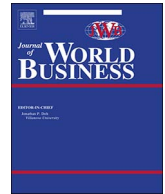




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## Frequency of international expansion through high control market expansion modes and interlocked directorships

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### ABSTRACT

This study investigates director interlock as a mechanism by which an MNC learns and adopts high control market expansion modes that other MNCs use. Using data on greenfields and acquisitions by S&P 500 firms in the period 2003–2010, we find a significant relationship between the use of high control market expansion modes by interlocked MNCs and the frequency of international expansion of a focal MNC through such modes in unrelated industries, with the relationship stronger for the depth of interlocked director experience. The findings contribute to the literatures around the frequency of international expansion and microfoundations of international strategy.

### Managerial relevance

The managerial relevance of this study is two-fold. First, the focus on the notion of frequency of international expansion more directly captures the degree to which the MNC engages simultaneously in multiple cross-border expansion moves, which indirectly explains how and why MNCs accrue important firm-specific capabilities across time, in this case through knowledge about high control market expansion moves made by other MNCs via director interlocks. MNCs would do well in recognizing this in recruitment, whether there is an inclination to adopt particular strategies or to have a balanced set of directors in terms of entry mode experience. Second, our study identifies the situations in which board interlocks matter more—board interlocks are particularly consequential in decision situations that are characterized by relatively higher levels of uncertainty (unrelated vs. related expansion). MNCs can mitigate the uncertainty in some contexts, in particular cross-border unrelated expansion, by accessing the interlocked experience of their directors.

### 1. Introduction

One of the key areas of academic enquiries within the global strategy literature relates to the study of multinational corporations' (MNCs) internationalization strategies. These studies document, among others, MNCs' internationalization patterns (Johanson and Vahlne,

1977, 2009), sequential entry processes (Chang, 1995), and foreign market entry mode decisions (Brouthers & Hennart, 2007). However, while these studies offer important insights, empirical research on MNC internationalization has mostly focused on the level of individual transactions and normally assumes MNCs adopt a natural sequence to international expansion. As such, prior research tends to neglect the reality that MNCs increasingly make multiple international expansion moves concurrently, regardless of distance. Further, while the stream of research that focuses on examining MNCs' degree of internationalization (e.g., Carpenter & Fredrickson, 2001; Reuber & Fischer, 1997; Sullivan, 1994) traces MNCs' portfolios of international expansion at single points in time, these studies do not seek to explain heterogeneity in MNCs' frequency of international expansion. This is problematic because some MNCs may choose to engage in multiple high control (higher equity ownership) foreign market entries in a given year while others choose to enter into only a few or even no high control market entries. Yet, over time the aggregate degree of internationalization of these MNCs can be similar. The impetus is therefore to develop theory describing the factors that entice some MNCs to engage in more intensive, and thus more complex, internationalization strategies than others.

More intensive and complex internationalization strategies most likely require relevant experience in order to succeed in competitive international markets (Brouthers, 2002; Brouthers, Brouthers, & Werner, 2003). While prior work (e.g., Johanson & Vahlne, 1977)

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implicitly suggests that experiential learning is the primary source of knowledge that enables MNCs to engage in more complex internationalization strategies, firms can also exploit the experience of other MNCs when expanding abroad (e.g., Ang, Benischke, & Doh, 2015; n, 2002, 2003; ; Lu, 2002; Yiu & Makino, 2002). In this regard, an important yet overlooked source of knowledge residing in other MNCs relates to the experience that a focal MNC's director gains when serving on the boards of other internationally active MNCs.

The literature on learning suggests that organizational learning normally starts with individuals (Simon, 1991). In line with this, recent work around the accumulation of organizational capabilities and routines raises the issue of their origins, as to how an organization's collective capabilities and routines come about, leading to the micro-foundations perspective in strategic management (Felin & Foss, 2005; Felin & Hesterly, 2007; Madsen, Mosakowski, & Zaheer, 2003). In essence, it is argued that knowledge can be effectively transferred across organizations through individuals (Argote & Ingram, 2000). The experience that interlocked directors acquire on other MNC boards can thus be internalized to become part of the aggregate knowledge stock of the focal MNC (Felin & Hesterly, 2007; Madsen, Mosakowski, & Zaheer, 2003). Such experience may be particularly valuable because interlocked directors will have first-hand experience of these MNCs' high level strategies, including the use of high control market expansion modes.

We draw on the emerging literature on the micro-foundations of international strategy (e.g., Chittoor, Aulakh, & Ray, 2018; Kunisch, Menz, & Cannella, 2018; Maitland and Sammartino, 2015a, 2015b; Nuruzzaman, Gaur, & Sambharya, 2017) to develop theory explaining heterogeneity in firm-level frequency of international expansion that focuses on the role of director interlocks as a source of experience that enables some MNCs to engage in more intensive and complex internationalization strategies than others. Specifically, we argue that a focal MNC with a larger number of directors that have gained experience with high control international expansion modes while serving on other MNCs' boards has a greater knowledge stock of these internationalization modes, and will subsequently engage in a greater frequency of international expansion through these modes. It is, however, likely that the degree to which firms will utilize the knowledge that is contributed by board members to the MNC's overall knowledge stock differs across contexts. Specifically, we argue that MNCs are more likely to activate directors' experience with high control international expansion modes in foreign market entries into unrelated industries.

We further differentiate two types of knowledge structures associated with board interlocks—breadth and depth of interlocked experiences. Breadth of interlocks refers to the *variety* of interlocking inputs through which knowledge is being accumulated, while depth of interlocks refers to the *concentration* of knowledge sources. Interlocked directors can potentially bring both breadth and depth of knowledge relating to internationalization decisions to the focal MNC. Nonetheless, the literature recognizes that the breadth and depth of experience command different outcomes depending on the situational characteristics (Gavetti, Levinthal, & Rivkin, 2005). Thus, the extent to which the breadth and depth of interlocked directors' knowledge will influence the frequency of international expansion of a focal MNC may differ, especially when considering market entries into unrelated vis-à-vis related industries.

We test our theoretical framework by examining the adoption of high control market entry modes, i.e. greenfields and acquisitions by S&P 500 firms in the period 2003–2010. Our study makes several contributions to the literature on MNC strategy. First, our study shows how MNCs' frequency of international expansion can be explained by the existence of director interlocks. In drawing attention to the fact that some MNCs use multiple high control expansion modes in a given year whereas other MNCs choose to utilize fewer such modes, our study also complements the broader literature on MNCs' internationalization strategies by studying the effect of directors' experience on MNC

strategy.

Second, we contribute to the emerging research on the micro-foundations of international strategy (e.g., Maitland and Sammartino, 2015a, 2015b). Research on the micro-foundations of international strategy suggests that it is the aggregation of individuals and their knowledge and experiences that create “the firm” (Barney & Felin, 2013; Felin & Foss, 2005; Felin, Foss, Heimeriks, & Madsen, 2012; Felin & Hesterly, 2007). While this view has gained traction within the international business community (Verbeke & Calma, 2017), extant research has paid limited attention to the experiences interlocked directors can contribute to the focal MNC's aggregate knowledge stock. Interlocked directors may be a particularly intriguing source of knowledge because they are internal to the both the focal MNC and the interlocked MNCs, meaning that their experiences are simultaneously part of the knowledge stock of multiple MNCs (Chen, Kor, Mahoney, & Tan, 2017; Kroll, Walters, & Wright, 2008). In adopting this approach, we also demonstrate the importance of considering how individuals' experiential learning that takes place outside the boundaries of the focal MNC contributes to the aggregate knowledge stock of the focal MNC.

Third, and more broadly, our study also offers an alternative conceptualization of director interlocks. Prior studies adopting a network perspective tend to conceptualize director interlocks simply as a conduit through which the experiences of two independent organizations flow (e.g., Haunschild & Miner, 1997). In contrast, we follow the micro-foundations approach and conceptualize director interlocks as a source of overlapping knowledge structures which may in turn be reflected in the same practices adopted by two independent organizations.

## 2. Theoretical background and hypotheses

Global strategy scholars are primarily interested in understanding the determinants and outcomes of MNCs' internationalization strategies. For instance, the internationalization process model (Johanson and Vahlne, 1977, 2009) explains the international expansion pattern of MNCs based on the interplay between experiential learning and psychic distance. Chang (1995) illustrates how MNCs tend to enter foreign markets in their core businesses to exploit their competitive advantage vis-à-vis domestic competitors before they expand into non-core businesses. A particularly prominent stream of research within the global strategy literature has focused on explaining foreign market entry mode decisions (for a review see Brouthers & Hennart, 2007). These studies have produced rich insights into the factors that affect MNCs' choice of entry modes, such as cultural distance (Kogut & Singh, 1988) and institutional distance (Ang et al., 2015), international experience (Erramilli, 1991), and an MNC's international strategy (Harzing, 2002).

Most of the empirical research on internationalization, however, has focused the analysis at the transaction level, i.e. at the market entry level, leading to limited work around MNCs' frequency of international expansion at the firm-level within a given year. This omission is somewhat surprising because the frequency of international expansion ultimately explains an MNC's level of internationalization and its accumulation of international capabilities. For example, as Anand, Mulotte and Ren (2016) demonstrate, MNCs may choose to accrue international experience by engaging in a relatively high number of high control market entries which they can subsequently exploit in the future. That is, the accumulation of international experience is not exogenous to the MNC, it is a deliberate choice reflected in the firm-level frequency of international expansion. Further, the frequency of international expansion in a given year will also determine the level of internationalization in subsequent years. Thus, the level of internationalization is also not exogenous to the MNC (Carpenter & Fredrickson, 2001; Reuber & Fischer, 1997; Sullivan, 1994) and the frequency of international expansion may be an important determinant

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