of internationalization) and its antecedents (i.e., accumulated indirect experience) as organizational-level factors. However, in line with the micro-foundations perspective, our theoretical and empirical approach is oriented towards individual-level factors and their collective impact on organizational-level outcomes.
learning starts with individuals (Simon, 1991)\(^2\) and the more contemporary postulates put forth by micro-foundations movement (Felin, Foss & Ployhart, 2015). Second, interlocking directorates capture the inter-organizational transfer of managerial experience at the executive level. This is different from network studies of internationalization where bulk of the attention is paid to mid-level managers’ operational attempts to develop relationships with external and internal network partners and to secure their firms more favourable position in relevant business networks. Therefore, relational ties formed via interlocking directorates will shed light on the development of relational capital and flow of intangible resources between executives, who are the primary actors in internationalization decisions (Singh & Delios, 2017).

There is a rich body of literature investigating the role of board interlocks in a variety of outcomes such as board members’ involvement in strategic decision making (Carpenter & Westphal, 2001), performance of cross-border acquisitions (McDonald, Westphal & Graebner, 2008), strategy adoption (Connelly, Johnson, Tihanyi & Ellstrand, 2011), diffusion of practices (Shropshire, 2010) and overall firm performance (Zona, Gomez-Mejia & Withers, 2018). So far, only a handful of studies have examined the impact of board interlocks on different facets of firm internationalization (Ang, Benischke & Hooi, 2018; Chen et al., 2016; Tuschke, Sanders & Hernandez, 2014; Singh & Delios, 2017). In this paper, we aim to extend this burgeoning stream of research, which has either looked at network position conferred by interlocking directorates (Peng, Au & Wang, 2001; Singh & Delios, 2016) or simply gauged the total number of external directorship ties held by focal firm board members (Chen et al., 2016) to evaluate the effect of board interlocks. This approach, however, overlooks the dyadic mechanisms with which indirect experience flows from one firm to the other. To address this, we shall first recognize that not all interlocking ties are the same. In other words, we conjecture that some of the board interlocking ties would have more influence on firm internationalization than others, depending on the dyadic tie characteristics. Similarly, limited IB research on board interlocks have assumed that direct learning through experience and vicarious learning through interlocking ties often work in an additive manner. In other words, it is implicitly suggested that indirect experiential knowledge coming through interlocking ties would complement focal firm’s own experience. However, it is also likely that these two forms of learning could substitute for each other (Argote, 2012). To the best of our knowledge, with one exception (i.e., Tushcke et al., 2013), none of the previous

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\(^2\) International entrepreneurship literature also recognizes experience and experiential knowledge at the individual-level (Jones & Casulli, 2014). Similarly, studies on congenital learning emphasize the importance of founders’ and/or top managers’ prior knowledge and experience (Pellegrino & McNaughton, 2017). However, in these studies, experience and experiential knowledge still remain internal to the firm. Board interlocks, on the other hand, captures indirect experience gains that originate outside the formal boundaries of the focal firm.
interlocking studies in the IB literature have taken these nuances into consideration.

In sum, network-based studies of internationalization demonstrate that indirect experience matters, whereas literature on interlocking directorates reveal that common board members could be a unique and critical form of vicarious learning during internationalization. However, integration of these two research streams has been limited so far. As a result, we have scant understanding as to when indirect experience is most relevant for firm internationalization, nor do we have sufficient insights as to which interlocking ties are most conducive to have the benefit of indirect experience. Here, we address these gaps. To that end, we seek answers to two main research questions: (1) Do direct and indirect experience have substitutive or complementary effect on the degree of internationalization?, (2) How do the characteristics of interlocking ties determine the extent to which experience of other firms can influence focal firm’s degree of internationalization? These are important questions, which still remain partially addressed by extant IB literature, as well as by the field of organizational learning at large (Argote, 2012). To answer these questions, we develop a framework that probes into if and how indirect experience could influence international growth of firms. In response to our first question, we focus on a specific contextual factor that would determine the usability of indirect experience in tandem with – or in lieu of – direct experience. In particular, we argue that substitution or complementarity effect prevails depending on the degree of overlap between the environmental conditions (i.e., macroeconomic volatility) from which direct and indirect experience are obtained. Concerning our second question, we argue that indirect experience is more likely to take effect when board interlocks can foster (a) opportunity to transfer indirect experience, (b) motivation to transfer indirect experience, (c) capability to understand and utilize indirect experience.

We contribute to extant IB literature in several ways. First and foremost, we relax the ubiquitous assumption that firms can obtain foreign market knowledge only by means of first-hand experience. As noted earlier, concurrent effects of direct and indirect experience on firms’ degree of internationalization has not been sufficiently studied in past IB literature. Here, we inquire into the interaction between direct and indirect experience in order to understand if these two types of experience could substitute or complement each other. In the case of substitution effect, one could cast doubt on the received wisdom that first-hand experience is a sine qua non for making resource commitments abroad. The case of complementarity, on the other hand, would suggest that there are additional benefits from vicarious learning even if a firm accrues reasonable level of direct experience from foreign markets. Hence, our theoretical model and empirical analysis elucidate alternative forms of learning firms could benefit from as they go international. Second, different from most network studies of IB, we pay
attention to individuals as the carriers of knowledge and experience between different organizations (Argote & Ingram, 2000). By focusing on the role of interlocking directorates as a source of experiential knowledge on foreign markets, we subscribe to the microfoundations perspective’s notion that “it is the aggregation of individuals and their knowledge and experiences that create “the firm” (Ang et al., 2018:494). The need for paying due attention to microfoundations of firm’s international evolution and growth has also been recently acknowledged by Coviello, Kano & Liesch (2017) who note that “to understand the firm’s internationalization behavior, we must understand the individual driving the firm” (p.1155). Here, we argue that these individuals function not only as executive decision makers but also as conduits of new knowledge acquisition. In other words, interlocking board members serve as a unique means for obtaining experiential knowledge about foreign markets, which would in turn determine organizational learning and the degree of internationalization at the firm-level. Furthermore, we extend limited research on the role of interlocking directorates on foreign expansion by going beyond the question of whether indirect experience matters for firm internationalization. To that end, we not only examine if two firms are connected or not but also how they are connected via interlocking directorates. Put differently, we identify which ties matters most by taking heterogeneity of board interlocks into consideration.