Transnational board interlocks

The influence of degree of internationalization and psychic distance

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Abstract

Purpose – While previous studies have focused on the role of directors in the formation of transnational interlocks, this paper argues that firm strategy can also influence the development of these relationships. The purpose of this paper is to shed light on the practice of transnational interlocks by extending board interlocks theory from the national to the transnational context, and exploring aspects that are unique to the transnational level.

Design/methodology/approach – Based on the experiences of four British firms, this paper develops a conceptual framework that integrates under-examined dimensions of this networking practice at the organizational level of analysis, specifically degree of internationalization (DOI) and psychic distance (PD).

Findings – The paper argues that firms will increasingly engage in transnational interlocks as internationalization intensifies, and that expansion into psychically distant countries may result in further engagement in these connections. Further, firms will tend to form transnational received interlocks at their early stages of internationalization, and transnational sent and neutral interlocks at later stages of this process. It identifies four categories of firms: locals, extenders, explorers and cosmopolitans.

Practical implications – Directors can contribute to their firms' success by interlocking with firms located in key foreign markets. Firms should also welcome directors with transnational board appointments to secure knowledge and resources overseas.

Originality/value – The manuscript contributes to our understanding of transnational interlocks by examining the independent and joint influence of the firm's DOI and PD on the formation of such relationships.

Keywords Psychic distance, Degree of internationalization, Transnational interlocks

Paper type Research paper

Introduction

Board interlocks are one of the most studied social structures in the field of inter-organizational relationships (Mizruchi, 1996, p. 283). These corporate connections are created when board members sit on the board of two or more organizations simultaneously (Mizruchi, 1996, p. 271). Research on the topology of the networks created by board interlocks reveals a widespread decrease in network cohesiveness across several countries, such as in Switzerland (Bühlmann *et al.*, 2012), the USA (Chu and Davis, 2016; Mizruchi, 2013) and the Netherlands (Heemskerk, 2007; Heemskerk and Fennema, 2009). Yet, research at the global scale shows that transnational interlocks, i.e. board interlocks that cross-national borders, have been increasing and consolidating over the last two decades (Carroll and Fennema, 2002; Heemskerk, 2013; Heemskerk and Takes, 2015; Kentor and Jang, 2004a). Despite the increasing prevalence of such transnational connections, this line of research remains descriptive and undertheorized (van Veen and Kratzer, 2011), particularly at the organizational level of analysis. I contribute to our understanding of this networking practice by offering a systematic exploration of the theoretical underpinnings of transnational interlocks, paving the way for rigorous empirical analysis of this cross-border phenomenon. I propose that firm motives and strategies are related to the practice of transnational interlocks, and that the prevalence of these connections among multinational enterprises (MNEs) is not only the result of the personal networking activity of directors, but

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also a reflection of the interplay between the firm's degree of internationalization (DOI) and psychic distance (PD) from foreign markets.

Transnational interlocks, as an institutionalized form of inter-organizational relationship, represent a cost-effective and reliable way for organizations to gain formal access to one of the most important business networks that exist – that of interlocking directorates (Mizruchi, 1996; Useem, 1984). With the globalization of commerce and production, it has become important for firms to secure the knowledge and resources required to operate overseas. Useem (1984, p. 45) referred to board interlocks as a "business scan" because these relationships can provide firm executives with first-hand information about other organizations and the conditions of the business environment. From a resource dependence perspective (Pfeffer, 1972; Pfeffer and Salancik, 1978), board interlocks also function as an effective mechanism for co-opting and securing scarce resources for the firm from the outside environment (Mizruchi, 1996). By forming transnational interlocks with other firms located overseas, firm executives can acquire privileged access to foreign sources of knowledge and resources, extending the range of their "business scan." According to Johanson and Vahlne (2009, p. 1411), failure to develop a prominent network position in foreign markets can result in a liability of outsidership that can jeopardize the success of international operations.

Transnational interlocks, however, do not benefit all firms equally. National interlocks represent a better networking strategy for organizations primarily focused on their local markets: locally embedded directors can provide these firms with more germane local knowledge and resources. For international firms, however, transnational interlocks can improve the alignment between expansive international strategies and the capabilities of the board. In MNEs, transnationally embedded directors are in a better position to perform the three roles commonly attributed to the board of directors: service, resource-providing and monitoring (Johnson *et al.*, 1996). On the one hand, these directors can better fulfill their service and resource-providing functions by drawing on their foreign social capital. On the other hand, these directors are likely to be more attuned to the realities of the firm in foreign markets and therefore less reliant on management for information; this increased independence allows transnationally embedded directors to also become more effective monitors of management. International firms, I argue, will engage in more transnational interlocks. Moreover, as this paper shows, those firms that expand into psychically distant countries will depend on these transnational connections even more as an effective means of overcoming information and resource challenges abroad.

In the following pages, I first review the emerging literature on transnational interlocks. Second, I review the literature on DOI and PD, arguing how different paths to internationalization can lead to the formation of transnational interlocks. Finally, I offer a two-by-two conceptual framework that combines these two internationalization constructs, and I discuss the implications of this framework for both theory and practice.

Development of a transnational interlock network

As the world's economy becomes increasingly globalized, we see a fundamental shift from national to transnational interlocking: the number of board interlocks is decreasing within countries and increasing across borders (Heemskerk, 2013). Various factors appear to be behind this phenomenon. According to Scott (2003, p. 169), many national business processes have been relocated into transnational value chains, increasing the firm's need to develop cross-national networks. In their study of the evolution of the US interlocking directorate network, Chu and Davis (2016) also found that the cohesiveness of this national network has decreased due to an increased preference for directors that serve in fewer than three boards, i.e. for those that are not considered busy (Harris and Shimizu, 2004). This shift is so ubiquitous that most national European interlocks are expected to become transnational "within the next decade" (Heemskerk, 2013, p. 85) and a global transnational network is in the making (Burris and Staples, 2012; Carroll, 2010; Heemskerk *et al.*, 2015; Heemskerk and Takes, 2015; Kentor and Jang, 2004a).

The extant literature on transnational interlocks is largely composed of a series of studies on the topology and consequences of an emerging transnational interlock network. The field has traditionally emphasized the role of individuals in the formation of these global linkages (Carroll, 2010; Heemskerk, 2013). Whether or not a transnational network of true global reach has emerged, however, is still the subject of much debate. The onset of globalization did not immediately translate into an emergence of a global or even a trans-Atlantic board interlock network (Fennema, 1982; van der Pijl, 1984). By the late twentieth century, national interlocks remained the norm (Carroll, 2010) and the transnational interlock network was still considered a loose "superstructure" embedded in resilient national networks (Carroll and Fennema, 2002, p. 414).

It was not until the beginning of the twenty-first century that evidence of a transnational interlock network started to accumulate. In their stratified non-random sample of the 176 largest corporations in the world economy, Carroll and Fennema (2002) initially did not find evidence for such a network. Kentor and Jang (2004a), however, did find evidence for the existence of a global transnational interlock network using a non-stratified sample composed of the entire set of Fortune Global 500 firms. Both studies found that the highest number and increase in transnational interlocks is taking place in Europe, and that most of the remaining interlock ties occur between European and North American firms. More support for these findings has been found in Burris and Staples (2012), Klassen and Carroll (2011) and Carroll (2007). A recent study of the largest 1m firms on the planet shows that a transnational interlock network is already in place. In this study, Heemskerk and Takes (2015) not only found, in common with earlier studies, that most linkages occur between North America and Europe, but also documented an Asian continent developing as an independent cluster and a rather peripheral and sparsely interconnected South America and Africa (Heemskerk and Takes, 2015).

Antecedents of transnational interlocks

According to resource dependence theory (Pfeffer, 1972; Pfeffer and Salancik, 1978), one of most popular theoretical perspectives in the field, firms operate in an environment of uncertainty characterized by interdependence; firms attempt to reduce this uncertainty by developing inter-organizational linkages such as board interlocks. Resource dependence arguments are overall consistent with the formation of transnational interlocks to the extent that firms face comparable, if not higher resource dependencies abroad. According to Pfeffer (1972, p. 222), "cooptation can be implemented by using the board of directors as an instrument for dealing with important external organizations, by putting representatives of these institutions on the board." Cooptation in the context of interlocking directorates is thus understood as "a response to environmental uncertainty and constitutes a cooperative strategy for anticipating or controlling potentially disruptive unilateral actions by other organizations" (Allen, 1974, p. 403). Empirical evidence at the national level suggests that board interlocks may indeed reduce uncertainty and improve performance (Beckman *et al.*, 2004; Podolny, 1994, 2001). A longitudinal study of board interlock formation, for instance, shows that heavily indebted corporations tend to appoint non-executive directors from the banking industry, thus facilitating access to financial resources for the focal firm and reducing monitoring costs for the financial institution (Mizruchi and Stearns, 1988). Although no research has been conducted at the global level, Cardenas (2016) found that firms located in emerging economies that are more open to foreign trade form more board interlocks (see also Peng and Au, 2001). With the current pace of globalization, such resource interdependencies are likely to arise across the firm's entire global value chain.

Researchers at the national level have underscored the importance of distinguishing between individual-, firm-, industry- and country-level motives for interlock formation. At the individual level of analysis, Heemskerk (2013) found that firms that were highly central in 2005 in the European interlock network had stopped being so by 2010. The author interpreted these results as organizations lacking an interlock strategy aimed at consolidating a central position in the network. Heemskerk's findings contrast with those of Carroll *et al.* (2010), who found that the network centrality scores of consistently dominant firms stayed high during a 10-year period. In this paper, I propose that firm-level motives and strategies are indeed related to the practice of transnational interlocks as a means of obtaining critical knowledge and resources in foreign markets. As Brennecke and Rank (2017, p. 115) pointed out, when it comes to board interlocks, firms do "strategize on the quality or content of ties they create leading to specific tie choices."

At the industry level, collusion has often been cited as an antecedent for interlock formation, yet evidence for this phenomenon at the national level has been difficult to find (Burt, 1983; Loderer and Peyer, 2002; Mizruchi, 1996; Pennings, 1980). However, De Graaff (2012) showed that 29 percent of all interlocks within the oil industry are in fact transnational. Major western firms in the industry such as Exxon Mobil, Royal Dutch Shell, Total, BP and Chevron are all directly or indirectly connected to each other via transnational interlocks, as well as to major non-western firms such as Saudi Aramco and Gazprom. In fact, all of the major oil corporations are indirectly connected through at least one director sharing a board seat at an intermediary company (De Graaff, 2012). These findings indicate that transnational interlocks might offer firms a way around restrictive national laws that impede them from interlocking with firms in the same industry at the national level. An example of such restrictive laws is Section 8 of the Clayton Act, which prohibits any individual from simultaneously serving as an officer or on the board of directors of competing organizations.

Finally, at the country level, European integration has been commonly cited as both an antecedent and accelerator of transnational interlocks. According to Carroll *et al.* (2010, p. 817), it was Europe's "institutional completeness" which facilitated the growth of transnational interlocks by providing a common base for pan-European capital integration. Carroll *et al.* (2010, p. 833) found that Europe is now the "center of gravity" of the global transnational network at the expense of the North American region. Remarkably, this occurred without the European regional network becoming less internally integrated (Carroll *et al.*, 2010). In a related finding, van Veen and Kratzer (2011) found a positive relationship between a country's European Union membership duration and the number of transnational interlocks created by its local firms. Recent research in Europe shows that even though most interlocks within the continent are still created between firms located between 10 and 50 km apart, these short-range interlocks are decreasing in favor of longer-range ones in the 300 and 600 km range (Heemskerk, 2013).

Propositions

Degree of internationalization

Measuring the firm's DOI in an accurate manner is important as the construct is routinely used to reveal the antecedents and consequences of international expansion (Ramaswamy *et al.*, 1996). Sullivan (1994) suggested that the internationalization process of a firm is composed of three primary attributes: performance, structural and attitudinal. According to Sullivan (1994, p. 331), the performance attribute of internationalization, or "what goes on overseas," reflects the dependence of the firm on foreign markets; the structural, or "what resources are overseas," describes the extent of the firm's investments abroad; and the attitudinal, or the "top management's international orientation," reflects the firm's internationalization posture toward foreign markets. Sullivan recommended measuring each of these three attributes with objective, archival measures of internationalization to facilitate replication and overcome known difficulties in timely measuring the psychometric attributes of top managers. He proposed measuring the performance attribute with the ratio of foreign sales over total sales (FSTS); the structural, with foreign assets over total assets (FATA) as well as overseas subsidiaries over total subsidiaries (OSTS); and the attitudinal, with the psychic dispersion of international operations (PDIO) as well as the top managers' international experience (TMIE). Finally, Sullivan recommended creating a multidimensional scale based on these three attributes called DOI_{ints}. This single-factor approach has been successfully employed in subsequent research (e.g. Contractor *et al.*, 2003; Daily *et al.*, 2000) and is widely employed in the wider field of international diversification research (Hitt *et al.*, 2006). Thus, I use "DOI" to refer to the multidimensional scale as originally conceived by Sullivan (1994).

Transnational interlocks can provide benefits for the firm under each of the three main pathways to internationalization identified by Sullivan (1994). In the case of performance internationalization, transnational interlocks can provide the firm with actionable local knowledge and resources that can contribute to the growth of the firm's sales abroad. For instance, Ellis (2000) found that knowledge of foreign market opportunities is frequently obtained via existing inter-personal links rather than through traditional market research. Tuschke *et al.* (2013) found that firms with board interlocks to other firms with experience entering an emerging market were more likely to learn vicariously from these experiences and enter the same emerging market as a result. In the case of structural internationalization, transnational interlocks can provide the firm with access to location-specific resources that may facilitate ongoing local operations, such as connections with key government officials and suppliers. De Graaff (2012) showed how large transnational oil companies regularly create board interlocks in the countries in which they operate as a strategy to reduce both uncertainty and interdependence. In terms of attitudinal internationalization, transnational interlocks can speed up the internationalization plans of the firm's top managers. According to Forsgren (2002, p. 260), social relationships are routinely employed by organizations as "short-cuts" to knowledge and resource acquisition in foreign markets.

Empirical evidence suggests the likeliness of a positive relationship between Sullivan's DOI_{ints} single-factor construct and the practice of transnational interlocks. In the field of transnational interlocks, a study by Klassen and Carroll (2011) found a weak relationship between transnational interlocks and the transnationalization of capital investments. The authors' measure of internationalization would partially compare to Sullivan's structural attribute of internationalization. Within the international business (IB) literature, Xia *et al.* (2018) found that the knowledge obtained from interlocking partners is more valuable and important than that of joint venture partners in influencing firms' cross-border merger and acquisition decisions. González (2018) identified a social dimension of internationalization based on a firm's transnational interlocks that is similar to other dimensions of internationalization based on more traditional metrics of internationalization. González (2019) also partially tested some underlying metrics of the DOI_{ints} construct and their relationship to transnational interlocks, in isolation and not as single factor as proposed by Sullivan (1994), and found that some of them, FSTS and PDIO in particular, are to a certain extent and form related to this practice. Finally, Basuil and Datta (2017) showed that board interlocks can positively influence the performance of cross-border acquisitions, while Singh and Delios (2017) found that firms with more national board interlocks were more likely to pursue growth in both domestic and international markets. Based on the available theoretical and empirical evidence, I thus propose that as a firm's DOI increases, its engagement in transnational interlocks should also increase:

P1. There is a positive relationship between the firm's DOI and its number of transnational interlocks.

Psychic distance

The concept of PD was introduced to the IB field by a group of scholars associated with the Uppsala University (Johanson and Vahlne, 1977; Nordstrom and Vahlne, 1994; Vahlne and Johanson, 2017; Vahlne and Wiedersheim-Paul, 1973). Johanson and Vahlne (1977, p. 24) defined PD as "the sum of factors preventing the flow of information from and to the market." Uppsala scholars originally conceived of PD as an individual-level, perceptual construct. According to Johanson and Vahlne (1977, p. 29), managers "must be able to interpret information from inside the firm and from the market." However, Uppsala scholars created some ambiguity by proposing to operationalize this construct with country-level indicators such as "differences in language, education, business practices, culture, and industrial development" (Johanson and Vahlne, 1977, p. 24). To avoid confusion between the individual-level and country-level operationalizations of PD, Dow and Karunaratna (2006) introduced the terms perceived PD and PD stimuli, respectively. Both terms are related since a manager's perception of PD will be a function of the PD stimuli they are exposed to (Dow and Karunaratna, 2006, p. 580). A perceived PD approach considers individual-level biases and peculiarities in the decision-making process, and thus can be considered a superior predictor variable compared to country-level operationalizations based on secondary sources (Dow and Larimo, 2009; Nebus and Chai, 2014). Rarely, however, can researchers in the IB field survey a manager's perceptions of PD immediately prior to a critical decision. Thus, when I discuss PD I refer to PD stimuli, which consist in the macro-level factors as previously identified by researchers such as Johanson and Vahlne (1977), Boyacigiller (1990) and Evans *et al.* (2000). This choice will make our conceptualization of PD consistent with our objective and archival-based measure of DOI_{ints}, while also distinguishing it from Sullivan's attitudinal attribute of internationalization.

In Johanson and Vahlne's (1977) classic Uppsala model of internationalization, firms attempt to minimize the negative effects of PD by internationalizing in a step-by-step manner, expanding first into psychically close countries, and only venturing into psychically distant countries once a certain degree of knowledge about foreign operations has been reached. Empirical support for this fundamental aspect of the Uppsala model has been found in Barkema *et al.* (1996), Davidson (1980, 1983), Denis and Depelteau (1985) and Johanson and Wiedersheim-Paul (1975). Thus, even though some industries have been found to follow different internationalization approaches (e.g. Engwall and Wallenstål, 1988; Hedlund and Kverneland, 1985; Oviatt and McDougall, 1994; Sullivan and Bauerschmidt, 1990), most firms still internationalize in a manner that is consistent with this key theoretical premise (for a discussion on born-globals, please refer to the "Discussion" section below). As "internationalization is to a large extent a matter of establishing relationships in foreign markets" (Johanson and Vahlne, 1990, p. 21), it is then likely that the formation of transnational interlocks will closely trail this fundamental pattern of the Uppsala model: firms will first tend to form transnational interlocks with firms located in psychically close countries, and only once they have accumulated enough experience operating in these more similar markets will they interlock with firms located in psychically distant countries.

Building on the Uppsala model, scholars working under the network perspective of internationalization (Forsgren, 1989; Holm *et al.*, 1995; Johanson and Mattsson, 1988; Johanson and Vahlne, 1990, 2009) consider lack of knowledge about foreign markets the most important obstacle to internationalization. A firm can overcome this informational barrier by obtaining knowledge "through exchanges in its network of interconnected relationships" (Johanson and Vahlne, 2009, p. 1414). Drawing from Granovetter's (1985) concept of embeddedness, scholars working under this research tradition conceive of markets as networks in which the firm is embedded (Johanson and Mattsson, 1988). Insidership in foreign networks is therefore considered crucial to the internationalization process, to the extent that lack of such embeddedness may result in a liability of outsidership that can jeopardize the international operations of the firm (Johanson and Vahlne, 2009). Internationalization is depicted as an evolutionary process that consists of three distinct steps: market expansion: positioning in foreign market networks; market penetration: strengthening existing network position in foreign markets; and market integration: interconnecting networks in different countries by using the existing relationships of the firm as bridges to other networks (Johanson and Mattsson, 1988). Network development in foreign markets is thus a sequential search process, with firms relying first on actors with whom they share connections, and then using those connections as a bridge to enter new markets (Axelsson and Johanson, 1992; Blankenburg Holm *et al.*, 1996; Chetty and Blankenburg Holm, 2000; Johanson and Mattsson, 1988). This view is consistent with findings from business network theory that highlight the crucial difference in terms of outcomes between insiders and outsiders in relation to a specific network (Gulati *et al.*, 2000; Uzzi, 1996). Chetty and Blankenburg Holm (2000), for instance, showed how local firms use their relationships in foreign networks to increase their presence and commitments in foreign markets sequentially. In the context of emerging markets, Elango and Pattnaik (2007) suggested that an effective internationalization strategy for resource-constrained firms located in these countries is first to draw from their parental and foreign networks to expand into similar emerging markets and then to use those opportunities to enter developed markets (see also Li, 2018).

Finally, from a practical standpoint, high PD itself can negatively influence the formation of transnational interlocks by making such relationships more difficult to initiate and more complex to maintain. According to Johanson and Vahlne (2009), developing and maintaining long-distance relationships with foreign partners is a difficult endeavor to begin with. This is in line with research from social networks that finds that similarity breeds connection, a phenomenon known as homophily (McPherson *et al.*, 2001). According to McPherson *et al.* (2001, p. 429), geographical space is one of the most important sources of homophily since "we are more likely to have contact with those who are closer to us in geographic location than those who are distant." Connecting with those who are far away also requires more effort and energy on the part of the individual (Zipf, 1949). Thus, geographical space can be particularly limiting for firms that are just starting their internationalization process but should be less of a constraint for large international firms that are able to expend more time and energy nurturing transnational relationships. The cases of Stagecoach Group plc and British American Tobacco plc illustrate this phenomenon. While Stagecoach Group is only starting its internalization process and only exhibits two transnational interlocks with firms located in Sweden and the Netherlands, British American Tobacco is present in more than 180 countries and maintains interlocks with firms located in countries such as China, Hong Kong and Brazil (British American Tobacco plc, 2018; Stagecoach Group plc, 2018). Considering these arguments, I propose that firms at the beginning of their internationalization process will tend to form transnational interlocks with firms located in psychically close countries. Later, once the firm has overcome its initial information and resource barriers, board interlocks with firms located in psychically distant countries will become more prevalent:

P2a. At earlier stages of internationalization, firms will tend to form board interlocks with firms located in psychically close countries.

P2b. At later stages of internationalization, board interlocks with firms located in psychically distant countries will become more common.

Board interlocks create sent, received and neutral ties depending on the primary affiliations of the directors involved (Haunschild and Beckman, 1998). Previous research has also referred to these forms of interlocks as outgoing, incoming and indirect, respectively. Inside directors are executives and board members who are primarily affiliated with the focal firm.

Inside directors create sent ties when they sit on the board of an outside organization. Outside directors are directors who sit on the board of the focal firm but who are primarily affiliated with an outside organization. Outside directors create received ties to the focal organization. Outside directors may also create neutral ties to the focal firm when they also sit on the board of a firm with which they are not primarily affiliated. Sent and received ties are considered strong forms of interlock ties, while neutral ties are considered a weak form.

Received ties can be relevant for firms at the initial stages of their internationalization process, a moment when they tend to lack knowledge and resources overseas (Johanson and Vahlne, 1977). These firms may also lack enough global legitimacy to be able to promote their own executives to the boards of foreign organizations (see sent ties below). Received ties from directors affiliated with foreign organizations will function as a cost-effective first contact with foreign countries, providing the firm with valuable, yet indirect knowledge about foreign markets and operations. From a resource dependence perspective, these transnationally embedded directors are likely in a better position, *vis-à-vis* locally embedded directors, to co-opt resources for the firm in foreign markets. From a PD perspective, received interlocks can also help the firm avoid the perils posed by the so-called PD paradox, i.e. the counter-intuitive finding that firm performance is higher in dissimilar than in similar markets (Evans *et al.*, 2000; O'Grady and Lane, 1996). Expansion into psychically close countries, which tends to occur at the beginning of the internationalization process (Davidson, 1980, 1983; Johanson and Vahlne, 1977; Vahlne and Wiedersheim-Paul, 1973), may result in the lack of anticipation of subtle, yet relevant differences between the home and host country, leading to management complacency and decreased performance (Magnusson *et al.*, 2014). In comparison, firms expanding into psychically distant countries will try harder in anticipation of the challenges of a new and complex environment, thus leading to increased performance (Evans *et al.*, 2000; Magnusson *et al.*, 2014; O'Grady and Lane, 1996). Gollnhofer and Turkina (2015), for instance, found that the French retailer Carrefour counterintuitively favored high resource commitment entry modes when entering high cultural distance countries. Stahl *et al.* (2017) also noted that the positive influence of PD on organizational outcomes has been systematically disregarded in the literature (see also Pesch and Bouncken, 2017). The success of the firm in psychically distant countries can also be influenced by external factors, such as direct efforts by the firm's home government (Quer *et al.*, 2019). By forming received interlocks with organizations located in similar countries, firms can prevent misjudging these markets. For instance, in 2001 HSBC appointed Safra A. Catz, a long-time executive of Oracle, to its board of directors (HSBC Holdings plc, 2002). Safra Catz not only provided HSBC with valuable information and resources based on her own professional experience, but also likely offered nuanced advice on how to conduct business in the US market. It is important to note that this particular benefit of received interlocks would be impossible to obtain with sent interlocks, as misjudgment of similar countries by the firm's managers is what causes the paradox of PD in the first place (Evans *et al.*, 2000; Nebus and Chai, 2014; O'Grady and Lane, 1996). Received transnational interlock ties may, therefore, be more common at earlier rather than later stages of internationalization.

Sent ties, in contrast, should become more suitable for the firm at later stages of internationalization. By then, firms have already accumulated enough knowledge and resources in foreign markets and will likely become more interested in transnational interlocks as more direct sources of information and monitoring. By later stages of internationalization, firms probably have also already developed enough global legitimacy to make it more feasible to send their own executives to the boards of foreign organizations. According to Brennecke and Rank (2017, p. 115), "sent interlocks offer particularly knowledge-based and social influence benefits that firms cannot realize via received and undirected interlocks, but are in general costlier and more difficult to establish." The more direct nature of sent ties should also make them more valuable in psychically distant countries, which also tend to be reached at later stages of internationalization (Davidson, 1980, 1983; Johanson and Vahlne, 1977; Vahlne and Wiedersheim-Paul, 1973). High PD requires extensive adaptation to the host market, particularly from the firm's managers, for the foreign operations to be successful (Nebus and Chai, 2014). This adaptation is costly and difficult, and the more the firm's resources and capabilities need to be adapted, the less the firm can rely on direct transfers of successful and reliable business practices from its headquarters to foreign subsidiaries (Kostova, 1999). The more dissimilar the host country from a PD perspective, the less likely it is that the firm will also be able to transfer successfully those proven and tested sources of sustainable competitive advantage (Viswanathan and Dickson, 2007). Thus, in psychically distant countries organizations need to cultivate more direct contact with local firms, develop local knowledge management capabilities and improve their ability for local market sensing (Moorman and Day, 2016).

One cost-effective and reliable way in which firms can increase their direct contact with local actors in foreign locations is to send firm executives to the boards of local organizations. For example, the Group Chief Executive of British-based BP plc, Robert Dudley, was appointed in 2013 to the board of Rosneft, a large Russian integrated energy company. This appointment reflects both the importance of the Russian market to BP and the need for the firm to develop more direct local knowledge and contact capabilities at the executive level. It is, however, important to note that forming sent interlock ties at early stages of internationalization can be a difficult endeavor. Board interlocks are a symbol of legitimacy (Mizruchi, 1996; Parsons, 1960; Selznick, 1957), and appointing directors with ties to other important organizations signals that the firm is a legitimate enterprise (Mizruchi, 1996, p. 276). It is unlikely that firms at the early stages of the internationalization process will have accumulated enough legitimacy to be able to send their own executives pro-actively to the boards of foreign organizations. Therefore, considering all of these arguments, sent interlocks ties should be more prevalent at later, rather than earlier, stages of internationalization.

Unlike received and sent ties, the locus of formation of neutral ties is situated beyond the immediate social influence of the firm. According to Beckman *et al.* (2004), "the formation and change of these ties are largely the decision of organizations and individuals outside the focal firm." For this reason, researchers tend to exclude these ties from empirical analyses (Tuschke *et al.*, 2013). Weak ties, however, have been found to be of great consequence in a variety of outcomes, so much so that Granovetter (1973) famously referred to the phenomenon as the "strength of weak ties" (p. 1360; see also Hansen, 1999). Tuschke *et al.* (2013) indeed found that the influence of neutral interlocks is the least strong of all three types of board interlocks. However, the authors found that such ties are comparatively more influential in contexts in which the organization has already developed a baseline of experience. Such basic experience translates into the absorptive capacity that is required to be able to understand and act on the coarse-grained opportunities offered by these indirect interlock connections. These findings are in line with research on innovation that shows that firms investing in international research programs only obtain learning benefits once they have developed a baseline knowledge that allows them to internalize such external research into their ongoing operations (Penner-Hahn and Shaver, 2005). Once the firm has developed enough knowledge about foreign operations, it can begin to value the novel and non-redundant information provided by neutral ties and translate these insights into actionable strategies (see also Brennecke and Rank, 2017; Levin and Cross, 2004). As neutral interlock ties are the indirect result of networking activity beyond the immediate social sphere of the focal firm, it is likely that such ties will also become more prevalent once the firm becomes increasingly embedded in foreign networks. This is consistent with research in network formation that shows that network cohesion, the network process that gives rise to indirect ties, tends to grow as the number of connections in a network increases (Jackson, 2010). Finally, according to Brennecke and Rank (2017), firms should create neutral ties when their objective is to establish a broad sphere of influence, a goal that should become more common at late stages of internationalization once the firm has already developed a widespread global presence. Thus, neutral ties should be more prevalent at later, rather than early stages of internationalization:

P3a. Received transnational interlocks will be more common at early stages of internationalization.

P3b. Sent transnational interlocks will be more common at later stages of internationalization.

P3c. Neutral transnational interlocks till be more common at later stages of internationalization.

Interaction between degree of internationalization and psychic distance

As firms expand their foreign presence and value chains become ever more globalized, the need to acquire foreign knowledge and resources is likely to increase. This need, however, is likely to be even higher for firms internationalizing into more psychically distant countries regardless of whether they exhibit low or high DOIs. Venturing into highly dissimilar countries increases monitoring costs due to the complexity associated with the geographic dispersion of firm activities (Sanders and Carpenter, 1998). Board members in these firms may therefore lack the required knowledge and capacity to monitor top executives properly and to assess the overall strategic direction of the firm (Sanders and Carpenter, 1998). One way in which firms may attempt to confront this newfound complexity is by increasing their information-processing capabilities (Luo, 2005; Vermeulen and Barkema, 2002). According to the information-processing perspective (Galbraith, 1974; Tushman and Nadler, 2012), increased environmental uncertainty and complexity, such as that generated by an expansive internationalization process, will be associated with more and more complex information flows that will increase the firm's requirements for information-processing capacity. Firms may attempt to confront this challenge by establishing internal structures capable of dealing with such increased sources of uncertainty and complexity (Tushman and Nadler, 2012). As described above, firms can easily and cost-effectively achieve this goal by forming transnational interlocks with firms located in these foreign markets.

According to the Uppsala perspective, PD is generally considered as having an increasingly negative impact on firm performance in foreign markets (Johanson and Vahlne, 1977): PD reduces the ability of the firm to effectively conduct business in foreign locations by obstructing the effective transfer of information across national borders (Barkema and Vermeulen, 1998; Johanson and Vahlne, 1977; Kostova, 1999). However, a meta-analysis by Tihanyi *et al.* (2005) suggests that the effects of PD on diverse organizational outcomes such as performance and mode of entry exhibit substantial heterogeneity across organizations. As discussed above, some of these counter-intuitive effects can be explained by the paradox of PD: the notion that firms will expend higher efforts in psychically distant countries. For example, O'Grady and Lane (1996) found that Canadian retailers perceived the US market to be psychically very similar, yet their failure rates turned out to be very high. A contradictory relationship between PD and performance was also found in non-food retailer operators on three different continents (Evans *et al.*, 2000), and among Australian retailers (Evans *et al.*, 2008) and Spanish manufacturers (Sousa *et al.*, 2010).

The common denominator across all of these cases is the notion that firms entering psychically distant countries are likely to perceive an increased level of risk and thus prepare and act accordingly. Carrefour, for example, has consistently favored high resource commitment entry modes when cultural distance is high, such as greenfield investments in Russia, Japan and Malaysia (Gollnhofer and Turkina, 2015). These decisions enable firms to be better prepared for the challenges and opportunities presented by distant foreign markets. In contrast, firms entering more similar countries will find it challenging to establish a clear basis for differentiation, which can lead to management carelessness and failure. According to Sousa *et al.* (2010, p. 12), as PD increases "managers may become aware of their knowledge limits, and this perception reinforces the need for learning about foreign countries. As a result, the expectations in relation to learning barriers may induce counteracting behavior on the part of the internationalizing firm, thereby devoting greater resources to learning about the market." An example of a firm in this situation is Marks & Spencer plc: even though it only derives a minor fraction of its revenue from overseas operations, its direct presence in 8 out of the 11 different cultural regions identified by Ronen and Shenkar (2013) has encouraged it to pursue an active transnational interlock strategy (see Explorers example below for more details). Transnational interlocks can therefore represent a valuable tool for firms looking to overcome the challenges imposed by PD. By engaging in transnational interlocks, firms effectively expand their information-processing capabilities by drawing on the knowledge and social capital of their transnationally embedded directors. Thus, we would expect PD to positively moderate the proposed relationship between DOI_{ints} and transnational interlocks, so that at each step of the firm's internationalization process, expansion into psychically distant countries will warrant further engagement in transnational board interlocks. For a summary of all propositions, please refer to Figure 1:

P4. The positive relationship between DOI and transnational interlocks will be positively moderated by PD.

A framework for understanding the need for transnational interlocks

Based on the experiences of four British firms with varying levels of DOI and PD, I offer a conceptual framework that attempts to shed light on the relationships among these two internationalization constructs and the prevalence of transnational interlocks in

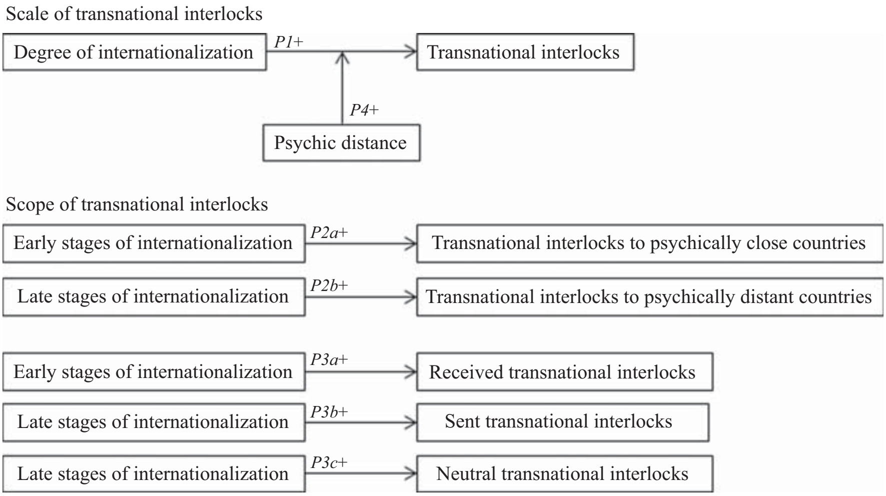

Figure 1.
Summary of propositions

corporations (see Figure 2). As a result of this exercise, I identify four different firm profiles according to their combined levels of DOI and PD and interlocking patterns: locals, explorers, extenders and cosmopolitans.

Locals

Firms that exhibit both a low DOI and PD to foreign markets should have little interest in fostering transnational interlock ties with foreign organizations. From a resource dependence perspective, these firms do not have much reason to create such connections as they will not derive any tangible benefits from this strategy, and perhaps even the opposite. Transnational interlocks will become a sub-optimal strategy for these firms as they would create a misalignment between the firm's local strategic orientation and the capabilities of the board. WM Morrison Supermarkets plc, the fourth largest chain of supermarkets in the UK, is a good example of this situation. The firm operates solely in the UK and as such exhibits zero values of DOI and PD. As the firm's strategy is exclusively focused on the British market, it would make little sense for it to engage in transnational interlock ties. An examination of the firm's board shows that all members are indeed British nationals with no interlock ties to corporations located overseas (WM Morrison Supermarkets plc, 2019). When asked how WM Morrison decides where to locate new stores, Sir Ken Morrison, the firm's CEO, replied "well, we get on a bus and we look for chimney pots" (Monaghan, 2017, p. 1). Thus, the firm has no current need for the foreign knowledge and resources that transnational interlocks can offer; it would do best to remain locally embedded.

Degree of Internationalization (DOI) \ Psychic Distance (PD)	Low	High
Low	Locals Lowest need for transnational interlocks Transnational interlocks will create a misalignment between the firm's local strategic orientation and the capabilities of the board The firm might lack the global resources and legitimacy required to form transnational interlocks with foreign entities	Explorers Moderate to high need for transnational interlocks The firm is usually focused on the home market, but engages in substantial business overseas, such as resource-seeking High PD in the firm's overseas operations might warrant the use of sent interlock ties, as opposed to received or neutral interlocks, to develop more direct local knowledge and contact capabilities
High	Extenders Moderate to low need for transnational interlocks Transnational interlocks still valuable, but the benefits should be low given the low PD between the firm's home and host countries Received transnational interlocks can mitigate the negative effects of the PD paradox	Cosmopolitans Highest need for transnational interlocks Transnational interlocks will increase the alignment between expansive internationalization strategies and the capabilities of the board As the firm accumulates enough knowledge and resources overseas, sent interlocks become more appropriate as direct sources of information and monitoring

Figure 2.
A framework for understanding the firm's incentives to form transnational interlocks

Explorers
Firms characterized by a low DOI, but whose actual expansion takes place into psychically distant markets, should have a moderate to high need for transnational interlocks. These firms are usually focused on their home markets but conduct business in highly dissimilar environments for a variety of reasons, such as resource-seeking. As such, they should demonstrate a moderate to high need for transnational interlocks to reduce the small but significant resource interdependencies that do arise across their highly international value chains. A case in hand is Marks & Spencer Group plc, a major British multinational retailer headquartered in London. Unlike WM Morrison, the firm does have a direct presence in 8 of the 11 different cultural regions of the world identified by Ronen and Shenkar (2013), even though less than 20 percent of its revenues is derived from overseas operations (Marks & Spencer Group plc, 2018). The firm's transnational interlock patterns are generally consistent with an explorer strategy. Throughout its history, the firm has had few but crucial transnational interlocks with key suppliers including Coca Cola, Unilever and Brown-Forman Corporation (Marks & Spencer Group plc, 2012, 2013, 2014, 2015, 2016, 2017, 2018). These ties are so important for the firm that Marc Bolland, Marks & Spencer CEO at the time was appointed as a non-executive director of Coca Cola in 2014 (Marks & Spencer Group plc, 2015). By having direct sent interlocks with such companies, the firm effectively co-opts important resources for the firm in foreign markets, in this case securing a favorable global treatment from Coca Cola. These transnational interlocks also increase the information-processing capabilities of the firm, as the directors involved in the tie should be in a better position to perform their service, resource-providing, and monitoring duties.

Extenders
Firms expanding into psychically close countries, but with a high DOI, will have a moderate to low need for transnational interlocks. From a resource dependence perspective, these firms would still benefit from the knowledge and resources that transnational interlocks can provide to the organization. However, the need and benefit of transnational interlocks for these firms would be low given the low PD between the firm's home and host markets. These are firms that are probably in the first steps of their internationalization process (Johanson and Vahlne, 1977), or whose bundle of resources and capabilities only allow them to internationalize into psychically close countries. As described above, received ties would still be a good option for these firms as a means of avoiding the perils of the PD paradox. Appointing foreign directors primarily affiliated with organizations headquartered in such similar markets would be a cost-effective way to obtain relevant knowledge and advice about how to operate in these locations. An example of this networking strategy is the appointment in 2012 of Chris Lynch, a leading figure in the Australian business community, to the board of directors of British-based Rio Tinto plc. According to the firm, "his directorship reflects the significance of Australia to Rio Tinto's global operations" (Rio Tinto Group plc, 2013). Australia, a country that is very close to the UK from a PD perspective, represented an important percentage of the firm's profits at the time (Rio Tinto Group plc, 2013). Back then, Mr Lynch was the CEO of a top listed Australian firm and held several non-executive directorships in non-listed firms, thus connecting Rio Tinto directly to a variety of local actors. In addition, he was also commissioner of the Australian Football league. As such, Mr Lynch was able to provide Rio Tinto with connections and resources that could positively influence the performance of Rio Tinto's Australian operations. Rio Tinto even appointed him CFO the very next year (Rio Tinto Group plc, 2014), thus fully internalizing Mr Lynch's personal resources and capabilities. Given the close relationship between the UK and Australia, however, the appointment of Chris Lynch cannot be considered crucial to operations of the firm in the country. But then again, such received ties probably prevented Rio Tinto from becoming careless and complacent while operating in such a psychically close country.

Cosmopolitans

Firms with a high DOI that expand into psychically distant countries are expected to exhibit the greatest engagement in transnational interlocks. For these firms, transnational interlocks represent a valuable and cost-efficient source of global knowledge and resources. Transnational interlocks also contribute to a better alignment between the strategic posture of the firm in foreign markets and the capabilities of the board by expanding the social capital of the firm from a national to a transnational context. Firms operating at such high combinations of DOI and PD that fail to develop transnational interlocks will miss the chance to compete with other firms that do embed themselves in this global network; they will suffer from a liability of outsidership. An example of a firm following this type of interlock strategy is the highly international British American Tobacco plc. The current CEO of the firm is Brazilian-national Nicandro Durante; the appointment of a foreign-born CEO further demonstrates the commitment of the firm to an international strategy (British American Tobacco plc, 2018). At very high levels of performance (99 percent of foreign sales), structural (98 percent of foreign assets) and attitudinal internationalization (foreign CEO and presence in more than 180 countries), the firm has had multiple transnational interlock connections throughout its recent history to firms located in countries including Belgium, Switzerland, the USA, Denmark, Germany and Finland (British American Tobacco plc, 2012, 2013, 2014, 2015, 2016, 2017, 2018). Such rich transnational connections are in line with the firm's global strategy and provide it with an unparalleled overview of world markets and direct access to different regions and markets.

Discussion

The conceptual framework presented here incorporates under-examined aspects of the practice of transnational interlocking such as DOI and PD. By combining these two IB constructs, this framework shows that pursuing an active transnational interlock strategy is more appropriate for firms that follow expansive internationalization strategies and who also venture into psychically distant countries. The theoretical arguments on which the framework is based should hold in the case of born-globals, i.e. "firms that expand into foreign markets and exhibit international business prowess and superior performance, from or near their founding" (Knight and Cavusgil, 2004, p. 124). Even though the accelerated internationalization process of born-globals appears to be at odds with the step-by-step nature of the Uppsala model, under updated versions of the model, such as the network perspective of internationalization (Forsgren, 1989; Holm *et al.*, 1995; Johanson and Mattsson, 1988; Johanson and Vahlne, 1990, 2009), the two viewpoints are not as distant as they appear. According to Johanson and Mattsson (1988), internationalizing firms should be studied in terms of the networks in which they are embedded and not as isolated agents. This key change in perspective has been helpful in explaining the rapid and non-gradualist internationalization of small and medium enterprises, with networks acting as accelerators of the internationalization process (Chetty and Blankenburg Holm, 2000). Integrating the Uppsala and born-global models, Fang *et al.* (2017, p. 554) argued that such firms achieve success in the age of globalization by "devising creative strategies that help them overcome the challenges in a psychically distant environment." This evolution in the theory has thus allowed IB scholars to relax internationalization assumptions based on PD and experience-based learning as originally advanced by the Uppsala model, and instead focus on the role of social relationships in the internationalization process of the firm (Forsgren, 2002, 2016). Indeed, a fundamental pillar of Oviatt and McDougall's (1994) framework for understanding international new ventures is that to overcome their resource constraints, these firms should draw from the resources available in their network (see also Coviello, 2015; Oviatt and Mcdougall, 2005). Moore *et al.* (2012), for instance, found that foreign IPO firms with board interlocks ties to the UK were more likely to also list in that country. In their study of

Chinese born-globals, Lin *et al.* (2016) found that networks facilitated rapid internationalization of these firms by providing them with access to resources and legitimacy in foreign markets. Drawing from both literature, I argue that, within the context of this framework, born-globals can be conceived as early cosmopolitans, i.e. firms that from inception exhibit both high DOI and PD scores, and that therefore stand to benefit the most from the knowledge, resources and legitimacy that transnational interlocks can offer. The only caveat is that because of these firms' lack of resources and legitimacy, such transnational interlocks will tend to be received interlocks, but this specific case would be consistent with the theoretical arguments advanced in *P3a–P3c*.

The propositions offered in this paper should also remain valid in the case of transnational interlocks created by related directors, i.e. non-executive directors who have a connection to the focal organization (Baysinger and Hoskisson, 1990). An example of this situation in a large MNE is Mr Matthew Emmens, who after leaving the CEO position at Irish-headquartered Shire plc (2011) for the same position at US-based Vertex Pharmaceuticals, was appointed back to Shire as a chairman of the board. Being now primarily affiliated to Vertex Pharmaceuticals, Mr Emmens created a related transnational received interlock for Shire. A major prescription of agency theory is that effective boards will be largely comprised of truly independent directors (Eisenhardt, 1989). A director is considered independent if she has neither financial nor familial ties to the CEO or to the firm (Hwang and Kim, 2009). However, non-executive directors can be related to the organization in numerous ways, which compromises their independence (Baysinger and Hoskisson, 1990; Johnson *et al.*, 2012). Hwang and Kim (2009, p. 139), for instance, found that the percentage of "conventionally independent directors" decreases significantly once their social ties are taken into consideration. Westphal and Zhu (2018) found that firms circumvent regulations against interlocking with other firms in the same industry by appointing the friends of competitors' CEOs to their boards. True independence, however, can limit the information-processing capacity of directors because they will not have a close understanding of the firm's operations and challenges (Baysinger and Hoskisson, 1990). In contrast, related directors such as Mr Emmens are likely to be more informed about the inner workings of the firm and therefore less reliant on management for information. According to the firm's annual report: "Mr. Emmens brings to the board, among other things, his operational knowledge of Shire and his wealth of international sales, marketing, integration and operational experience in the pharmaceutical sector" (Shire plc, 2011). As a result, relations between top managers and insider/related directors are likely to be more open and subjective, whereas those with true outside directors more objective and formulaic (Johnson *et al.*, 2012). Transnational interlocks formed by related directors, be they sent, received or neutral, are therefore likely to be richer and more multifaceted than those created by truly independent directors. Drawing from resource dependence theory, related transnational interlocking can thus be interpreted as a stronger form of cooptation in which non-executive directors with strong multiplex ties to the organization are appointed as board members, creating sturdier interlock ties. In the case of related neutral interlock ties, these would create what Levin and Cross (2004) referred to as "trusted weak ties" that can potentially strengthen the value of these indirect connections. Finally, related transnational interlocks can be particularly useful in reducing the negative effects of PD as the board members in question would act as bridges between not only the two countries with which they are closely familiar, but also between those two countries and the firm's idiosyncratic organizational culture.

Limitations and future research recommendations

The transnational setting offers a suitable context in which to test existing board interlock theories at the national level and to expand its boundary conditions. This paper draws from IB theories and constructs to shed light on the antecedents and consequences of the practice of transnational interlocking, and thus sets the stage for continued research in the area. The field of transnational interlocks, however, has been characterized by a lack of rigorous empirical research. The primary reason for this is that gathering high-quality network data at a global level is complex (Fennema and Heemskerk, 2018). Even if global network data become available, gathering attribute data to complement it, such as detailed firm or director characteristics, will be a daunting task. Whether researchers should use stratified samples (e.g. Carroll *et al.*, 2010; Carroll and Fennema, 2002) or focus on the largest publicly-listed firms (e.g. Heemskerk, 2013; Kentor and Jang, 2004a; van der Pijl *et al.*, 2010) is also still a matter of debate (Carroll and Fennema, 2004; Kentor and Jang, 2004a, b). As databases improve, access to high-quality board interlock data will likely become available. This availability of data will create opportunities to work with big corporate network data (Carroll and Fennema, 2004; Heemskerk *et al.*, 2018; Heemskerk and Takes, 2015). Researchers might then be able to test empirically for some of the propositions advanced in this paper, perhaps using dynamic network models such as exponential random graph models (ERGMs) for two-mode affiliation data, which can study two different network levels simultaneously (Koskinen and Edling, 2012). ERGMs would be able to disentangle individual and organizational motives for transnational interlock formation. These models, however, will necessarily be more modest as network methods are particularly sensitive to missing data (Koskinen and Edling, 2012; Wasserman and Faust, 1994). In any case, firms from non-core countries such as those from emerging markets will continue to be under-represented in the global transnational interlock network (Heemskerk and Takes, 2015). Future studies can investigate how the interlocking patterns of these firms are facilitating or constraining their growth. For instance, research shows that firms from emerging markets such as Brazil, Russia and China are not central to their local interlocking directorate networks, but rather appear to have positioned themselves as bridges in the global transnational network (Heemskerk and Takes, 2015). This bridging network position possibly bestows important brokerage benefits on these firms (Burt, 1992).

Managerial implications

The paper highlights the benefits that organizations can obtain from the practice of transnational board interlocking, an activity that, ultimately, is performed by individuals. On the one hand, firm executives can actively contribute to the success of their organizations in foreign markets by seeking board positions in firms located in key countries and industries. We see this, for instance, with the appointment of Robert Dudley, Group Chief Executive of British-based BP plc, to the board of Rosneft. By sending their own executives overseas, firms can not only obtain more direct information from tied-to firms and better understand the overall conditions of the foreign market, but also secure scarce resources for the organization in such locations. On the other hand, boards should also welcome received ties from directors who are primarily affiliated with foreign organizations, as such connections can help the firm overcome informational barriers in foreign markets, particularly those related to the PD paradox.

Conclusion

Crossing national borders introduces environmental complexities, such as increased variability in institutional, cultural, geographic, economic, legal and political environments (Thomas *et al.*, 2011). This newfound complexity in foreign markets can promote the formation of transnational board interlocks as institutionalized sources of foreign knowledge and resources. Apart from a handful of studies that have explored interlocks in a binational context (e.g. Beckman *et al.*, 2014; Sanders and Tuschke, 2007), extant research on the topic remains primarily domestic and seldom considers national interlocks as embedded components of transnational social structures. To fill this theoretical gap, I bring together findings from the board interlocks literature with theories and constructs from IB to shed light on the increasingly prevalent practice of transnational interlocks. A result of this exercise is a two-by-two conceptual framework that examines the interaction between the DOI of a firm and the PD from its foreign markets on the extent of the practice of transnational interlocks. The overarching argument advanced in this paper is that an increased DOI should lead to the formation of transnational interlocks as a means of securing key knowledge and resources in foreign markets, and that the greater the PD between the firm's home and host markets, the more these transnational relationships will be pursued.

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