THE ROLE OF DIRECTOR INTERLOCKS ON A FIRM'S CHOICE OF FOREIGN MARKET ENTRY MODE

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ABSTRACT

This study investigates the role of director interlocks and how it can have an influence on a firm's choice of foreign market entry mode. A review of foreign market entry mode literature has indicated a lack of research from the perspective of decision makers in a firm, particularly the board of directors. While literature recognises the influence of directors on strategic decisions of a firm, the influence of director interlocks on a firm's choice of entry mode has been relatively unexamined. Director interlocks occur when directors of a firm serve as board members of other firms and have been recognised as a facilitating mechanism for learning and transfer of experiences between firms.

This study hypothesized that director interlocks with firms that have high control entry mode experience can have a positive influence over a focal firm's adoption of high control entry mode. This was followed by an investigation into how the director interlocks – entry mode relationship can be further impacted by the relatedness of the new business activity to a focal firm's core business. In addition, further analysis was performed by investigating how the director interlocks – entry mode relationship in unrelated business activities can be further amplified by the presence of outside directors with an active CEO appointment and when inside directors receive a greater proportion of annual stock options.

Using a quantitative approach, the main findings of this study demonstrated a positive association between director interlocks with firms that have high control entry mode experience and a focal firm's adoption of high control entry mode. Mixed findings were found for the role of business relatedness, outside directors with an active CEO appointment and when inside directors receive a greater proportion of annual stock options.

This study contributes to the foreign market entry mode and director interlock literature by merging perspectives from these two different streams of research areas and paves the way forward for future research. This study highlights the value of strategic involvement of directors in a firm’s strategies and demonstrates the importance of director interlock linkages for foreign market expansion plans. It offers valuable insights to help facilitate understanding on the role of director interlocks in influencing a firm’s choice of foreign market entry mode as well as how director interlocks can be leveraged to deliver the highest possible strategic benefits and value to a firm.

This thesis is dedicated to my parents,
Who have raised me up to more than I can ever be.

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LIST OF ABBREVIATIONS

BOD	Board of directors
CEO	Chief executive officer
FDI	Foreign direct investment
HCEM	High control entry mode
IB	International business
JV	Joint venture
MNC	Multinational corporation
NGO	Non-governmental organizations
OLI	Ownership, location and internalization
ROA	Return on assets
R&D	Research and development
SDC	Securities Data Corporation
SEC	United States Securities and Exchange Commission
SIC	Standard Industry Classification
S&P	Standard & Poor’s
WIR	World Investment Report
U.S.	United States
U.K.	United Kingdom

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CHAPTER 1

INTRODUCTION

1.1 Background and research questions

Globalization has become a highly charged and dominant factor that needs to be confronted by firms in order for continued business survival. With an increasing trend of globalization of the world economy, firms now face the growing pressure of global competition. This necessitates the need for appropriate strategic choices to be made in the context of new markets to explore, respond and adapt to. This globalization phenomenon has created new challenges for firms (Knight and Cavusgil, 1996). This requires careful navigation in global waters to be successful along with the need for careful choices in establishing appropriate directions to ensure business survival in an increasingly turbulent business environment. One of the key challenges for firms is to have the ability to remain responsive to local markets while being able to grow concurrently and to achieve global efficiency through integration and coordination of operations across world markets.

The expansion of business activities across national borders into a foreign market is considered a complex strategic decision (Tihanyi, Ellstrand, Daily and Dalton, 2000). Deciding on a foreign market entry mode involves a complicated decision making process that can be influenced by multiple factors. For many firms, the decision to enter foreign markets involves a variety of challenging issues such as the ability to integrate and coordinate operations across local and foreign markets, transfer of skills, dealing with host country regulations and different cultural aspects in different markets.

Establishing operations in a foreign market can potentially be rewarding yet it is risky. A foreign operation increases organizational complexity in many areas of a firm such as logistics, communications, human resource management, and it introduces uncertainty relating to the institutional environment of host countries, cultural differences and unfamiliar business practices (Hitt, Bierman, Uhlenbruck and Shimizu, 2006). This is followed by decisions to be made on expansion into related or unrelated business activities (Chatterjee, 1990; Yip, 1982) as well as which entry mode to pursue (Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004; Root, 1994; Sharma and Erramilli, 2004).

The choice of market entry modes has been widely regarded as a key issue in international business (Agarwal and Ramaswami, 1992; Anderson and Gatignon, 1986; Datta and Herrmann, 2002). As entry modes have a major impact on a firms' overseas business performance, their choices are regarded as critical international business decision (Anderson and Gatignon, 1986; Root, 1987; Terpstra, 1987). Choice of entry mode is critical in that it defines the flexibility with which the firm will be able to identify and adjust firm resources in the long run (Hill, Hwang, and Kim, 1990) in its drive to generate sustainable competitive advantage.

Entry mode theory assumes that firms will select the mode that provides the best return on investment (Brouthers, Brouthers, and Werner, 2003; Woodcock, Beamish and Makino, 1994). Each entry mode is associated with a certain level of investment risk and resource commitment, and thus different entry modes imply a different level of organizational control over the foreign operation. Previous research has suggested that entry modes that have different ownership levels are associated with specific control capabilities and capacities (Anderson and Gatignon, 1986; Caves, 1982; Davidson, 1982; Root, 1987). Anderson and

Gatignon (1986) postulated that in choosing entry modes, firms make trade-offs between control and cost of resource commitments.

The basic criterion used to categorise entry modes is the level of control or involvement each mode affords the entrant because it is the single most important determinant of both risk and return (Erramilli and Rao, 1990). Control and integration are closely related, since integration gives a firm legitimate authority to direct operations (Anderson and Gatignon, 1986). Control refers to authority over operational and strategic decision-making and resource commitment means dedicated assets that cannot be redeployed to alternative uses without loss of value (Kim and Hwang, 1992). Woodcock et al. (1994) defined organizational control as the efficient and effective management of the relationship between a parent and entry entity that enables the parent entity to best meet their overall goals and objectives.

Some of the common market entry modes that have been studied include greenfield investments, acquisitions and joint ventures (Blomstermo and Sharma, 2006; Hill, Hwang and Kim, 1990; Kim and Gray, 2008). These modes have been further categorized into either high or low control modes, whereby greenfield and acquisitions were typically classified as high control entry modes and joint ventures and contractual alliances as low control entry modes (Ekeledo and Sivakumar, 2004). High control modes, as defined by Agarwal and Ramaswami (1992) and Anderson and Gatignon (1986), typically involves a high level of ownership and a high commitment of firm resources such as managerial and financial resources. While high control entry modes allow a firm to assume a higher level of decision making that can sometimes result in higher return in investment (Douglas and Craig, 1995; Javalgi and Martin, 2007), high control entry modes require greater resource commitment. It has higher switching costs and reduces a firm’s ability to change its institutional arrangement should the choice turn out to be sub-optimal (Anderson and Gatignon, 1986). The level of risk exposure would typically be higher for high control entry modes as compared to low control entry modes and as such, firms opting for high control modes must be adept at information acquisition and processing (Herrmann and Datta, 2006).

A review of numerous studies within the market entry mode literature have shown that factors influencing the selection of entry modes can generally be classified as being environment specific (Brouthers and Brouthers, 2000; Brouthers, Brouthers and Werner, 2002; Nachum, Zaheer and Gross, 2008), organization specific (Chen and Hennart, 2002; Erramilli et al, 2002; Nadolska and Barkema, 2007) or decision maker specific (Erramilli, 1991; Gomes-Casseres, 1989).

While there have been substantial studies that focused on strategic actions and market entry decisions made by firms, there has been less focus on individual and team attributes that may influence actual market entry decisions. Exceptional studies that have investigated such attributes include Herrmann and Datta (2005, 2006) and Nielsen (2010) which looked at links between executive attributes such as their prior experiences in relation to a firm's market entry strategies. Gatignon and Anderson (1988) suggested that stronger explanatory power could be achieved with a research approach that incorporates perceptions of top managers who make such decisions, particularly their perceptions of the business environment when pursuing a foreign market.

This study plans to analyze the area of foreign market entry mode from the decision maker perspective. It proposes that this perspective requires some attention, as a firm's final decision to expand into a foreign market and the selection of entry mode are often dependent upon the choices made by a firm's senior executives such as its board of directors. The field of strategic management recognises senior executives as key strategic decision makers in business organizations (Schendel and Hofer, 1979) who are responsible for scanning the environment and for aligning resources and competencies of the firm to its external environment (Summer et. al., 1990).

The upper echelon theory (Hambrick and Mason, 1984) states that executives' experiences represent valid proxies for their cognitions, values, skills and knowledge base and this consequently explains their variations in making strategic choices during the decision making process. Research has shown evidence of the linkage between executive experience and firm strategies (Chaganti and Sambharya, 1987; Herrmann and Datta, 2006; Sambharya, 1996; Smith and White, 1987; Thomas, Litschert and Ramaswamy, 1991; Tihanyi, Ellstrand, Daily and Dalton, 2000) and in particular, a positive relationship has been observed between international experience of executives and firm internationalisation (Athanassiou, 2000; Carpenter and Fredrickson, 2001; Sambharya, 1996; Tihanyi et al., 2000).

Studies that examined the linkage between the role of experience and its influence on choice of market entry modes have not addressed the linkage sufficiently. Many studies have investigated the notion of experiences from a general perspective such as international experience (Herrmann and Datta, 2006; Nielsen, 2010) and functional experience (Herrmann and Datta, 2006) but have failed to address the issue of how relevant such experiences are towards influencing choice of market entry modes as opposed to more precise experiences that are specific to a particular mode of entry.

Research on boards of directors has to date, mostly been related to corporate governance issues such as the effect of board composition or board independence on firm performance (Boyd, 1990; Daily, Dalton and Cannella, 2003; Hillman and Dalziel, 2003; Pfeffer, 1972). Corporate governance researchers have also noted that boards of directors are increasingly taking a more active role in strategic decision-making (Johnson, Daily and Ellstrand, 1996; Pearce and Zahra, 1992). A firm's board of directors, which includes executives from both inside and outside of an organization, can serve as a boundary-spanning and monitoring mechanism (Johnson, Daily and Ellstrand, 1996) and provide expert advice and counsel on strategic issues (Baysinger and Butler, 1985; Johnson et al., 1996). Therefore, when a firm needs to make key strategic decisions on which foreign market entry mode to pursue, it is likely that this needs to be validated and approved by the board of directors. A board with directors who have prior entry mode experiences and firm specific knowledge will enable the board to perform a well-informed evaluation of selecting an entry mode.

High control entry modes such as greenfield investments and acquisitions are the focus of this study because they represent critical junctures of a firm where board of directors are involved due to contractual, legal, and regulatory mandates (Bacon, 1985; Byrd and Hickman, 1992; Hoskisson, Hitt and Hill, 1993; Judge and Zeithaml, 1992). The presence of uncertainty with regard to foreign market expansion enhances the use of mental models in a decision process as mental models influence decision making though managers' efforts to match strategic choices to their understanding of the business environment (Barr, Stimpert and Huff, 1992; Tripsas and Gavetti, 2000). This decision process includes not only the top management teams but also the board of directors of a firm. In support of this, business strategy decisions are rarely determined by single individuals but would normally be the responsibility of a group of top executives as a whole (Hambrick and Mason, 1984).

However, despite evidence from studies that looked at the role of firm and managerial experience and their relationship with entry mode strategies (Herrmann and Datta, 2006; Nielsen and Nielsen, 2011), minimal attention has been directed towards the mechanisms that facilitate the sharing of knowledge gained from prior experiences and how this may be transferred and shared across firms and eventually have implications for a firm's foreign market entry practices and the eventual entry mode choice. By examining the mechanism by which relevant experiences are diffused and shared, the ability to establish a clearer linkage between experience and decision making pertinent to entry modes can be achieved, as relevant experiences should have a higher probability of being able to influence decision making.

This study highlights the importance of director interlocks in taking on this role and argues that although general experiences of decision makers can influence their choices for a particular entry mode such as high control entry mode, a more accurate prediction might be attained by investigating director interlocks to other firms with prior high control entry mode experience.

Director interlocks have become a practice for many firms whereby a director of a firm serves as a board member on another firm, hence, establishing a connection between these firms (Fich and Shivdasani, 2006; Mizruchi, 1996). Interlocks are one of the facilitating and linking mechanisms by which firms can gain knowledge (Carpenter and Westphal, 2001; Doz and Hamel, 1998; Haunschild and Beckman, 1998) whereby interpersonal ties between directors that serve on multiple boards are viewed as a potential source of connections between firms for sharing information (Haunschild, 1993; O'Hagan and Green, 2002). Firms may use interlocks to bring about benefits that can help enhance their competitive advantage, such as providing access to resources and clients, experiences and network contacts (Bazerman and Schoorman, 1983; Burt, 1980; Davis, 1991; Dooley, 1969). Interlocks are also an important conduit of inter-organizational linkages (Heracleous and Murray, 2001), as they can facilitate the flow of information and knowledge and hence, can be able to influence corporate behaviours (Mizruchi, 1996; Rosenkopf and Schleicher, 2008).

Additionally, director interlocks enable firms to gain key aspects of collective tacit knowledge that are difficult to purchase in the market (Koenig and Gogel, 1981; Mariolis and Jones, 1982) such as strategic information, mental models, behaviours and explicit knowledge such as business practices (Koenig and Gogel, 1981). The presence of interlocks has a correlated relationship with new strategies that a firm undertakes (Geletkanycz and Hambrick, 1997; Mizruchi, 1996). Furthermore, the nature of directors' knowledge makes director interlocks a relevant mechanism for the diffusion of managerial practices, such as acquisitions and diversification (Davis, 1991; Davis and Greve, 1997; Haunschild, 1993; Westphal and Fredrickson, 2001).

Diffusion of information through interlocks might result in firms doing similar activities and adopting similar practices as their interlocked partners (Davis, 1991). Haunschild (1993) and Galaskiewicz and Wasserman (1989) found that director interlocking ties can act as a mechanism that can facilitate organizational imitation while Beckman and Haunschild (2002) revealed that when a firm's directors are exposed to acquisition activities of other firms whose boards they sit on, the acquisition decisions of these firms are used as models to follow. An implication of these would be that director interlocks could have an influence on a firm's choice of foreign market entry mode. Research has also found that director interlocks can help provide information and relationships that assist firms in accomplishing acquisitions or strategic activities (Haunschild, 1993; Palmer, Jennings and Zhou, 1993).

This study therefore anticipates that directors who are members of boards of other firms who have experienced entry into foreign market using high control entry modes would have acquired prior high control entry mode knowledge. Furthermore, these directors would have observed the decision making process in their monitoring role as board members of these firms, and could even have participated actively by advising management of these firms and consequently, witnessed the outcome of the decisions that have been made (Carpenter and Westphal, 2001; Davis, 1996; Haunschild and Beckman, 1998). An implication that comes from this is that increased exposure on the part of such directors to boards of other firms who have faced similar decision contexts may influence the current board in dealing with a specific decision (Bacon, 1985).

Hence, the first research question of this study is:

- Do director interlocks with firms that have high control entry mode experience increase the adoption of high control entry mode?

A firm's business activities in a foreign market can be broadly classified into related and unrelated activities. Related activities are activities such as when firms modify or expand their business to offer new functionality to existing customers or to capture new customers. Unrelated business activities on the other hand, refer to activities that are different from a firm's core business and takes place when a firm enters a completely different business. It has been noted that firms tend to move into related activities with the intention of leveraging their resources in new markets by developing economies of scale, scope and knowledge (Chandler, 1991; Teece, 1980). Moving into unrelated business activities offers firms the opportunity to expand into new lines of business and to create an avenue for a different revenue source. It can also help reduce cyclical fluctuations in a firm's sales revenues and cash flows (March, 1991). Unrelated business activities can also be a source of new information that creates learning opportunities that can help develop knowledge and new capabilities (March, 1991). By doing so, firms can continue to grow even when their core business has matured. Different sources and types of information can also ignite organizational innovation (Madhok, 1997) and provide the basis for new or renewed sources of sustainable competitive advantage for a firm (Barney, 1991).

Unrelated activities are viewed as being more risky than related activities (Pehrsson, 2006; Pennings, Barkema and Douma, 1994; Ramanujam, and Varadarajan, 1989; Stimpert and Duhaime, 1997). This is because unrelated activities involves operating outside of a firm's core business domain and would have a significant impact on the monitoring and management of business operations due to factors such as a higher level of market and environmental uncertainty (Thompson, 1967). Market entry into unrelated business activities raises operating costs because there is less opportunity to economize on existing resources. As a result, firms have a tendency to acquire another firm that already has the needed resources in unrelated markets (Chatterjee, 1990). By doing so, this helps a firm to overcome some of the entry barriers (Yip, 1982). It also minimizes entry risks with already established means of production and distribution channels (Pennings et al., 1994).

When a firm pursues unrelated business activities, it raises the risk profile of the firm (Bettis and Hall, 1982; Montgomery and Singh, 1984) and information challenges will be greater due to a higher level of information asymmetry (Nayyar, 1993; Prahalad and Bettis, 1986).

Hence, this will predispose directors of a firm to take more care in making entry mode decisions. As a result, it is anticipated that directors may rely more heavily on experiences gained through interlocks, which serves as guidance for decision-making. In view of this, examining the moderating effect of relatedness of the new business activity that a firm enters into is important in attempting to accurately understand the role of director interlocks on a firm's choice of entry mode.

Therefore, the second research question of this study is:

- Is the influence of director interlocks with firms that have high control entry mode experience on the adoption of high control entry mode stronger in unrelated business activities as compared to related activities?

Different types of director interlocks can differ in the type of experience they bring and the value of these different types of interlocks may differ depending on the exposure and level of experience that directors of a firm have with the specific issues. Differences in learning and knowledge shared across interlocks can arise when directors differ in the type of experience for a specific domain of knowledge that a focal firm is seeking to learn such as knowledge of a new market or new industry. Experiences of directors may also vary depending on whether they are inside directors with direct responsibility for firm strategies, or if they are outside directors holding CEO roles in firms elsewhere, or if they are merely outside directors with monitoring and advisory roles in other firms.

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Outside directors may be able to contribute to a firm in an agency capacity because of their objectivity in overseeing the management team of a firm, as well as by sharing their breadth of experience and external contacts (Jensen and Meckling, 1976; Kesner, 1987; Mizruchi, 1983). They may also be in a better position to represent the interests of shareholders (Rechner and Dalton, 1991), as effective corporate governance calls for outside directors to hold the majority number of position on the boards of public firms.

Past literature has investigated the role outside directors with an active CEO appointments in other firms and has acknowledged the advantages for firms when they appoint such directors onto their board (Kroll, Walters and Wright, 2008). Outside directors with CEO appointments can bring a unique combination of talent and experience to the board and can play important advisory roles in identifying and exploiting strategic opportunities. They may have developed knowledge about particular strategies through first hand action (Kroll et al., 2008), and are likely to be better transmitters of knowledge due to the primacy of their experience, the vivid case-like descriptions they can provide, and the credibility they have with other board members. On the other hand, outside directors with non CEO roles may only possess a more coarse-grained knowledge acquired from second hand observations of other firms' strategies (Geletkanycz and Hambrick, 1997; Haunschild, 1993).

This distinction between outside directors with an active CEO appointment and outside directors without an active CEO appointment is important for this study as the differences in their roles may have an effect on their overall ability and contribution to a focal firm. Outside directors with an active CEO appointment have been acknowledged to be able to assist firms in the formulation and revision of their strategic actions including internationalization strategies (Harrison, 1987). Their range of experience as executives in other firms enables them to bring inimitable knowledge, worldviews, professional ties as well as stronger networks that will be better able to help deal with the environmental complexities that accompany a firm's foreign expansion (Sanders and Carpenter, 1998).

Thus, the examination of the role of outside directors with an active CEO appointment will be valuable in helping to facilitate further understanding on the role of director interlocks on a firm's choice of entry mode, especially when a focal firm expands into an unrelated business activity, which raises the risk profile of a firm.

Hence, the third question of this study is:

- Is the influence of director interlocks with firms that have high control entry experience on the adoption of high control entry mode in unrelated business activities further amplified with the presence of outside directors with an active CEO appointment?

When directors have considerable holdings in a firm's stock by way of either direct holdings of stocks or options on the firm's stock, their decisions can have an impact on their own wealth (Brickley, Lease and Smith, 1988). A well-established argument by agency theorists states that top executives who receive stock option compensation are more likely to make riskier decisions since they participate in the upside potential of these decisions but not in their downside (Agrawal and Mandelker, 1987; Sanders, 2001). This argument has received widespread support in the literature (Deutsch, Keil and Laamanen, 2007; Rajgopal and Shevlin, 2002; Williams and Rao, 2006; Wright, Kroll, Lado and Van Ness, 2002) where findings have indicated that stock option compensation increases firm level risk taking.

While the effects of CEO compensation on firm risk taking have attracted a lot of attention in the recent literature (Harford, and Li, 2007; Sanders and Hambrick, 2007; Williams and Rao, 2006), the effects of the compensation schemes of directors have received less emphasis (Cyert, Kang and Kumar, 2002; Deutsch, Keil and Laamanen, 2007; Hermalin and Weisbach, 1991). Many of these studies have not explicitly considered directors' own incentives and risk preferences but rather, these studies have built on the basic assumption of a risk averse CEO and risk neutral directors and shareholders.

Relatively little attention has been paid to the type of incentives that would motivate directors to fulfil their roles (Cyert, Kang and Kumar, 2002). Moreover, different kinds of incentives have different effects on different categories of directors. For instance, Hoskisson, Hitt, Johnson and Grossman (2002) found that inside directors with higher equity and stock option compensation tend to emphasize internal innovation, and outside directors with higher equity and stock option compensation tend to emphasize external innovation. Deutsch, Keil and Laamanen (2007) on the other hand, found that performance based incentives for outside directors can affect a firm's acquisition behaviour.

There has been limited research known to date on stock option compensation to inside directors and the effect it has on a firm's choice of foreign market entry mode. Inside directors are directors who also serve as executives on a firm's top management team. They are the main source of firm specific information and are the most influential board members due to their valuable firm specific knowledge (Fama and Jensen, 1983). Jensen and Meckling (1976)'s study underpins the well known agency theory whereby according to this theory, due to the separation of corporate ownership and control, the manager acts in his or her own interest instead of acting for the shareholders' best interests. As such, managers who are inside directors have most of their human capital at risk with their current firm and would typically prefer a less risky investment strategy as compared to shareholders. This is because shareholders can diversify their wealth among many financial assets but managers are frequently unable to diversify the risks specific to their firms because managers' reputation and job positions are closely linked to firm specific risks.

Haugen and Senbet (1981) and Rajgopal and Shevlin (2002) demonstrated that stock options provide incentives to executives to engage in riskier investments. Hall and Murphy (2002) highlighted that stock option compensation motivates executives by offering a direct link between firm performance and executive wealth, thereby providing incentives for executives to take actions that increase share price and avoid actions that decrease share price. Similarly, Chen, Dyball and Wright (2009) found a positive relationship between options based compensation and risk taking in banking industry.

Therefore, in view of the potential effect stock options can have as an incentive to executives to assume a higher level of risk taking, an examination of the moderating role of stock options paid to inside directors will be valuable in helping to facilitate further understanding of the role of director interlocks on a firm's choice of entry mode. This would be more especially so when a focal firm expands into an unrelated business activity which raises the risk profile of a firm.

Hence, the fourth question of this study:

- Is the influence of director interlocks with firms that have high control entry experience on the adoption of high control entry mode in unrelated business activities further amplified with the granting of a greater proportion of annual stock options to inside directors?

1.2 Research objectives

In summary, the main research objectives of this study are:

- To examine if director interlocks with firms that have high control entry mode experience can lead to a higher likelihood of adopting high control entry modes by the focal firm.
- To examine if the influence of director interlocks with firms that have high control entry mode experience on the focal firm's adoption of high control entry modes will be greater for entry into unrelated business activities as compared to related business activities.
- To examine if the presence of outside directors with an active CEO appointment can further amplify the influence of director interlocks with firms that have high control entry mode experience on the focal firm's adoption of high control entry modes in unrelated business activities.
- To examine if the granting of a greater proportion of annual stock options to inside directors can further amplify the influence of director interlocks with firms that have high control entry mode experience on the focal firm's adoption of high control entry modes in unrelated business activities.

1.3 Research contribution

This study hopes to make several contributions. Firstly, this study hopes to advance understanding on the rationale behind a firm's choice of foreign market entry mode from the perspective of a firm's board of directors using director interlocks as a facilitating mechanism for learning and transfer of experiences. Prior studies have addressed the general and functional experiences of executives (Herrmann and Datta, 2006; Nielsen, 2010) in influencing choice of foreign market entry mode. However, there have been limited studies that looked at board of directors and specifically, director interlocks and the influence it can have on strategic issues such as a firm's foreign market expansion strategy and choice of entry mode. Thus, this study hopes to extend existing entry mode literature with the inclusion of director interlocks perspective.

Secondly, by integrating board of director research with emphasis on the role of director interlocks into the study of foreign market entry modes, this study also contributes to the board of director literature. Existing research on boards of directors have been dominated by approaches that looked at structural and demographic characteristics of boards but little attention has been given to group decision making processes inside a firm's boards and its role in affecting a firm's strategic choices (Finkelstein, Hambrick and Cannella, 2009; Hambrick, 2007). The approach advanced in this study complements existing perspectives and hopes to yield a more holistic approach by offering further insights into the dynamics of board behaviour by taking into account board composition and board compensation's moderating effects on a firm's entry mode strategy. This study aims to provide a strategic view on how board of directors can be incorporated into the study of global strategic decisions.

Thirdly, this study also attempts to provide further understanding of how certain elements of board dynamics can have an influence over board decision making in a firm. More specifically, elements of board composition and director compensation are incorporated into the study in an attempt to analyze how these factors may have an influence over board decision making with regard to choice of foreign market entry modes. By doing so and by broadening the discussion in the director interlock and entry mode literature, this study reinforces and builds on behavioural theories of the firm (Cyert and March, 1992).

Fourthly, this study intends to investigate how diversification into related and unrelated business activities can moderate the relationship of director interlocks on a firm's subsequent choice of foreign market entry mode. To my knowledge, this study is the first of its kind that examines this set of relationships between director interlocks and choice of foreign market entry mode. Levinthal and March (1981) noted that studies often do not consider the effects of competition, imitation, or other interaction among organizations and there is a tendency to overlook the industry structure in shaping firm's actions and outcomes (Henderson and Mitchell, 1997). In response to this and by taking into account situational factors such as the relatedness of the new business activity in relation to a firm's current core business, this study hopes to be able to provide a more holistic approach to understanding strategic behaviour of a firm.

This study also hopes to be able provide insightful contributions to practitioners. With an understanding on the relationship between director interlocks and a firm's choice of entry mode, firms will be able to gain further appreciation on the benefits of director interlocks and how it can have an influence on the strategic activities of a firm. This will help firms plan on how they may be able to strategically leverage on directors' interlocking ties in view of the potential benefits that interlocking ties can bring. This study will also be useful to firms who need to make appropriate decisions regarding board composition, board compensation and appointment of directors, where the inclusion of directors' interlocking ties becomes a key factor that needs to be taken into consideration.

1.4 Organization of study

Chapter two introduces the relevant literature to this study. This chapter provides an overview of board of director research with particular emphasis on director interlocks, outside directors with CEO appointments and director compensation. A summary of foreign market entry mode literature is covered as well the literature on diversification. The literature review sets the context for the study and identifies potential research gaps and establishes the subsequent rationale for undertaking the study. Specific propositions and hypotheses are developed to further understand the role of director interlocks on a firm's choice of foreign market entry mode.

Chapter three describes the research methodology of the study and includes discussion of the sample data, the variables and measures, as well as the statistical method used to test the hypothesized relationships. Chapter four reports the findings of the study and discusses the extent to which the hypothesized relationships are supported. Chapter five interprets the substantive meaning of the findings and provides a detailed discussion of results. Chapter six presents the conclusion of the study as well as implications and limitations of the study, followed by recommendations for future research direction.

CHAPTER 2

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This chapter discusses the relevant literature that leads to the development of hypotheses for this study. It starts by providing an introduction to a firm's board of directors with an overview of their roles and responsibilities. This is followed by a review of the relevant theoretical research that underlies a firm's board of directors as well as a discussion on how director interlocks can have an effect on a firm's strategic choices and organizational outcomes.

The second section provides a summary of the literature on foreign market entry mode as well as a discussion on the role of director interlocks in influencing a firm's choice of entry mode. Drawing on insights from director interlocks and foreign market entry mode literature, the first hypothesis is constructed. This is followed by the next section, which reviews the literature on diversification and provides a discussion on related and unrelated business activities, which then leads to development of the second hypothesis.

The last section of this chapter provides an overview on outside directors with active CEO appointments and inside director stock option compensation and discusses how these two areas can amplify the strength of relationship between director interlocks and a firm's choice of entry mode, which subsequently leads to the development of the third and fourth hypothesis of this study.

2.1 Board of directors

2.1.1 Role of the board of directors

In a dynamic and global business environment characterised by uncertainty and risk, the role of board of directors has become increasingly important for effective functioning of firms as directors become more involved in strategic decisions of firms. This has led to an increase in interest among scholars on the role of board of directors that has become more evident in the recent years. In the strategic management research arena, board of directors are recognized for playing a dominant role in formulating corporate strategy and in determining the direction of the firm (Westphal and Fredrickson, 2001). Ingley and Van der Walt (2001, 2003) suggested that there is an emerging need for the strategic contribution by the board in a dynamic environment and the changing role of directors is seen as a move towards strategic contribution to a firm's agility and survival. Similarly, business practitioners have also placed increased attention on board of directors and how they can have an impact on a firm's strategy.

Recent corporate failures such as the collapse of Enron, accounting irregularities, corruption, and the lack of transparency in firm disclosure practices have highlighted the need for strong effective corporate governance (Gerald, 2002). Board of directors are increasingly being held accountable for the firms that they govern (Taylor, 2003) and this has led to a call for directors to take on a more active and involved role particularly in the corporate governance and strategy formulation process (Anderson, Melanson and Maly, 2007; Coulton and Taylor, 2004, Ingley and Wu, 2007). Government reactions to corporate failures and subsequent regulatory reforms have been introduced across the world such as the Sarbanes-Oxley Act

(2002) in the U.S. and the Cadbury code (1992) in the U.K., which calls for board of directors to help ensure firm adherence to regulations and organisational performance standards that leads to transparency and integrity. The Sarbanes-Oxley Act (2002) in particular, calls for a majority of the board of directors of a listed firm to be independent. Director independence according to the U.S Securities and Exchange Commission (2003), states that an independent director is a person other than an officer or employee of the firm or its subsidiaries or any other individual having a relationship, which, in the opinion of the firm's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

A firm's board of directors is an important mechanism within a firm that creates a link between the shareholders and managers and plays an important role in the corporate governance system of the firm (Daily, Dalton and Rajagopalan, 2003; Zald, 1969). Board of directors are considered to be the official first line of defence against managers who act against the interests of shareholders (Brennan, 2006). Henceforth, the board of directors is the centre of the internal system of corporate governance and in this respect, holds key responsibility in providing oversight of the firm's management in order to ensure long-term viability of a firm.

Harrison (1987) added that there are five main contingencies in which a firm's board of directors need to be involved in strategy formulation. They are such as when a firm is large and diversified, when it is facing high risks, when it is in a rapidly changing environment, when it is in an emerging or declining industry or when the firm has a new CEO. Adding a legal perspective, Stiles and Taylor (2001) emphasized that board of directors' fiduciary duty includes the review and monitoring of strategy.

The management literature takes on a broader perspective and considers the board of directors' role in strategy to include various aspects such as defining a business, developing the firm's mission and vision, scanning the business environment as well as selecting and implementing strategies (Pearce and Zahra, 1992). Judge and Zeithaml (1992) defined the strategic role of the board as making non-routine, organization wide resource allocation decisions that can affect the long term performance of a firm. Goodstein, Gautam and Boeker (1994) on the other hand, highlighted that the strategic role of board of directors is to make important decisions on strategic change that can help a firm adapt to important environment changes.

Literature has provided other varied and insightful discussions on roles of board of directors (Johnson, Daily, and Ellstrand, 1996; Zahra and Pearce, 1989). The roles can be broadly classified into two categories, firstly, one that is internally focused and the other, externally oriented (Deutsch and Ross, 2003; Finkelstein and Hambrick, 1996). With an internal role, a firm's board of directors are responsible for monitoring managerial action, protecting shareholder interests (Fama and Jensen, 1983; Fama, 1980) as well as to provide advice and counsel to the management team. With an external role, a firm's board of directors have been recognised for their ability in helping to facilitate access to important resources and information in a firm's environment (Pfeffer, 1972; Pfeffer and Salancik, 1978), as well as to help a firm gain legitimacy (Meyer and Rowan, 1977; Selznick, 1996).

Another school of thought on directors' role and involvement in firm strategy looks at their involvement as being either active or passive (Golden and Zajac, 2001). The passive view looks at board of directors as tools to be leveraged upon by the firm's top management (Pfeffer, 1972) and the board's main contribution is to act in accordance with the requirements of company law (Stiles and Taylor, 2001). This passive view argues that board decisions can be subjected to the control of management, such as in the case when there is presence of a powerful chief executive officer (Mace, 1986). The active view on the other hand, looks at board of directors as independent thinkers who help shape the strategic direction of firms (Davis and Thompson, 1994; Finkelstein and Hambrick, 1996).

Research on board of directors has been dominated by numerous studies, which looked at board composition and its effect on a firm’s financial performance (Johnson, Daily and Ellstrand, 1996). However, some studies that looked into the board and firm performance relationship had contradictory findings (Daily, Dalton and Cannella, 2003). The inconsistency in findings could have been explained by the fact that these studies have placed a stronger emphasis on board structure (Winfried, Simon and Keller, 2006) rather than on the experiences and competences of the board members. According to Gabrielsson and Huse (2005), the research on board of directors has so far been based on theoretical reflections of board role expectations, but actual board task performance has been rarely measured. Researchers have also examined the relationship between a firm’s board of directors and several strategy variables such as diversification, restructuring, and strategic change (Baysinger and Butler, 1985; Judge and Zeithaml, 1992) and have found that board of directors can have an influence over strategic activities of a firm.

Directors’ roles have continued to evolve in response to economic factors and more recent studies have highlighted that directors have started to adopt a more collaborative approach with management in carrying out their roles, which also indicates a possible blurring of role domains between directors and management. For example, Hillman and Dalziel (2003) considered the resource dependence role and the service role of directors to be part of the same general provision of resource function. Coulton and Taylor (2004) on the other hand, claimed that previous roles of directors are overly simplistic and will often vary depending on economic activity and circumstances. Anderson et al. (2007) in a qualitative study using director surveys undertaken in Australia, Canada, U.S. and New Zealand, also identified a significant shift in board of director roles towards strategic partnering with management.

2.1.2 Theoretical underpinnings of board of directors research

The foundations of this study rest on several theories. Due to the importance of these theories to the conceptual framework of this study, these theories are discussed in the following sections.

2.1.2.1 Agency theory

Board of directors fulfil multiple duties and the relative importance of these duties is largely dependent upon a firm's characteristics. However, there has been little consensus on the precise role of a board (Byrd and Hickman, 1992) but the most widely cited theoretical explanation of the role of the board of directors is the agency theory. Agency theory addresses the separation of ownership and management control in firms and the divergence in the two parties' interests and goals (Berle and Means, 1968; Jensen and Meckling, 1976). It has arguably been one of the most dominant theories (Smith, 1976) and is the major framework that has been utilised to examine the relationship between principals and agents in the strategic management and corporate governance literature.

Agency theory states that a principal (owner) delegates work and decision-making authority to an agent (manager) in a manner that the principal is reliant on the agent for the future well being of their interests and goals (Eisenhardt, 1989; Jensen and Meckling, 1976). Because of the delegation of decision-making authority, the issue of separation of ownership and control has also been characterized in terms of the separation of decision management from residual risk bearing (Fama and Jensen, 1983).

Traditional agency theory takes the stance that there are two main types of directors, inside and outside directors (Mallette & Fowler, 1992). Inside directors are part of the management team, while outside directors are not and this study follows this agency approach of viewing directors as being either inside or outside directors. Agency theory suggests that the relationship between principals and agents should be constructed for efficient access to information and distribution of risk bearing costs (Jensen and Murphy, 1990). Agency costs can arise from the agent and principal relationship especially when the interests of the principal and the agent are misaligned or when there is a goal conflict (Waterman and Meier, 1998; Wright, Mukherji and Kroll, 2001). Goal conflict can occur, as agents are sometimes perceived to be profit maximizers who aim at maximizing their own profit (Waterman & Meier, 1998). Risk aversion contributes to goal conflict, as the agent is considered more risk-averse than the principal (Williamson, 1998).

Agency costs can take place when there is moral hazard, considered as one of the most common agency problems (Hendry, 2002). Agents may pursue activities for their own self-interest and make decisions that benefit themselves rather than in the interests of shareholders (Fama and Jensen, 1983) such as using owner's funds to pay excessive remuneration or making operating decisions that may not be in the best interests of shareholders (Jensen and

Meckling, 1976). With regard to corporate governance, the challenge for agency theorists is to reduce agency costs by aligning the interests of managers with those of the owners (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). Agency theory has been applied to help understand the relationships between management of a firm and the shareholders whose interests are represented by the firm's board of directors. The views of agency theory on the board of directors is acknowledged in this study as it provides the background to facilitate understanding on why behaviour and decisions can vary between directors in a firm, and how these differences can have an impact on their attitudes toward risk. Agency theory sets out on how different parties involved in the same situation with the same goal can have different motivations and how these different motivations can lead to widely varying results.

The work of the management of a firm is accompanied by a high level of complexity and indeterminacy (Eisenhardt, 1989) and the main challenge is to have ongoing observation of their work (Holmstrom, 1979). Fama (1980) added that while agents are typically clear about their individual activities, principals have difficulty in being able to accurately assess the engagement of management and the alignment of their efforts with the firm's interests. The board of directors then become a form of internal mechanism to control management divergence from shareholder interests (Jensen, 1993). In the agency theory context, the main role of board of directors is to monitor agents (Hermalin and Weisbach, 1998, 2001) in order to reduce agency costs.

Agency theory specifies mechanisms that reduce agency loss (Eisenhardt 1989) such as monitoring mechanisms that control agents' self-interest behaviours (Fama and Jensen, 1983). An example would be incentive schemes for managers that reward them financially for maximising shareholder interests. By linking executive compensation to shareholder returns, this helps align the financial interests of executives with those of shareholders (Jensen and Meckling 1976). In addition, when executive compensation are restructured by deferring portions of it to the future to reward long-run value maximisation of the firm, this helps to minimize short-run executive actions that can harm corporate value.

According to agency theory, risk-taking behaviour of a firm depends on the different risk profiles of the principal and agent (Jensen and Meckling, 1976). Shareholders generally want higher returns for their investments rather than normal returns. This includes the taking on projects that have higher risks but has the potential to yield above normal returns. However, agents might be more cautious when undertaking higher risk projects, as these projects can involve a higher level of career risk and potential reputation loss. Consequently, agents (managers) are said to be more risk averse in their decision making than diversified shareholders (Fama, 1980) as they have more at risk when compared to shareholders. Problems can also arise when the principal selects an agent who cannot perform the roles required of them (Eisenhardt, 1989). This can arise either from adverse selection by the principal (Eisenhardt, 1989) or honest incompetence of the agent (Hendry, 2002).

Agency theory states that certain types of directors are more vigilant in monitoring and controlling management. Fama and Jensen (1983) discussed the role of organisational mechanisms in controlling agency conflicts and highlighted the importance of board independence. They also stressed on the importance of having the appropriate mix of both inside and outside directors. One of the determinants of a board's governing effectiveness is board independence and effective boards are presumed to have a larger proportion of outside directors as compared to inside directors. This is because a board with more outside directors are believed to be able to perform a better monitoring job and hence, this can help improve corporate performance (Baysinger and Butler, 1985).

Agency theory also recognizes that board monitoring can be affected by personal stakes of directors in the performance of the firm whose boards they sit on (Shleifer and Vishny, 1989). The presence of outside directors on a board does not ensure there will be active monitoring of management and reduction of agency costs but when financial stakes of directors are increased and directors have significant holdings, this aligns their interests to with interests of shareholders, therefore, this increases active oversight of management (Jensen, 1993). Agency theory also suggests that firm performance is related to the presence of large shareholders (Shleifer and Vishny, 1989) as large shareholders have the incentive and ability to influence active monitoring of firm management in order to maximise their own investments (Bethel and Liebeskind, 1993).

Eisenhardt (1989) provided a comprehensive review and analysis of past and potential contributions of agency theory to the management field. The first contribution of agency theory relates to risk implications (Eisenhardt, 1989). Firms are presumed to have an uncertain future and in this context, uncertainty is viewed in terms of risk/reward trade-offs, not just in terms of the inability to pre-plan. The implication is that outcome uncertainty coupled with differences in willingness to accept risk should influence contracts between principal and agent (Eisenhardt, 1989). The second contribution of agency theory relates to the treatment of information. In agency theory, information is regarded as a commodity that has a cost and can be purchased (Eisenhardt, 1989). According to Eisenhardt (1989), the board is a particularly relevant information system for monitoring executive behaviour. The richness of board information is essential and one of the factors that can contribute to this is the number of board members with managerial and industry experience.

The views of agency theory are drawn into this study to facilitate understanding on the role of directors and director interlocks in influencing a firm's choice of entry mode. It has been noted that the agency theory ideas on risk, outcome uncertainty and incentives are novel contributions to organizational thinking and past empirical studies have been supportive of the theory particularly when it is coupled with complementary theoretical perspectives (Eisenhardt, 1989). Finkelstein and Hambrick (1996) supported this view and suggested that research that relies solely on an agency theory perspective to explain board behaviour might be neglecting alternative theories. This study heeded Eisenhardt's (1989) suggestion and introduced other complementary theories to discuss director interlocks and its role in influencing a firm's foreign market entry mode choice.

2.1.2.2 Resource based view of the firm

The resource based view of the firm posits that a firm is a bundle of resources, knowledge, competencies and capabilities that can be used to create value (Barney, 1990, 1991). By developing unique and hard to imitate resources, a firm can develop and sustain competitive advantage (Wernerfelt, 1984). The basic assumption made in resource based theory is that resources are distributed heterogeneously across firms and that resources that are productive cannot be transferred across firms without cost. According to Barney (1991), in order to achieve sustainable competitive advantage, firms should seek ownership of firm specific resources that are valuable, rare, inimitable and non-substitutable. Resources with these properties are valuable and can be used to exploit opportunities or neutralize threats in a firm’s environment. The resource based view posits that firm level value creation and competitive advantage are based upon possession and deployment of firm specific, costly to imitate resources (Barney, 1991; Mahoney and Pandian, 1992; Penrose, 1959).

According to the resource based view, the capabilities to effectively develop and deploy resources when a firm’s environment changes are just as critical for a firm’s competitive advantage as the firm’s resource endowments (Eisenhardt and Martin, 2000; Teece, Pisano, and Shuen, 1997). Capabilities are collective activities (Dosi, Nelson, and Winter, 2000) by which, resources are assembled in integrated clusters involving individuals and groups so that they enable distinctive activities to be performed. Capabilities are characterized by their degree of coherence, or the degree to which one element reinforces or complements other elements in various routines and resources (Teece, Rumelt, Dosi, and Winter, 1994).

The resource based view suggests that not only do board members contribute resources through their involvement with the firm, they are also recognized as strategic resources for a firm (Barney, 1991; Grant, 1991; Hillman, Cannella, and Paetzold, 2000). Expert directors may provide effective advice to management when reviewing and evaluating management proposals, thereby providing assistance during strategy formulation (Fama and Jensen, 1983). Hence, a board’s capabilities are enhanced with valuable members on board, which then may provide the firm with a distinct competitive advantage. Firm capabilities that are not easily imitated by competitors are noted to be a key source of sustained competitive advantage (Penrose, 1959). The more tacit and intangible a firm’s resources are, the less imitable they are and the greater the potential for integration with other resources to create core competencies and competitive advantage for a firm.

It has been noted that the information and support that directors can provide tend to be of greater value to a firm compared to tangible links such as access to economic resources (Useem, 1984). Lorcsch and McIver (1989) found that considerable amounts of directors' time were spent on advising the CEO. By providing advice and counsel, directors become increasingly involved in the firm's decision management and the strategic planning process (Hermalin and Weisbach, 1988) and the success of this role has been found to be positively related to firm performance (Judge and Zeithaml, 1992).

The resource based view also suggests that board of directors can take upon themselves service and strategic roles in the decision making process (Dalton, Daily, Johnson and Ellstrand, 1999; Pfeffer, 1972; Westphal, 1999), particularly during important stages in the life cycle of a firm that involves strategic transitions (McNulty and Pettigrew, 1999). Thus, directors can be evaluated based on their contribution to the creation of a sustainable competitive advantage through their personal and professional qualities and resources that they bring to a boardroom, which can then be integrated to create unique governance capabilities (Huse, 2007; Pugliese and Wenstop, 2007).

2.1.2.3 Resource dependence theory

Closely related to the resource based view is the resource dependence theory, which attempts to explain how firms acquire and manage their dependence on resources available through the external environment (Hillman and Dalziel, 2003; Pfeffer and Salancik, 1978). According to resource dependence theory, firms are unable to create all their own resources or handle all functions that would allow them to be completely independent (Aldrich and Pfeffer, 1976). Therefore, firms must develop ways to manage their reliance on other firms (Aldrich and

Pfeffer, 1976), or individuals (Selznick, 1957) for resources and services. A firm's survival is contingent on how well the firm performs in its ability to acquire and control external resources (Aldrich, 1979) and the key to firm survival is acquiring and maintaining adequate resources, include financial, physical and information resources (Pfeffer & Salancik, 2003).

While the resource based view of the firm discussed in the previous section stresses on the importance of tangible and intangible resources to an organization (Barney, 1991), the resource dependence theory addresses how firms can access necessary resources for firm survival (Aldrich and Pfeffer, 1976; Pfeffer and Salancik, 1978). The resource dependence model focuses on the decisions, power and influential relationships that can have an effect on organizational actions as well as strategies that seek to manage the environment (Aldrich & Pfeffer, 1976). Resource dependence theory also suggests that individuals with more power relative to others will be in a better position to manage their dependencies on external providers of critical resources (Pfeffer and Salancik, 1978).

A central tenet of resource dependence theory is that firms need to manage the external constraints and uncertainty in their business environments and hence, firms develop and use various strategies to do so. In general, the three basic elements of resource dependence theory are the relative power between firms (Casciaro & Piskorski, 2005), mutual dependence between firms (Casciaro & Piskorski, 2005), and access to resources such as financial capital, knowledge, skills, and other resources (Hillman et al., 2000; Pfeffer, 1972; Pfeffer & Salancik, 1978). A key concern of resource dependence, then, is how firms access necessary resources given their power imbalances and mutual dependencies with their environments.

Two primary means of accessing resources and managing dependencies have received significant attention in literature. Firstly, Pfeffer and Salancik (1978) discussed how firms could manage their dependencies by utilizing mergers and acquisitions. By undertaking an acquisition, a firm may be able to reduce the uncertainties in an exchange relationship and gain direct access to the resources possessed by the target firm, which in turn can reduce the associated transaction costs involved between the two parties (Pfeffer & Salancik, 1978). Secondly, extensive literature has suggested that the key mechanism for accessing resources from the resource dependence perspective is through a firm's boards of directors (Booth and Deli, 1996; Burt, 1980; Goodstein, Gautam, and Boeker, 1994). From a resource dependence perspective, directors can help reduce interdependencies and uncertainty (Hillman, 2005) by providing access to resources, both tangible and intangible, which can assist managers in running their firms (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978).

In addition, directors with networking and coalition capabilities can help enable formal and informal agreements and help connect a firm with external factors by providing access to the resources needed to survive (Hillman, Nicholson and Shropshire, 2008). In some cases, this role could be served through director interlocks (Bazerman and Schoorman, 1983; Thompson, 1967). This suggests that boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm. Environmental linkages could reduce transaction costs associated with environmental interdependency. The firm's need to acquire resources leads to the development of exchange relationships between firms and uneven distribution of needed resources can result in inter-dependent firm relationships.

Directors are often seen as boundary spanners and because of their reputations and positions in the industry, are able to help obtain necessary resources and provide timely information to a firm's management (Zahra and Pearce, 1989). Through the resource dependence role, directors can also help bring in resources such as specialized skills and expertise. Supporting this, Pfeffer (1972) found that firms that had greater financing needs had a larger proportion of outside directors. Stearns and Mizruchi (1993) reported that firms that required additional financial resources had boards that consisted of a large number of directors who had access to capital and financial markets. New board members can sometimes be appointed particularly when they have access to resources that can help a firm execute its intended strategy (Pearce and Zahra, 1992). As a result of this, directors have been associated with subsequent strategic change (Mizruchi and Stearns, 1988; Finkelstein and Hambrick, 1996).

2.1.2.4 Upper echelons theory

Interest in the upper echelons perspective has been derived from the economic based view of strategy (Cannella, 2001). The upper echelons theory has been built upon cognitive and behavioural decision-making theories as well as concepts of organizational demography and dominant coalition (Cyert and March, 1963). This theory puts forward the notion that due to human information processing limitations and the nature of top managerial work, strategic decisions will be more effective if a group of top executives with varied experiences (Cannella, 2001) makes them. In addition, the degrees of dispersion of experiences among the executives can have an impact on the group's ability to process information and to make decisions.

Several studies in upper echelons literature have demonstrated that senior executives and their experiences can determine the overall strategic direction of the firm (Westphal and Fredrickson, 2001) and in turn, influence firm conduct and performance. According to Hambrick and Mason (1984), senior executive teams are important because strategic decisions made in a firm and organizational outcomes are largely the outcomes of the senior executives' cognitive bases and values.

The upper echelons of a firm can be referred to as members of a firm's top management team as well as the firm's board of directors. Hambrick and Mason (1984) argue that cognitive bases and values limit top executives' perceptual processes. They further added that executives' demographic characteristics such as age, education, tenure and functional background could serve as indicators of cognitive bases and values. According to Hambrick and Mason (1984), executives may have limited vision by focusing on limited parts of their environment and may then interpret the environment based on their selective perception and thereafter, make strategic choices based on this construed reality.

Subsequent developments following Hambrick and Mason's study looked into the moderation effects of managerial discretion (Hambrick and Finkelstein, 1987), power distribution (Finkelstein, 1992), behavioural integration (Hambrick and Finkelstein, 1995) and executive job demands (Hambrick, Finkelstein, and Mooney, 2005). Overall, there has been support for the upper echelons perspective with evidence of a relationship between executive demographics and firm strategic choices such as diversification (Michel and Hambrick, 1992; Wiersema and Bantel, 1992), innovation (Bantel and Jackson, 1989) and internationalization (Athanassiou and Nigh, 1999).

2.2 Director interlocks

2.2.1 Definition and background to director interlocks

A director interlock occurs when a director of a firm serves as a board member of another firm (Mariolis and Jones, 1982; Rowley, Behrens and Krackhardt, 2000). Board interlocks are formed when firms interact within their organizational field (DiMaggio and Powell, 1983; Useem, 1984) and this includes firms in the same industry as well as other industries with which the firm has business transactions. Berle and Means (1968) discussed interlocking directorships in the context of the evolution of the modern corporate structure and the legal position of management, while Carosso (1970) considered the activity to be the institutionalization of close personal ties. Early studies of director interlocks have sought to develop an understanding on the characteristics of director interlocks. Dooley (1969) proposed several key factors that can significantly influence the extent to which a firm is interlocked. Firstly, he noted that approximately one third of all director interlocks of firms from the non financial industry were with financial institutions and this particular type of interlock tends to increase with the decreasing solvency as well as increasing assets of the non-financial firm. These relationships were identified to arise because of two main motives such as banks seeking to have directors of large non-financial firms on their board to help secure business, and non-financial firms seeking advice from financial experts in times of need (Ramirez, 1996).

Another relationship that Dooley (1969) identified is that approximately one in eight interlocks is between organisations with the same SIC classification. Finally, he also documented the existence of local economic interests as a determinant of director interlocks between sample firms whereby approximately half of all interlocks took place between firms that had head offices within the same city. Levine (1972) analyzed director interlocks as a network whereby U.S. congressional committees gathered data that was used for the study on interlocking between fourteen major banks and seventy major non-financial corporations. Interlocks were shown to take place in an organised "spheres of influence" in a diagram of proximity between the non-financial firms. Consistent with Dooley's (1969) findings, it was found that firms in the industrial industry were more likely to be strongly linked to financial institutions than among one another.

Pennings (1980) and Burt (1983) investigated the relationship between industry concentration and director interlocks. While Pennings (1980) found a positive linear relation, Burt (1983) showed that the relationship was "U" shaped, whereby director interlocks between firms in the same industries were highest for industries with intermediate levels of concentration. Ong, Wan and Ong (2003) examined director interlocking among 295 of the largest listed firms in Singapore and showed that larger firms have significantly higher levels of director interlocks and that financial institutions in Singapore are more heavily interlocked than any other firms. They also found that firm performance is positively associated with director interlocks.

2.2.2 Role of director interlocks

A substantial amount of literature has examined the nature of director interlocks and findings have shown that director interlock linkages can help diffuse information particularly, strategy related information (Bazerman and Schoorman, 1983; Haunschild, 1993; Mizruchi, 1996). The tradition of research on director interlocks comes mainly from institutional theory, which suggests that the imitation of practices across interlocked firms follows normative, coercive and mimetic pressures. Research suggests that information transmitted through director interlocks is significantly more influential than those available from other sources because of these normative aspects (Haunschild and Beckman, 1998).

Other related research within the interlock arena similarly followed a resource dependence view by focusing on how firms might benefit and learn from interlocks. Resource dependence view is built on the idea that interdependence exists whenever one does not entirely control all of the conditions necessary for achieving an action, or for obtaining the desired outcome desired from the action (Hillman and Dalziel, 2003; Pfeffer and Salancik, 1978). A firm's survival is dependent on how effective the firm performs in its ability to acquire and control external resources (Aldrich, 1979). This may include financial, physical, human and information resources (Pfeffer and Salancik, 2003). However, firms are also often constrained by situations and can often be affected by their environments, which subsequently can have an impact on firm performance.

Directors are noted to be able to help manage complexity and uncertainty around strategic decisions by assisting in the process of scanning the business environment as well as in sharing expert advice (Rindova, 1999; Useem, 1984). A primary source of information for directors is their experience on other corporate boards (Richardson, 1987). Director interlocks can help firms manage resource dependence or interdependence (Mizruchi, 1996; Zahra and Pearce, 1989) as it serves as conduits or pipes for information and resources (Podolny, 2001). Interlocks are a mechanism for firms to form links with its external environment, to access important resources and to buffer the firm against adverse environmental change (Pfeffer, 1972; Pfeffer and Salancik, 1978; Pearce and Zahra, 1992).

This is because when a firm has directors who are connected to boards of other firms, the firm becomes part of a network that allows for easier access to valuable resource and knowledge. Obtaining knowledge is difficult particularly if it is embedded within a firm and within the knowledge and experiences of executives of a firm (Badaracco, 1991). However, when directors sit on multiple boards of firms through interlocking ties, this increases the opportunity for knowledge to be transferred much more easily. Finkelstein and Hambrick (1996) and Hung (1998) highlighted that through interlocks, directors are presumably exposed to a broader external environment that will help enhance boundary spanning activities and resource attainment.

Researchers have studied various aspects of interlocks such as in formation and coordination of class interests of the wealthy and powerful (Useem, 1984). Interlocks have also been studied as means to sustain collusive agreements (Windolf and Beyer, 1996), inter-organizational control and cooptation (Pfeffer and Salancik, 1978; Mizruchi, 1982) as well as being an information channel through which various management practices such as accounting and human resource practices can spread (Davis, 1991; Haunschild, 1993; Rao and Sivakumar, 1999).

Director interlocks have also been studied from various tangents. Some studies of interlocks have focused on dyadic relations between firms (Byrd and Mizruchi, 2005; Mizruchi, Stearns and Marquis, 2006), while others focused on the analysis of networks created by director interlocks (Davis, Yoo and Baker, 2003; Mintz and Schwartz, 1981; Mizruchi, 1982). Inter-organizational networks created by director interlocks have also been studied at the regional level (Marquis, 2003), the national level, transnational level (Carroll and Fennema, 2002; Kentor and Jang, 2004) as well as from the industry level (Burt 1983).

The study of director interlocks in the literature can be divided into two main approaches. The first approach takes on the viewpoint of inter-organizational coordination (Gulati and Singh, 1998; Rowley, Behrens, and Krackhardt, 2000) while the second approach takes on the viewpoint of intra-class cooperation (Useem, 1984; Walker, Kogut and Shan, 1997; Zaheer, McEvily and Perrone, 1997). Although attempts have been made to integrate these two distinct areas of studies into one (Belliveau et al., 1996; Dyer and Noboeka, 2000; Palmer, 1983; Westphal, 1998), an overall model of director interlocks has yet to be developed (Hung, 2003). The difficulty of integrating the two approaches may be attributable to the fact that inter-organizational coordination focuses on organizations while intra-class cooperation focuses on individuals as the unit of analysis.

The inter-organizational coordination approach looks at director interlocks as indicators of corporate control as well as inter-organizational resource dependency (Mizruchi, 1982). Interlocks therefore act as a form of co-optation tool for inter-corporate power and influence as well as being a channel of communication among corporations (Dyer and Noboeka, 2000; Zaheer, McEvily and Perrone, 1997). According to this approach, interlocks between firms through the directors exist as long as the interlocks are economically viable and beneficial to the firm. This approach focuses on economic exchanges of resources among firms and according to this approach, directors act mainly as agents that initiate and facilitate the dyadic exchanges of economic resources between two firms (Gulati and Singh, 1998). When a firm has a higher number of value enhancing director interlocks, this can be an advantage because the overall level of information diversity can be increased. Information is valuable, but can often be difficult to acquire. Hence, connections between directorships can help create a viable network through which information and influence may flow (Koenig and Gogel, 1981).

The second approach, called the intra-class cooperation approach, views director interlocks as a social phenomenon of expressing and maintaining class solidarity (Doz, 1996). Director interlocks are also seen as a tool for social, political and ideological coordination of corporate elites (Useem, 1984; Zaheer, McEvily and Perrone, 1997). The intra-class cooperation approach uses corporate elites as the unit of analysis. The personal attributes of directors in terms of their social status in the elite class are prerequisite conditions for participating in director interlock networks (David, Rahul and Levitas, 1998).

Other studies viewed director interlocks as interpersonal rather than inter-organizational ties by looking at friendships and influential relationships among directors and executives (Mace, 1986; James, Steven and Daniel, 2006; Westphal and Zajac, 1997; Westphal and Stern, 2006). From the individual director's perspective, the prestige afforded through these appointments of board seats in other firms can affect their social standing among their peers and in the community making them attractive propositions to even more firms (Useem, 1984; Zajac, 1988). Interlocks can increase remuneration and promote career advancement for directors as they become increasingly sought after for board service by other firms (Zajac, 1988).

Koenig, Gogel and Sonquist (1979) proposed four main models to look at the existence of director interlocks, namely, the management control model, the class hegemony model, the financial control model and the reciprocity model. The management control model downplays the role of director interlocks and contends that directors are powerless to run the firm and that board seats are given to members outside the firm to achieve cohesiveness with other firms. This model undertakes the assumption that shareholders are so diverse that management can control their votes and get directors appointed and replaced as they desire.

Subsequently, outside directors are believed to have little power to be anything more other than being a rubber stamp for management. According to this theory, interlocks occur because of the motivations of the individuals involved, rather than the firms that they are being linked to.

The class hegemony model (Mizruchi, 1982; Useem, 1984) suggests that the cohesive upper class chooses directors to strengthen the existence and linkage of a group who share common interests in conditions of the economy. This process is driven by the identification and appointment of directors with similar backgrounds, characteristics, and political beliefs from within the personal networks of incumbent board members. The result of this class hegemony is an elite class of directors whose primary interactions in the boardroom serve the purpose of protecting class welfare (Jensen and Zajac, 2004; Koenig, Gogel and Sonquist, 1979; Useem, 1984). Wright (1956) argued that the frequent contact that corporate elites have with one another leads to the development of common views and norms, and further suggests that this may lead to the application of their combined power to shared objectives.

The finance control model (Eisenbeis and McCall, 1978; Mariolis, 1975) proposes that a firm offers its board seats to the financial community in order to ensure a stable flow of capital for itself. This model has been used to explain the evidence of interlocks involving banks whereby according to the model, firms depend on a dense network of inter-corporate ties, particularly with financial institutions who act as principal providers of finance for the firms. Proponents of this theory believe financial institutions are able to use their power to arrange director interlocking such that they can coerce their clients firms to undertake activities that benefit the bank, even if it is against their best interest (Pennings 1980).

The reciprocity model acknowledges a significant role for directors. It posits that directors are elected to serve on a firm's board to obtain benefits with other firms as well as to reduce environmental uncertainty (Mizruchi, 1983; Pfeffer and Salancik, 1978; Schoorman, Bazerman and Atkin, 1981). It suggests that director interlocks facilitate the ability of firms to form alliances with one another in order to manage other competitors. However, interlocks can be exploited (Roy, Fox and Hamilton, 1994) and have been associated with anti-competitive and illegal behaviour among firms (Carroll, Stening and Stening, 1990). The U.S. Congress maintains that director interlocks could be used as a mechanism by unethical businesses to facilitate collusion and to restrict competition in markets and subsequently, introduced the Clayton Anti-trust Act in order to prohibit interlocks between firms that are deemed to be operating in the same markets (Mizruchi, 1996).

Westphal (1999) describes the boardroom as an important context in which experiences of a firm intersects with external experiences. This happens when outside directors from a variety of other firms are brought into a formal setting to interact with inside directors and management of a focal firm. Interaction between directors in a boardroom can function as an important source of knowledge transfer and vicarious learning regarding strategic choices (Kalnins, Swaminathan and Mitchell, 2006). Moreover, the information flowing through in this manner is relatively inexpensive, reliable and focuses on high level strategic issues (Haunschild and Beckman, 1998). Thus, a focal firm is exposed to the actions, processes, and reasoning behind other firms' choices and is particularly useful when firms are facing novel and uncertain decisions (Beckman and Haunschild, 2002; Palmer, Jennings and Zhou, 1993).

Director interlocks can be meaningful mechanisms for firms (Hallock, 1997) that can help facilitate a complex web of relationships between firms and as such, can potentially be a powerful indicator of a firm's level of inter-organisational relationships. Director interlocks can be initiated purposefully by directors or firms but can also be created unintentionally. One of the key reasons why director interlocks have become more common is that they are being viewed as a credible and low-cost channel of information and communication across firms whereby a variety of benefits and advantages can flow between firms and individual directors (Haunschild, 1993; Mizruchi, 1996). Ahuja (2000) supports this view by noting that interlocks can create inter-organizational networks that can provide information conduits among firms that can result in diffusion of ideas and diversity of knowledge.

Similarly, Abebe, Angriawan and Ruth (2012) highlighted the importance of external board appointments of executives as important social mediums through which critical information, advice, and other external resource support can be transferred. Being highly connected can help provide directors with access to information about strategic practices or information that is unique or difficult to transfer (Uzzi, 1997). Interlocks can also help firms gain easier access to financial resources particularly with the presence of high profile directors on a firm's board (DiMaggio and Powell, 1983; Pfeffer and Salancik, 1978). Having prominent directors on a corporate board can serve to promote legitimacy and positive reputation for a firm especially when there are linkages to other prominent firms (Mizruchi, 1996).

Director interlocks have been shown to benefit firms by helping to provide access to various types of information that may be needed by a firm such as market based information, technical information, technology, new practices and innovation (Davis, 1991). It has been found that firms that are interlocked with current adopters of innovations are more likely to adopt the innovations themselves as direct contact with the innovator helps clarify benefits of the innovation (Davis, 1991). Additionally, Galaskiewicz (1985) highlighted that interlocks can foster cooperation among firms.

Interlocks can also help encourage adoption of new practices (Davis, 1991) and can potentially provide a firm with an advantage over its competitors (Pfeffer and Salancik, 1978), leading to improved firm performance. In addition, interlocks can provide a source of information on business practices of other firms (Davis, 1991; Mizruchi, 1996; Useem, 1984). Palmer, Jennings and Zhou (1993) tracked the late stage adoption of the M-form organization to director interlocking ties and found that firms were more likely to eventually adopt the M-form structure if a number of their interlocking network contacts had already done so.

Research has suggested that different types of director interlocks can have different impacts (Shipilov, Greve, and Rowley, 2010) on a firm's learning process and subsequently, have different impacts on a firm's strategy. For instance, Haunschild and Beckman (1998) examined how outgoing ties of directors makes them more adept at transferring learning to a focal firm. Geletkanycz and Hambrick (1997) on the other hand, found that conformity of business strategies across firms connected by director interlocks depends on whether these interlocks are created by inside directors or outside directors. This can be because inside and outside directors exercise different levels of influence when deciding on the organizational practice in question (Haunschild, 1993). Phan, Lee and Lau (2003) studied the prevalence of intra-industry interlocks and inter-industry interlocks in Singapore, and found that intra-industry and regulatory agency interlocks offer more benefits to the individual director than to a firm.

More recent research indicated that director interlocks can have an impact on the diffusion of stock option backdating practices (Bizjak, Lemmon and Whitby, 2009), the extent to which a firm uses debt (Mizruchi, Steams and Marquis, 2006), firms' research and development decisions (Liao and Chen, 2009) and a firm's propensity to be targeted in private equity transactions (Stuart and Yim, 2010). These studies provide empirical support for the idea that information and experiences that are transmitted across firms' social networks can result in networked firms having similar patterns of strategy adoption and similar financial outcomes.

Research has also looked at the consequences of director interlocks on mergers and acquisitions activities of firms (Haunschild, 1993; Haunschild and Beckman, 1998). This is because mergers and acquisitions are significant strategic decisions that have major impacts on shareholder wealth and a firm's board of directors play an important role in the process by being responsible for decision making in such activities (Hitt et al., 2001). Cotter, Shivdasani and Zenner (1997) studied the value that outside directors bring to target firms during takeovers. One of the factors they considered is director interlocks. They argued that interlocking directorships might reduce information asymmetry, thus discouraging other firms from entering into a bidding war for the target. They found that interlocking directorships significantly reduce the probability of the presence of multiple bidders and have a great influence in the dynamics of the takeover process.

Haunschild (1993) investigated the impact of director interlocks on a firm's acquisition behaviour by looking into whether a firm's exposure to acquisition activities through director interlocks influences the likelihood that a focal firm will also take on similar activities. It was found that director interlocking facilitates inter-organisational imitation. Haunschild (1994) also examined the relationship between director interlocking and acquisition premiums and found evidence that premiums paid by acquiring firms are significantly related to premiums paid in the past by firms that the focal firms were interlocked to. In addition, in times of uncertainty, the relationship between the premiums paid and those paid in the past by firms that the focal firms are interlocked with, were the greatest.

Davis (1991) found that firms were more likely to adopt poison pills if they were connected through director interlocks to other firms that have already adopted poison pills, which essentially is a strategy used by firms to discourage hostile takeovers. It was found that the probability of a firm adopting a poison pill increases when it is connected through director interlocks to other firms that have previously adopted poison pills. Interlocks can also influence firm behaviour in many ways such as CEO compensation and other firm management practices such as total quality management (O'Reilly, Main and Crystal, 1988).

Intangible resources that directors bring in the form of specialized experiences can also be leveraged upon for improving a firm's competitive position. Research on director interlocks highlighted the importance of the information and support that directors can provide to a firm's top management (Haunschild, 1993). Evidence suggests that these intangible resources in the form of knowledge, experience, and expertise provide greater value to a firm than the economic nature of the resource linkages (Useem, 1984).

2.3 Foreign market entry mode

2.3.1 Background and overview of foreign market entry mode theories

Foreign market entry mode has been described as an institutional arrangement that makes possible the entry of a firm's products, technology, human skills, management, or other resources into a foreign country (Root, 1987). It is a method of operation adopted by firms in making their presence in a foreign market, which can be a critical factor in a firm's international growth rate, which can vary in terms of the level of resource or equity commitment of the firm (Douglas and Craig, 1989). Starting with Hymer's (1976) work on foreign direct investment several decades ago, the literature on entry mode decisions has been constantly modified and renewed by a vast amount of researchers like Anderson and Gatignon (1986), Buckley and Casson (1976), Dunning (1980), Hill, Hwang and Kim (1990) and others.

Venturing into a new foreign market represents a form of uncertainty with increased risk. When faced with such circumstances, firms tend to consider their risk exposure as well as their organizational resources, human capital, past experiences, knowledge and current ability as a precursor to how well they perceive themselves in being able to penetrate and perform well in the new foreign market. It has been suggested that different modes of foreign market entry are associated with different levels of firm resource, commitment, risk, and control (Anderson and Gatignon, 1986). According to Lotayif (2003), firms tend to consider four main factors when deciding on the most appropriate entry mode, namely, the opportunities or risks offered by each mode, continual likelihood of risks and opportunities with each mode, the required resources and the time needed for market entry. When expanding internationally, the selection of an appropriate market entry mode is among one of the most important decisions in foreign market entry strategy (Davidson, 1982; Erramilli and Rao, 1993; Root, 1994; Terpstra and Sarathy, 1994). This is because the choice of entry mode can have significant and far-reaching effects on the survival and performance of a firm's foreign operations (Gatignon and Anderson, 1988; Root, 1994).

Theories on entry mode strategies have been based upon neoclassical economics across to theories based on organizational behaviour (Anderson and Gatignon, 1986; Buckley and Casson, 1976; Cyert and March, 1963; Rugman 1980). Nevertheless, there is no single perspective that can provide a thorough explanation of a firm's choice of entry mode in the current global business environment. Andersen (1993, 1997) suggested that researchers have not devoted enough attention to the assessment of potential theoretical and methodological flaws in entry mode studies. According to Sharma and Erramilli (2004), theories of entry mode choice can be grouped within three main paradigms - market imperfection paradigm, behavioural paradigm and the market failure paradigm. The market imperfection paradigm originated from industrial organizational theory suggesting that firms with monopolistic advantage in an imperfect market will favour high control modes such as mergers and acquisitions to create entry barriers. The international product life cycle and theory by Hymer (1976) have subsequently been built upon this perspective.

The behavioural paradigm on the other hand, proposes that market knowledge of a firm grows at a gradual pace and with conditions of an imperfect market, a firm will seek short-term benefits and avoid risks. Internalization theory has been grounded upon this approach and explains why firms choose gradual modes of entry over time such as from exporting to wholly owned subsidiaries. According to articles by Ekeledo and Sivakumar (1998, 2004) as well as Javalgi and Martin (2007), three main theories have been commonly used to explain foreign market entry mode choice. These include the eclectic theory, the internalization theory and the resource based theory.

The eclectic theory by Dunning (1977) looked at three components, namely ownership advantage, location advantage and internalization advantage to explain different choices used for entering and serving foreign markets. Ownership advantages can be characterized as firm specific resources or capabilities that provide a unique capability to the firm. Location advantages influence the ‘where’ decision in the internationalization process. These are due to economic differences among countries such as market growth potential and stability of political and economic factors. The third component, internalization advantage looks at the advantages that arise from the capacity of the firm to manage and coordinate activities internally in the value chain. The extent to which a firm has greater ownership, location and internalization (OLI) advantages, the higher the likelihood of adopting a high control entry mode.

This theory was then subsequently updated by Dunning (1995, 1998) who argued that competitive advantages, market failure and collaboration, as well as dynamic environments should also be integrated into the model when decisions on international production are made. The OLI model has been widely applied in the past to explain entry mode decisions of firms. For instance, Brouthers et al. (1996) adopted this framework to explain a firm’s entry mode decision when facing a transition economy. Agarwal and Ramaswami (1992) on the other hand, used this model to look into entry mode decisions of American service firms. However, while the OLI model explores key factors influencing entry mode decisions of firms, it has neglected other factors such as characteristics of the decision maker. According to Tallman (1991), the model does not provide a unified perspective in explaining a firm's choice of entry mode and could not explain why firms with similar ownership, location and internalization advantages would not necessarily choose the same entry mode in the same foreign market. In addition, it was noted that the model ignored product characteristics and home country factors (Ekeledo and Sivakumar, 2004).

The transaction cost theory according to Anderson and Gatignon (1986) is based on transaction cost economics initiated by Williamson (1979) as a tool to explain economic problems where asset specificity plays a key role. According to the transaction cost theory, the choice between full and shared ownership of a firm depends on the costs and benefits of shared ownership relative to full ownership (Hennart, 1988). When market transactions are subjected to high transaction costs, shared ownership is more efficient because it aligns the incentives of the parties and therefore, the risk of opportunism is reduced. The transaction cost theory and the internalization theory has been regarded as similar theories according to Madhok (1997), as the internalization theory is based upon transaction cost analysis.

Institutional theory (North, 1990), on the other hand has been applied as an extension to transaction cost theory whereby environmental uncertainty is seen as an important factor influencing foreign market entry. Building on this, Yiu and Makino (2002) looked at the impact of regulatory, cognitive and normative dimensions of a host country's institutional environment on entry mode choice while controlling for transaction cost variables. It has been found that all three dimensions have an influence on the choice of entry mode. In addition, the cultural distance between home and host country may influence managerial cost and uncertainty evaluations in target markets (Kogut and Singh, 1988) whereby the greater the cultural distance, the higher the perceived environmental uncertainty and level of risk.

The resource-based theory on the other hand, suggests that firms choose strategies that their resources can support and competitive advantage is achieved when a firm possesses a unique combination of internal resources and capabilities that permits the firm to develop distinctive competencies and capabilities (Barney, 1991). According to Ekeledo and Sivakumar (2004), the resource-based view incorporates the core notion of strategic management which states that a firm will compete well in a setting where there is a fit between the firm's resources and external opportunities.

The resource-based view assumes sole ownership to be the default and preferred entry mode for firms, which is considered the ideal mode of operation (Stopford and Wells, 1972). This is consistent with research findings that found that firms preferred sole ownership entry modes (Anderson and Gatignon, 1986; Erramilli and Rao, 1993). The international business literature associates sole ownership as being high or full control entry mode (Douglas and Craig, 1995; Hill et al., 1990). The assumption of the resource-based view differs from that of the transaction cost theory, which views shared control entry mode as a firm's preferred mode of entry (Anderson and Gatignon, 1986).

The decision-making process model was proposed by Root (1987) and further developed by Kumar and Subramaniam (1997) and Pan and Tse (2000). The model argues that a firm's choice of entry mode should be treated as a multi-stage decision making process whereby in the course of decision making, factors such as the objectives of the intended market entry, the existing environment, as well as the associated risks and costs need to be taken into account. However, this model ignores the role of the firm itself and the decision maker within the decision making process.

2.3.2 Foreign market entry mode and levels of control

Control has been described as the level of authority a firm may exercise over systems, methods, and decisions of the foreign affiliate (Brown, Dev and Zhou, 2003; Ekeledo and Sivakumar, 2004) in order to improve its competitive position and maximize returns on firm specific assets. The basic criterion used to evaluate entry modes is the level of control or involvement each mode offers to the entrant (Anderson and Gatignon, 1986; Erramilli and Rao, 1990). Typically, the level of control can range from a low level such as in the case of licensing, to a high level such as a wholly owned subsidiary (Hill et al., 1990).

Control has been noted to have a twofold function. Firstly, it is a way to obtain returns (Anderson and Gatignon, 1986). Generally, higher share of ownership corresponds to higher control, as well as higher share of returns and thus, as a firm moves from low to high control modes, its share of returns increases gradually (Luo, 2001). Cray (1984) argues that control aids the firm in coordinating its processes and actions and minimizes the risk of parties acting opportunistically. Control also makes performance more predictable (Gaughan, 1991; Cray, 1984). The insight that control makes performance more predictable is especially relevant when viewing entry mode decisions from a transaction cost perspective. Managers predominantly pursue the objective of minimizing risk by means of a control-based predictability (Cray, 1984). This means that the firm’s post-entry adopted level of control is a response to the pre-entry expected level of transaction costs with the purpose of minimizing the expected risk through control-based predictability. This is an important point, since only by minimizing transaction risks, a firm is able to maximize long-term efficiency (Anderson and Gatignon, 1986).

According to Anderson and Gatignon (1986), control is commonly featured in entry mode literature because it is the most important determinant of risk and return. It also determines the ability to control production and distribution processes. A firm's ability to respond to external economic and political factors also determines the method used to enter a foreign market. Resource commitment and control are highly correlated (Woodcock, Beamish and Makino, 1994) whereby a higher level of control generally requires increased resource commitment. Some researchers have argued that the entry mode decision consists mainly of determining the levels of resource commitment and control that the entering firm desires or can accept under conditions of uncertainty (Anderson and Gatignon, 1986; Woodcock et al., 1994). Firms would then react to uncertainty by avoiding ownership and control, since it commits them to an operation that may not be appropriate when conditions change (Anderson and Gatignon, 1986) and it becomes a challenge and liability for them. Conversely, other findings have suggested a correlation between high risk, high uncertainty and a high level of control (Chung and Enderwick, 2001).

The predictability attained through control can be a way to achieve greater benefit from foreign operations (Gao, 2004). However, one of the main reasons why firms do not aim to maximize operational predictability through control is due to its costs (Cray, 1984). Control requires the commitment of resources, which entails significant internal organizational or bureaucratic costs. This may include investments in legal, administrative and operating infrastructures (Erramilli and Rao, 1993). A firm's resource commitment to a foreign market typically corresponds to the level of control. A higher control may involve a higher level of commitment of firm investments to the foreign market (Anderson and Gatignon, 1986), which can be fixed or difficult to reallocate without considerable cost. Heavy resource commitments create potential exit barriers as firms become unwilling to absorb the losses of their investments when revenues and performance fail to materialize as planned.

From the transaction cost perspective, an increasing level of control seems to be more efficient, if the benefits of reducing the transactional risk outweigh the additional costs of authority over operations (Anderson and Gatignon, 1986; Williamson, 1979). When transaction costs are expected to be low, there is less need to assert high control since the costs will considerably be lower as compared to costs of internalizing firm activities. On the other hand, if transactions involve high risk, transaction cost theory argues that high control entry modes ensure maximum efficiency. It minimizes the risk of opportunism and compensates high transactional risk with a high level of ownership-based predictability (Anderson and Gatignon, 1986; Williamson, 1979).

Ekeledo and Sivakumar (2004) similarly classified market entry mode into categories of either high control modes or low control modes. According to Agarwal and Ramaswami (1992), Anderson and Gatignon (1986), Douglas and Craig (1995) and Javalgi and Martin (2007), high control entry modes such as greenfield investments and acquisitions typically involve a high level of ownership with high commitment of firm resources such as managerial and financial resources. Such entry modes expose the firm to a higher level of business risk but in turn, a higher return on investment might be the outcome when compared to using a low control entry mode. A low control entry mode such as joint ventures typically involves collaborative or contractual modes of operation with low to moderate commitment of firm resources. It exposes the firm to low and moderate level of business risk, but the outcome of the firm’s return on investment might be at lower to moderate levels.

According to Hill, Hwang and Kim (1990), strategic variables influence entry mode choice mainly through control needs of the firm. Numerous factors can have an influence over a firm's choice between high or low control entry modes. These factors can generally be classified into either organizational factors or external environmental factors (Ekeledo and Sivakumar, 1998). Organizational factors are such as a firm's current human capital and financial resources, firm knowledge and experience with the foreign market (Erramilli, 1991), motive for market expansion as well as product characteristics.

Product characteristics, particularly the difference between manufactured goods and services has been noted to affect a firm's entry mode decisions (Ekeledo and Sivakumar, 2004). This is because services can differ from manufacturing products in terms of characteristics of tangibility and perishability. The separability between consumption and production of services may not be able to occur for certain services, which requires the presence of the customer for delivery of the service. Additionally, according to Blomstermo and Sharma (2006), a service firm is more likely to choose high control entry modes when entering a foreign market because a higher level of control allows the firm to easily supply services to international clients on time and with good quality.

Transaction cost theory noted the efficiency of using high control modes in the presence of intangible assets. The theory assumes that a firm has somehow developed a firm specific advantage in its home market, usually in the form of intangible assets. These assets are difficult to transfer because of market failures due to opportunistic tendencies and information asymmetry. Difficulties in measuring the characteristics of these assets can increase transaction costs. The presence of transaction costs in markets provides an incentive to firms to organise international transactions inside the boundaries of the firm through wholly owned subsidiaries (Buckley and Casson, 1976). Therefore, internalisation can help minimise assets from being exploited by third parties. It can also help ensure that operations maintain the standards demanded by the parent firm. Several studies have provided evidence of this relationship (Chen and Hu, 2002; Anderson and Gatignon, 1986).

On the other hand, the tacit nature of knowledge makes the valuation and transfer of knowledge a complex process, as it is not possible to reveal this knowledge to a buyer without diminishing its value. The absence of protection mechanisms means that it is risky for a firm to share specialised knowledge because this may limit its flexibility in adapting to future possible changes (Agarwal and Ramaswami, 1992). Therefore, firms that are knowledge intensive are more likely to opt for high control entry modes. In this manner, the firm can internally transfer its tacit knowledge and informal routines by means of internal transactions that make use of existing human capital and organisational routines of the firm (Hill et al., 1990).

Entry mode selection is a trade off between costs and benefits (Erramilli and Rao, 1993) whereby it is determined by the pursuit of a situation in which costs can be minimized and benefits are maximized, taking into consideration factors such as competition, infrastructure, the availability of raw material and labour, as well as the legal and economic environments. Entry modes can vary significantly in terms of benefits provided to firms and also in terms of costs incurred by firms. Generally, low control modes are perceived to cost less, and high control modes are perceived to cost more.

While different entry modes imply different levels of control and integration with the foreign operation (Anderson and Gatignon, 1986; Root, 1994), different entry modes can also imply different levels of adaptation and risk for the foreign operation. In choosing a particular entry mode, a firm develops a fit between its need for internal corporate strategy and the externally perceived risk and adaptation level of the target entry market. Two firms that are evaluating the same market may perceive it as being associated with different risks and degrees of adaptation. Therefore, they may choose different entry modes.

The role of experience has been highlighted in the selection of entry modes. Some theories suggest that international experience is positively related to entry mode choice, whereby when there is a higher level of international experience, the greater is the likelihood of adopting a high control entry mode (Anderson and Gatignon, 1986; Davidson, 1982). Conversely, other studies indicate a negative relationship whereby the more international experience a firm has, the lower is the likelihood of adopting a high control entry mode (Weichmann and Pringle, 1979).

2.3.3 Foreign market entry mode and experiences of directors

The upper echelon literature states that the structure, composition and processes of top management teams and board of directors can affect organizational outcomes (Finkelstein and Hambrick, 1996; Hambrick and Mason, 1984). Studies have linked executive characteristics to areas such as organizational structure, organizational strategy (Boeker, 1989) as well as organizational growth (Eisenhardt and Schoonhoven, 1996). Expansion into a foreign market is determined by strategic choices made by a firm's executive decision makers and while there have been substantial studies that have focused on strategic actions and market entry decisions made by firms as a whole, less focus has been given to the decision makers of firms who make the actual market entry decisions.

Research that examined top management team characteristics has focused on the links between demographic characteristics such as education level, age, tenure and functional background and how these factors influence the international strategies of firms (Finkelstein and Hambrick, 1996; Jaw and Lin, 2009). According to Gupta (1984), research that investigated the role of functional background of executives tend to be based upon the assumption that experience with functional areas will result in executives developing specific knowledge, techniques and perceptions which can influence how information is processed and subsequently have an impact on strategic choices (Hitt and Ireland, 1985, 1986; Walsh, 1988).

The behavioural theory of the firm (Cyert and March, 1963) recognizes the influence of bounded rationality on the part of decision makers and looks at experiential learning as the driving force behind the internationalization process of a firm (Johanson and Vahlne, 1977). According to the behavioural theory of internationalization, decisions are made based on reflection on experiences and as a result, choices tend to be based on these past practices and routines. Past experiences can influence cognitive structures, competences, knowledge and personality. As such, it contributes to moulding the perceptions of leaders (Gunz and Jalland, 1996).

Decisions on how to enter foreign markets are characterized by complexity (Kumar and Subramaniam, 1997) and are often accompanied by incomplete information, culminating in a higher level of uncertainty. Under these conditions, decision makers' backgrounds and experiences are likely to have an important influence over such decisions (Hambrick and Mason, 1984). Past experience represents a way to accumulate internal knowledge and develop specific competencies and will have an influential effect on future strategic decisions towards previously taken directions as past approaches become institutionalized (Porter, 1990).

According to Song (1982), executive experience influences how a firm diversifies, either internally or through acquisitions. Sambharya (1996) found that firms with top management teams who have foreign experience had more international involvement. Findings also indicated an association between CEO characteristics and choice of entry mode (Herrmann and Datta, 2002) while Smith and White (1987) reported that career specialisation of CEOs were associated with a firm's diversification strategy. However, there has been a lack of emphasis by entry mode studies on the main decision makers of a firm particularly the board of directors. This study takes on the view that directors are the ones with ultimate authority in decision-making. Accumulated experience and expertise on their part are expected to have an influence over their choice of entry mode.

One of the key challenges faced by decision makers is to process a large volume of complex and unclear information when making strategic decisions under situations involving high uncertainty (Starbuck and Milliken, 1988). In such situations, decision makers are confronted with more information from within and outside of the firm. As noted by March and Simon (1958), because of the limits of human intellective capacities in comparison with the complexities of problems that individuals and organisations face, rational behaviour calls for simplified models that capture the main features of a problem without capturing all of its complexities. Research has shown that humans attempt to reduce cognitive effort using heuristics and cognitive structures to integrate pieces of information into a single judgment while making decisions (Schwenk, 1989).

More specifically, decision makers use their existing cognitive schemas and heuristics to organize and process information efficiently in order to simplify the decision process (Shaw and Gentry, 1990). In this way, decision makers can make interpretations and evaluations without the need to examine all available information. The cognitive schemas and heuristics are said to be largely determined by executives' backgrounds and experiences (Schwenk, 1989). Upper echelon theory suggests that human limitations influence perceptions, evaluations and decisions by managers about organisational problems and hence influence firm strategic choices and behaviour, including diversification (Hambrick and Mason, 1984).

Kumar and Subramanian (1997) divided the strategies to assess market entry mode into two main types. The first type, known as rational analytic strategies looks at how decisions are made when managers consider all the alternatives. The second type, cybernetic strategies, looks at how decisions are made when managers make judgments based on a few significant alternatives. They proposed that both types affect how entry modes are selected, from recognizing the need to go abroad, to selecting an appropriate mode by evaluating time, resources and quality of information available. When faced with uncertain situations, firms tend to turn to their own resources, human capital, knowledge, and ability as well as past experiences (Haleblian, Kim and Rajagopala, 2006). Past experiences as well as the availability of knowledge of the foreign market becomes a precursor to how well firms perceive themselves to be able to penetrate and perform well in the foreign markets.

Past research has shown that international experience of decision makers within a firm can have an impact on a firm's level of success in foreign markets (Athanassiou and Nigh, 1999; Bartlett and Ghoshal, 1989; Kobrin, 1982). Beckman and Haunschild (2002) highlighted that when firms perform acquisitions, the board of directors discusses and usually approves the process and it would involve the sharing of information and knowledge such as directors' experiences in other acquisitions.

The process of entering a foreign market presents the need for firms to be able to respond to environmental uncertainties. A firm's board of directors is an important mechanism through which firms respond to environmental uncertainties (Boeker and Goodstein, 1993; Mizruchi and Stearns, 1988). Geswick (1991) further added that environmental uncertainties create a need for major organizational change and an important trigger of major change is a firm's board of directors (Grinyer and McKiernan, 1990). A key factor that can affect the ability of directors in helping firms to respond to environmental uncertainties is the level of their human capital and one of the ways that human capital can be developed is through experience (Harris and Helfat, 2007) that is embedded within people (Becker, 1962).

Experience helps individuals view commonalities between situations and develop principle centred knowledge structures (Loewenstein, Gentner and Thompson, 1999). These knowledge structures facilitate individual ability to focus on relevant information cues and helps solve problems in a quicker manner. A director's general expertise can be built upon education or prior work experience and is usually valuable and transferable to other firms of which the individual is a board member. Directors with specialized experience, education, and other valuable skills are also generally able to contribute effectively to a firm with similar specialized needs, as compared to directors without these types of specialized experiences. In addition, when a director possesses specialized entry mode experience such as acquisition experience, such specialization is likely to be more valuable when boards need to oversee or approve acquisition decisions. Acquisitions are complex decisions and can be difficult to implement correctly (Haleblian and Finkelstein, 1999; Zajac and Bazerman, 1991). Directors with relevant prior experience in similar settings should be better able to evaluate the potential value of a particular strategic choice than directors who have none or less prior experience in such settings.

Research has shown that experience with making certain types of decisions can sometimes lead to improved decision making performance in similar situations in the future (Taylor, 1975). It has been noted that experience represents another form by which an individual can move from being a novice to being an expert (Chi, Glazer and Rees, 1982), as it allows the transfer of tacit knowledge that may be difficult to acquire simply through education or reading. As tacit knowledge is acquired, individuals are then better able to build knowledge structures that promote more powerful search heuristics (Chi et al., 1982).

Prior relevant experience of directors can contribute to greater expertise and skill (Pfeffer and Davis, 1986). A firm's board of directors that comprise of directors that are more experienced especially in areas related to foreign market entry can be more effective in evaluating the actions of managers and in providing strategic advice. The integration of director knowledge into the strategic decision making process of a firm can happen through the similarity of strategic contexts in which the focal firm and the directors' interlock firms operate. When outside and inside directors share common strategic contexts with a firm's top management, the knowledge and expertise of such directors can be further integrated with the firm's internal resources and processes. This allows boards to operate more efficiently (Carpenter and Westphal, 2001). Pye (2001) further suggested that in order to add value to a firm's board, there should be appointment of outside directors who can bring a background of experience in running other firms. Therefore, outside directors' prior experience may not only improve their monitoring efficiency, but it can also be a substitute for lack of inside executives' business experience and contacts (Beatty and Zajac, 1994; Carpenter, Pollock and Leary, 2003; Shivdasani and Yemack, 1999).

Directors are also likely to draw on prior experiences to help the firm navigate the additional expectations imposed on a firm as it enters and survives in a new market. Industry-specific human capital can be particularly significant because more knowledge that is specialized becomes accessible to the firm (Castanias and Helfat, 2001; Cooper, Gimeno-Cascon and Woo, 1994). The industry relevant experience of directors can be critical indicators of such knowledge embedded within the board of a firm and such a knowledge base can become significant in industries where a firm lacks know how. Industry specific exposure and experience enables board members to effectively identify, understand and evaluate the opportunities and threats in the immediate external environment confronting a firm.

Knowledge of industry conditions and connections to key industry players such as suppliers and other stakeholders gained through directors' industry experience can be a critical resource for firms (Cohen and Dean, 2005). Additionally, industry specific human capital of board members can also be valuable from a resource and a monitoring standpoint. Board members who have experience with other firms will have the expertise of managing market demands and will be able to bring this knowledge base to the board, both from an advisory and monitoring standpoint. They will also be able to critically influence and evaluate the options and strategies of the firm

2.3.4 Foreign market entry mode and director interlocks

A review of foreign market entry mode studies has shown that there has been a focus on the role of prior experience as a potential source of competitive advantage for a firm, which can also have an influence over a firm's choice of entry mode. Some of these studies (Anderson and Gatignon; 1986; Davidson, 1982; Johanson and Vahlne, 1977) have found that higher levels of international business experience were associated with high control entry modes while other studies (Erramilli, 1991; Kogut and Singh, 1988; Sharma and Johanson, 1987) concluded that higher levels of experience are not necessarily associated with high control entry modes. These contradictory findings could have been due to the different types of measurement that have been used for capturing the intended effect of experience such as geographical experience, type of executive experience and industry experience (Gomes-Casseres, 1989).

Previous research has shown that prior acquisition experience positively affects a firm's future acquisition process (Singh and Zollo, 1998). This is because firms who have already carried out acquisitions have developed and codified an experience that they can put to use when dealing with future acquisitions. For this reason, having a background in acquisition activities increases the probability of firms' choosing acquisitions in the future as these firms have not only standardized the transfer process of their own distinctive competencies to the acquired firms, but have also developed a number of organizational routines for integrating acquired firms. They may have also acquired knowledge on how to deal with subsidiaries of different nationalities (Hennart and Reddy, 1997; Kogut and Singh, 1988). As Haleblian and Finkelstein (1999) stated, the value of the acquisition experience is particularly high when making similar acquisitions.

Experience is a primary source of learning in firms, being deeply embodied in organizational memory (Penrose, 1959). According to Padmanabhan and Cho (1999), firms' experiences can be transformed into organizational routines that consequently create a model for future actions that can become a source of competitive advantage. They noted that neither general international experience nor host country experience can explain the choice between entry modes but once the decision to invest in a foreign country has been made, international and host country experience become less important in comparison to experience with a specific entry mode (Padmanabhan and Cho, 1999). Adding to this view, this study highlights that it is at this stage where director interlocks are highly valuable in terms of being a channel of knowledge and information transfer that can help directors in the course of board decision making with regard to choice of entry mode. It is expected that with the presence of director interlocks with other firms that have high control entry mode experience, this can have an influence on a focal firm's likelihood of adopting high control entry modes.

Teksten, Moser and Elbert (2005) revealed that from an organizational point of view, director interlocks can enhance the ability of directors to perform their functions. Firstly, interlocks enable directors to better assume their basic functions. For instance, directors sitting on more than one board can help enhance business-scanning capabilities due to the increased exposure and enhanced experiential learning that they gain as a result of being on multiple boards. As a result, directors can gain better understanding and awareness of the business environment, which is needed to effectively analyze and approve strategies proposed by the focal firm's top management team.

Therefore, when a firm is facing a diversification strategy and is contemplating a choice of entry mode, this study argues that director interlocks are advantageous in providing directors with a wider set of perspectives and experiences that can help enable them to effectively advise a firm's management team. Lack of experience can sometimes be a challenge for the management team of a firm when it enters a foreign market. Consequently, learning from experiences of firms connected through director interlocks can be beneficial. Directors who are interlocked with firms that have prior high control entry mode experience would be able to offer their insights and knowledge based on their experiences with high control entry modes and as a result, it is highly likely that a focal firm will be inclined towards adopting high control entry modes as well. As noted by Geletkanycz et al. (2001), interlocks effectively embed decision makers and their firms in a set of relationships that affect firm strategies and other outcomes. A decision maker's social network is particularly important in helping one to identify and evaluate emerging strategies (Washington and Ventresca, 2004).

With directors being exposed to other firms through interlocks, the experience of participating in the decision making process of other firms can help directors identify emerging strategies, discover new possibilities and learn new ways of approaching problems (Mizruchi, 1996). This also enables them to easily identify relevant information because of their service on the boards of other firms and helps connect the experiences of other firms to a focal firm's needs. Director interlocks can provide a way to study the efficacy of high control entry mode strategies of other firms (Strang and Soule, 1998) and this can potentially help increase a focal firm's level of confidence in undertaking a high control entry mode.

According to Teksten et al. (2005), interlocks can help directors assume a more effective role in contributing to provision of firm resources. Teksten et al. (2005) also noted that interlocks could help provide linkages to aid in the establishment of relationships with multiple resource providers. The importance of directors' relationships with resource providers can be particularly relevant when firms have limited resources such as financial resources or when a firm is going through a strategic change or when additional resources are required. With foreign market expansion, director interlocks can be leveraged for a multitude of purposes such as easier access to markets and networks. Teksten et al. (2005) added that interlocks facilitate directors' role as strategic advisors and facilitators. Relationships of directors with various stakeholders accessible through interlocks can help facilitate communication and mediation between a focal firm and other parties on various objectives. This may be particularly relevant in the event of market entry into foreign operations especially if a firm lacks experience and more so, when the adoption of high control entry mode is accompanied by a higher level of commitment and risk.

It is therefore proposed that:

Hypothesis 1: Director interlocks with firms that have high control entry mode experience is positively associated with adoption of high control entry mode.

2.4 Diversification

2.4.1 Defining diversification

Diversification can be defined in several ways (Penrose, 1959; Rumelt, 1974). According to Penrose (1959), diversification is defined as entering new markets with new products. The concept can also be assessed based on heterogeneity of markets or industries that are being served (Gort, 1962; Jacquemin and Berry, 1979). Ramanujam and Varadarajan (1989) further defined diversification as the extent to which a firm operates in different businesses simultaneously. Rumelt (1974) added that diversification needs to be defined as the proportion of revenue from a firm's portfolio of products with a ratio of 70 percent as a measure of relatedness. He categorized firms as being either single business, dominant business, related diversified or unrelated diversified.

Several categories of investments can be classified as related diversification such as when investments involve similar products or when they lead to the vertical integration of complementary business activities leading to backward or forward integration. In addition, related diversification can also happen when firms internationalize by adding operations in foreign markets that involve similar products or services. This can also happen when the new business shares intangible assets with the firm's existing business structure such as marketing knowledge, patent protected technology, product differentiation attributes and superior managerial capabilities (Nelson and Winter, 1982).

Unrelated diversification on the other hand, may consist of categories of investment that arise apart from those that have been described above, such as diversification into areas where no physical or knowledge resources are shared, or when operations are expanded into new markets or with products that are beyond a firm's current resources and capabilities (Rumelt, 1974; Stopford and Dunning, 1983; Wrigley, 1970). There are several instances where a firm may venture into unrelated diversification such as when the firm perceives that the expansion into different businesses structures will strengthen the firm's core business as a whole. Unrelated diversification may also provide a firm with the opportunity to develop competencies that can be shared between different markets and products. Unrelated diversification is thought to enable the use of excess cash from the core business to cross subsidize activities in other segments to provide benefits (Jensen, 1988; Shleifer and Vishny, 1989) as well as to spread out and lower firm risk (Amihud and Lev, 1981).

Considerable attention has been given to diversification in both the strategic management and economic literatures, particularly on the impact of diversification on firm performance and growth (Chatterjee and Wernerfelt, 1991; Hoskisson and Hitt, 1990; Palich et al., 2000) While there has been minimal consensus on the direct impact of diversification on firm performance (Palich et al., 2000), a general consensus appears to have been attained with regard to the positive effect of related diversification on firm profitability. Industrial organization studies have failed to uncover the relationship between diversification and performance because of the failure to distinguish between different patterns of diversification that are viewed as being critical to the performance of a firm (Montgomery, 1994; Palepu, 1985). The strategic management literature (Bettis, 1981; Markides and Williamson, 1994; Palich, Cardinal and Miller, 2000) has been noted to focus primarily on the performance differences between related and unrelated diversification whereby a firm's diversification into new business activities is viewed from the degree of relatedness to a firm's core business activities.

Overall, related diversification has been found to outperform unrelated diversification because related diversification gives rise to higher synergies between a new business and an existing one. Rumelt (1974) concluded that the more highly related a firm's businesses are among one another, the more profitable the firm will be. Other studies also reported similar findings of higher profitability for related diversifiers (Bettis and Hall, 1982; Palich, et al., 2000) than for unrelated diversifiers. In addition, another stream of research has investigated relatedness in diversification and its linkage to managerial characteristics. It has been noted that the managerial characteristics of related diversifiers are different from unrelated diversifiers (Michel and Hambrick, 1992; Song, 1982).

2.4.2 Motivation for diversification

Researchers from finance, economics and strategy perspectives have explored many different motivations for firm diversification and accordingly, there are many possible motives behind diversification strategies (Amit and Livnat, 1988; Grant 1991; Montgomery, 1994; Sambharya, 2000). According to Montgomery (1994), diversification motives can be classified into three main perspectives, namely, the market power view, the resource view, and the agency view. The first two views are both consistent with profit maximization and efficient use of resources. The third view carries a managerial element and does not look into profit or resource maximization. Additionally, motives for diversification can be further grouped into two types. The first type of diversification occurs to correct past mistakes, such as low levels of organizational and industry performance. The second type of diversification is designed to improve and build on current operations. For example, diversification leading to an increase in market power can further improve a firm's current market position. Similarly, diversification that enhances resource sharing leads to better use of current resources.

Diversification can also be seen as a forward-looking strategy for firms to build future capability and to pursue future competitive advantage. Walter and Barney (1990) found that expanding into new types of markets or products provides another major motivation for firms to diversify. This perspective is similarly shared by Ansoff (1965) who argued that firms tend to diversify for both proactive and defensive reasons. By entering new markets through diversification, firms proactively search for new knowledge and skills to enhance their competitive advantage. Strategic management literature supports this forward-looking view of diversification.

One of the key motivations for diversification is the benefit arising from risk reduction (Markham, 1973) whereby, when the cash flows of a firm's multi businesses are not perfectly correlated, total risk is reduced by diversification. Diversification has been viewed as being motivated by firms' desire to gain conglomerate power and to defend against prospects of decline in their dominant industry (Rumelt, 1974). In addition, diversification can be motivated by managers' personal interests because diversification may reduce employment risks for top executives (Amihud and Lev, 1981). Individuals tend to show risk aversion when firm performance is satisfactory, but are more likely to take risks when firm performance is lower than aspiration levels (Kahneman and Tversky, 1979). A greater level of risk taking can potentially increase the likelihood of diversification.

However, in order to diversify, firms need to have necessary resources to ensure that the diversification is economically feasible (Hoskisson and Hitt, 1990). The resource-based view offers another perspective for firm diversification, which suggests that a firm is a collection of sticky and imperfectly imitable resources (Barney, 1991). Firms diversify in response to excess resources (Penrose, 1959) that cannot be efficiently sold in the market due to market failure that arises from resource stickiness (Teece, 1982). These resources can range from production assets, human resource assets, operating routines, innovations and intangible assets such as brand equity. When these resources can be leveraged across multiple products or markets successfully, this can result in economies of scope for the firm.

Organizational performance levels may also be another motivation for firms to diversify (Hoskisson and Hitt, 1990). Some studies (Bowman, 1982; Park, 2003) have shown a linkage between low firm performance and subsequent diversification. However, when firm performance is good, firms may also increase diversification because an increase in firm resources can encourage experimentation and further organizational search (Cyert and March, 1963). For instance, Miles (1982) found that highly profitable firms tend to engage in more acquisition activities. In line with the resource based view which states that bundled resources and capabilities that are aggregated over time underpins a firm's competitive advantages (Barney, 1991), it is expected that the larger a firm, the more resources it controls. Hence, the firm should perform above average in an industry and presumably, be involved in more diversification activities. Diversified firms have conglomerate power especially when they hold significant positions in a number of markets according to Gribbin (1976) and this diversity makes them thrive (Hill, 1985).

Diversified firms are able to exploit, extend, or defend their power by strategies and tactics. Montgomery (1994) explains that from a market power view, firms diversify due to cross-subsidization, whereby a firm uses its excess profit from one business to enter into another and hence, this diversification gives the new venture an advantage (Scherer, 1980). Montgomery (1994) added that the market power view suggests a positive relationship between diversification and firm performance. Diversification could also be due to mutual forbearance where firms get to operate concurrently with other firms in another different market to compete less severely (Montgomery, 1994). Diversification could also be due to reciprocal buying, where large and diverse firms can buy reciprocally in other markets to seal competition from smaller competitors (Grant, 1991).

From an agency theory perspective, there also appear to be discussions on motives behind diversification (Sambharya, 2000) where motives for diversification are said to reflect top management's aspirations and goals. Managers diversify the firm for several reasons such as firstly, empire building, where diversification happens in order to create managers' own empire (Montgomery, 1994). Secondly, with managerial entrenchment, managers diversify into markets or products in a way that increases the demand for their skills and abilities (Shleifer and Vishny, 1989). Thirdly, with risk reduction, managers try to reduce their employment risk by diversifying into different markets and products and thereby make the organization less dependent on a single market. Fourthly, with the free cash flow theory, instead of paying stakes to the owners of the firm, managers can utilise the excess cash flow on acquisitions (Jensen, 1988). The reason for this is that in the beginning of a firm's life cycle there are potentially a lot more of profitable opportunities for reinvestments. However, when the firm matures, these opportunities become scarce, and hence, the cash flow from earlier innovations are used for opportunistic diversification (Mueller, 1972). Kaplan and Weisbach (1992) studied acquisitions and found some support for the agency view and the theory of free cash flow. Companies with high free cash flows are likely to channel their cash flows to opportunistic investments.

The resource view of diversification acknowledges firm specific resources (Chamberlin, 1933; Robinson, 1933) as a motivation. This view was later developed by Penrose (1959) who added that the growth of the firm serves as a further motivation. Accordingly, growth stems from the heterogeneous resources that a firm possesses rather than from market and industry specific factors. When a firm has underused resources that can be profitably employed, it has an incentive to expand (Penrose, 1959). Furthermore, diversification is driven by the need to use these excess resources (Caves, 1980). In order to continually grow, a firm needs to be specialized and when the profits or resources from a successful growth have been underused, this can eventually be used to grow further by diversification. This process is called the vicious cycle, which states that specialization provokes diversification (Penrose, 1959).

The financial view on the other hand, states that the motive for diversification is based on the fundamentals in portfolio theory, that a firm should not put all of its resources in one concentrated portfolio. Accordingly, if cash flows from individual operations in a firm are not perfectly correlated, then the risk can be reduced by diversification (Amit and Livnat, 1988). Dutton (1997) added that firms that showed the most consistent profit growth, are those that diversify around their core competencies, which is in line with Montgomery's (1994) and Wernerfelt's (1988) findings.

The synergetic view of diversification views synergies as great importance when firms diversify and such synergies were noted to occur when the sum of all businesses together equals more than the sum separately (Hitt et al., 2001). Amit and Livnat (1988) added that diversification into related businesses may augment the market power of the diversified firm which in turn may help the firm enhance its long term strategic position. According to them, related diversification has more in common with operating synergies, whereas unrelated diversification seems to have more in common with the search for financial benefits due to greater stability in cash flows.

Uncertainty, market imperfections and information asymmetries can lead to firm diversification and different types of market failures can then give rise to either related or unrelated diversification (Dundas and Richardson, 1982). A firm's board control has been shown to have an influence over diversification (Boyd, Gove and Hitt, 2005) and different ownership structures have also been found to be linked to the relatedness of diversification activities (Ramaswamy, Li and Veliyath, 2002).

2.4.3 Diversification and choice of foreign market entry mode

Entry mode choice is one of the main decisions in the diversification process. Montgomery (1994) argued that diversification on a firm level is a function of its resource stock. The purpose of taking a diversification strategy may reflect a shortage of certain resources and capabilities that the firm needs, which in turn, determines entry mode choice. Some diversification studies have looked at the mode by which firms diversify, such as through organic growth, mergers, acquisitions or alliances (Dunning, 1981; Penrose, 1959). However, despite the importance of entry mode decisions and pre-entry conditions as determinants of success in diversification moves, both theoretical and empirical studies on this topic have been largely fragmented and limited according to Sanchez and Menguzzato (2009).

The literature on diversification has noted that entry into related businesses were more likely to be conducted through internal development as this allows a firm to transfer its existing resources into a new business, hence leading to better utilisation of its existing resources and enabling growth opportunities (Chatterjee, 1990; Yip, 1982). According to Pennings, Barkema and Douma (1994), internal development can be viewed as an incremental expansion of a firm's capabilities and when there is high relatedness between a firm's current and new businesses, the extension of its capabilities will be less risky. Yip (1982) and Chatterjee (1990) also stated that expansion into a related new market could lead to more reduction in operating costs, as the firm's current resources are more applicable for usage in the related new market.

Entry into unrelated markets on the other hand, increases operating costs because there is less opportunity to leverage upon existing resources within a firm and hence, firms may have a tendency to acquire another firm in the new market that may already have the needed resources. As noted by Chatterjee (1990), entry into unrelated markets tends to be correlated with entry modes that are of high control. Entry into an unrelated business using high control modes such as acquisitions enables a firm to overcome some of the entry barriers (Yip, 1982). It also minimizes entry risks with an already established mean of production and distribution channels (Pennings, Barkema and Douma, 1994).

However, inconsistent findings have also been found on the linkage between relatedness and entry mode choice in several studies (Busija, O'Neil and Zeithaml, 1997; Rumelt, 1982). Yip (1982) and Chatterjee (1990) did not find any significant relationship between measures of relatedness and entry mode while Silverman (1999) did not find any significant relationship between entry mode and firm industry relatedness. Some studies found contradicting relationships between the use of acquisition and the entry into unrelated businesses.

Harrison, Hitt, Hoskisson and Ireland (1991) studied acquisitions and found that firms acquired both related and unrelated businesses. Chang and Singh (1999) found that firms tend to use acquisitions when entering markets of similar research and development intensity. They also found that the use of acquisition is associated with unrelated business when the similarities between the unrelated market and the firms' current business shared similar levels of advertising intensity and human resource needs. In the international business literature, the use of acquisition is associated with related expansion into foreign markets when relatedness is measured by cultural similarity. Kogut and Singh (1988) examined the mode of entry into foreign markets for geographic diversification and found that the use of acquisition is associated with a smaller cultural distance between the country of the investing firm and the country the firm enters into.

The inconsistency in explaining entry mode using the notion of relatedness of business for diversification suggests that perhaps, relatedness of a firm's current business and a new business may be an insufficient predictor. This study argues that there is a need for further understanding that goes beyond the simple linkage of relatedness of business activities and a firm's choice of entry mode. Moreover, the inconsistency of results could also be due to the diversity of the operationalisation of the relatedness construct. A main challenge lies in the wide definition and measurement of relatedness that may result in firms appearing like they are conglomerates of unrelated business components, but may in actual fact still be related by the knowledge linkages that they share as such linkages are often difficult to identify (Richardson, 1972).

Physical linkages on the other hand, such as shared markets or distribution systems are much easier to identify. As a result, physical linkages have traditionally been used in many studies, as such linkages are able to provide a clearer way for measuring and comparing relatedness between industries (Caves, 1980; Montgomery, 1994). Instead of a direct linkage between relatedness and choice of entry mode, this study proposes to take a different approach by investigating how the relatedness construct can serve as a moderating factor between key factors that can influence a firm's choice of entry mode.

Sanchez and Menguzzato (2009) highlighted that research into corporate diversification has focused mainly on the study of entry barriers and the possibility of reprisals from incumbent firms as the main determinants of entry mode choice. However, in the current competitive environment, firms tend to face multiple pressures that may concurrently influence their entry mode choice. Thus, this study argues that research that focuses on a single motivation may not be sufficient to explain the current behaviour of firms. This implies that a more eclectic and dynamic research approach is required in the wake of complexity of such decisions. Sanchez and Menguzzato (2009) further stressed that firm related factors, such as diversification motives or past diversification experience can also play an important role in the entry process.

2.4.4 Effect of unrelated business activities on the director interlocks – foreign market entry mode relationship

Prahalad and Bettis (1986) stated that diversification into unrelated business activities raises information processing requirements because managers need to pursue multiple dominant logics simultaneously. Moreover, unrelated diversification increases the risk profile of firms and does not provide better risk pooling (Bettis and Hall, 1992; Montgomery and Singh, 1984). Lubatkin and Chatterjee (1994) also showed that firms that diversify into unrelated fields experience higher risks and this is escalated with additional complexity when faced with foreign competition (Bowen and Wiersema, 2005). In such circumstances, the role of experiences in decision-making becomes important (Judge and Miller, 1991).

The presence of greater meta-cognitive experiences, which refers to an individual's conscious experiences that are cognitive and affective in nature (Flavell, 1987), can have an influence on the current decision making processes that are guided by reflections of past decision making processes. Prior experiences can play an important role in the development of a firm's resources and capabilities (Collis, 1991; Nelson and Winter, 1982). In diversification, synergy occurs when firms can leverage complementary and related consumer, product and managerial knowledge between businesses (Tanriverdi and Venkatraman, 2005). As such, this will be particularly significant for entry into a foreign market where the knowledge and experiences of decisions makers are of prime importance. In addition, Amburgey and Miner (1992) stated that certain modes of entry tend to be adopted because capabilities around the particular modes have been developed through experience.

Market uncertainty of a new unrelated business activity can have an impact on the type of entry mode chosen. Uncertainty is high when there is a large difference between the amount of information required to develop a new unrelated business activity and the amount of information already possessed (Galbraith, 1977). When a firm enters a new market that is outside of its primary business domain, additional information processing demands are placed on corporate managers (Hitt, Hoskisson, Johnson and Moesel, 1996). The cost of communication increases when there is a higher level of uncertainty (Teece, 1980). This is because information is likely to be uncodified and likely to be more difficult to be transferred between individuals or groups (Hansen, 1999; Nelson and Winter, 1982). Uncertainty also increases a firm's cost of governance because information transmission constraints can be antecedents to an executives' perceived threat of opportunism (Schilling and Steensma, 2002).

It has been noted that firms pursuing unrelated acquisitions may differ from those pursuing related acquisitions by the types of structure and controls used (Hoskisson and Hitt, 1988; Hoskisson, Hitt, and Hill, 1993). Related acquisitions tend to rely on linkages between business units to establish a degree of central coordination (Hill and Hoskisson, 1987). Unrelated acquisitions rely on maximizing efficiency at the business unit level while decentralizing decision-making and accountability to the business unit level (Chandler, 1991; Hill and Hoskisson, 1987). Unrelated acquisitions also allow a firm to access resources and capabilities that the target firm has already developed, hence, minimizing the risks associated with entering a new unrelated market (Pennings, Barkema and Douma, 1994).

Uncertainty has been noted to be a key factor to be considered especially when strategic choices have to be made (Haunschild and Miner, 1997). It has been shown to have an effect on important organization practices such as acquisition practices (Haunschild, 1994). A firm's diversification profile has been noted to shape the number of critical contingencies that a firm and its leadership must negotiate (Thompson, 1967). When a firm diversifies and expands its business portfolio, it becomes an even greater challenge for the firm's executives to monitor and manage business operations.

Unrelated business activities can be accompanied by a higher level of market and environmental uncertainty and when managers of a firm lack relevant knowledge and experience in the unrelated business activity, it is argued that the firm's board of directors who might have the relevant experiences as a result of exposure to similar experiences at other firms, can compensate for this by sharing their information and knowledge (Haunschild and Beckman, 2002). Thus, it can be inferred that director interlocks with firms that have relevant experiences can be of significant value in the context of unrelated diversification.

It can be further argued that with a higher level of uncertainty in an unrelated market, a high control foreign market entry mode can be perceived to be more desirable as it may allow a firm to exert greater grasp over uncertainty. This can be so particularly if a firm's directors have the experience and exposure to high control entry modes and as a result, the likelihood of choosing high control entry modes would be higher. This is because the ability of a director to adequately advise and provide expertise to a firm's top management may be a function of prior experiences of the director with strategies that are relevant (Carpenter and Westphal, 2001). Similarly, Westphal and Fredrickson (2001) showed that the strategy experience of directors was the key factor in influencing diversification decisions in firms with new CEOs.

On the other hand, with regard to the context of market entry into a related business activity, it is suggested that the influence of director interlocks with firms that have high control entry mode experience on a firm’s adoption of high control entry modes will have a weaker effect when compared to entry into an unrelated business activity. This is because entry into a related business activity may offer a firm the potential to transfer and share its existing resources, operational and management capabilities due to strategic similarities that may exist between its related businesses. Hence, it is predicted that the firm’s managers may have a certain level of existing knowledge and experience that can be applicable across a firm’s related businesses and this might result in lesser dependence on director interlocks with firms that have high control entry mode experience.

Westphal and Fredrickson (2001) suggested that under conditions of complexity and overload, executives would refer to pre-existing beliefs, which are shaped by prior experience in similar roles as directors in other firms. Similarly, Haspeslagh and Jemison (1991) noted that benefits from high control entry modes such as acquisitions could be high for firms whose executives have learnt from their own experiences and from the experiences of others. One may learn from one’s own experiences but when one’s experiences are limited, the experiences of others can sometimes be used as a guidance (Haunschild and Beckman, 2002). This would particularly be so under conditions of environment uncertainty where it is argued that the influence of others with greater experience might be stronger. External business conditions of uncertainty have been noted to create a decision-making environment that is more receptive to information and practices shared across interlocks (Shropshire, 2010).

The inference that can be drawn is that a firm's decision to adopt a high control entry mode may depend on more than just the extent to which a firm is interlocked to other firms that have adopted a similar entry mode. It may also be dependent on the context of the business as well. Business environment can affect the relevance of directors' outside board experience and the likelihood that directors are able to contribute to strategic decision-making (Carpenter and Westphal, 2001).

Therefore, in line with the reasoning discussed above and following on from hypothesis one, it is argued that the positive relationship between director interlocks with firms that have high control entry mode experience and the adoption of high control entry mode is stronger in unrelated activities than in related activities.

Therefore, it is further hypothesized that,

Hypothesis 2: The positive relationship between director interlocks with firms that have high control entry mode experience and the adoption of high control entry mode is stronger in unrelated activities than in related activities.

2.5 Outside directors with an active CEO appointment

2.5.1 Introduction to roles of outside directors

The role of outside directors has been one of the main themes in the literature on boards of directors. Previous studies have shown that board of directors, particularly outside directors, play an important monitoring role (Fama, 1980) as well as advisory role for firms in establishing corporate strategies and policies (Adams and Mehran, 2003; Adams and Ferreira, 2007; Fama and Jensen, 1983; Peng, 2004).

Outside directors have been noted to be able to contribute to a firm in an agency capacity because of their objectivity in overseeing the management team of a firm as well as by sharing their breadth of experience and external contacts (Jensen and Meckling, 1976; Kesner, 1987; Mizruchi, 1983) with the firm. It has also been suggested that outside directors are in a better position to represent the interests of shareholders (Fechner and Dalton, 1991).

McNulty and Pettigrew (1992) suggested that outside directors have three levels of involvement in a firm's investment strategy. At the first level, their involvement focuses on reviewing strategic proposals that requires exertion of influence by the board at the end of an investment decision process. The board behaviour involved is either an acceptance, rejection or referral back to management for changes in investment proposals and according to McNulty and Pettigrew (1999), most directors are involved in this process.

The second level is about shaping strategic decisions and it involves the exercise of influence by outside directors early in the decision process, effectively shaping the preparation of proposals by management. The board behaviour involved at this level covers two kinds of processes. Firstly, management may directly consult outside directors, either formally or informally during the preparation of proposals. Secondly, management may anticipate the response of the full board and self-regulate proposals before they go to the board for the decision making stage.

The third level of strategy involvement according to McNulty and Pettigrew (1999), involves shaping the context, conduct and content of strategy and this has been defined as a continuous process that involves outside directors. Hence, while making strategic decisions is grounded in the control role of agency theory (Eisenhardt, 1989) and occurs all the time, shaping strategic decisions can be considered as a more consultative form of control (McNulty and Pettigrew, 1999).

Corporate governance literature calls for the alignment of interests between managers and shareholders, which suggests the need to have greater outside director representation on a firm's board to enable oversight and monitoring of a firm's management and the actions they take (Baysinger and Butler, 1985; Fama and Jensen, 1983). Research has shown that outside directors can have an impact on firm strategy (Westphal and Fredrickson, 2001) and in times of uncertainty, firms are more likely to appoint resource rich outsiders to the board to help bring in needed resources (Hillman et al., 2000). Haunschild (1994) similarly found that firms have a tendency to turn to outside directors for information to resolve uncertainty when it comes to acquisition related decisions.

When outside directors hold interlocking ties with other firms, it is expected that such outside directors will have additional accumulation of skills and expertise, which can then be contributed to a focal firm's existing pool of resources through sharing of such skills, knowledge, contacts as well as prior experiences (Zahra and George, 2002). Other researchers have similarly argued that a board with a higher percentage of outside directors provides greater independence and tends to be more involved in strategic decision making (Kaymak and Bektas, 2008; Osma, 2008).

It has been suggested that directors on boards of other firms with acquisition experience can bring this expertise to a focal firm's boardroom (Cohen and Levinthal, 1990; Nelson and Winter, 1982). Since foreign market environments can be highly dynamic and complex, outside directors who possess timely information, diverse resources and relevant experiences can be leveraged upon to enhance firm capabilities (Finkelstein, Hambrick, and Cannella, 2009; Luo, 2001) when pursuing foreign market expansion.

Outside directors may have ties with other firms who share similar technological, regulatory, and competitive environments (Baysinger and Hoskisson, 1990) and they may possess relatively unique experiences with respect to how individual firms address their external environment and internal administrative structures. In addition, outside directors may have acquired experiences pertaining to a wide variety of areas such as diversification, globalisation, acquisitions, mergers, and restructuring if they have served on the boards of other firms who have similar experiences. Experiences in similar situations can be a powerful learning mechanism and notably, extensive experience in a particular context may enhance one's ability to transfer the benefits of that experience to other similar contexts (Westphal and Milton, 2000). Thus, outside directors with director interlocks have the capacity to transmit business specific knowledge and experiences from other firms that may complement management expertise in a focal firm (Baysinger and Butler, 1985; Baysinger and Hoskisson, 1990; Fama and Jensen, 1983; Kim, Burns and Prescott, 2009).

Top management teams have varying levels of knowledge and experience. When there is a shortage of experience among top management, informed decisions can be made when highly interlocked outside directors are knowledgeable about the industry and can provide additional advice and counsel to managers regarding strategy formulation and implementation

(Filatotchev and Bishop, 2002; Johnson, Daily and Ellstrand, 1996; Kor and Misangyi, 2008). In addition, firms have been noted to learn more from outside directors than inside directors (Menon and Pfeffer, 2003). Outside directors' experience developed at other firms can help provide additional information, skills, and knowledge (Bazerman and Schoorman, 1983) that may bring key benefits to the firms whose boards they sit on (Schoorman, Bazerman, and Atkin, 1981) which can also be used for generating and evaluating decision alternatives (Geletkanycz and Hambrick, 1997). Schoorman et al. (1981) argued that this is particularly relevant for a firm when it is considering foreign market entry into an unrelated business activity. Furthermore, experienced outside directors may help improve a focal firm's decision making processes with regard to selecting appropriate choices and plans (Peng and Fang, 2010; Schoorman et al., 1981).

Fama and Jensen (1983) argued that outside directors are motivated to act as monitors of management because they want to protect their reputation as effective, independent decision makers. Agrawal and Knoeber (2001) found that certain outside directors could play a political role by providing advice and insight into the workings of government or by acting on behalf of a focal firm in influencing the government directly. Knowledge of procedures as well as friendships with important government decision makers or experiences in dealing with government on administrative or legal proceedings can be beneficial. Additionally, outside directors who are adept at politics can aid in the political dealings of a firm by using their skills to predict government actions.

As noted by Bacon (1985), regular exposure of outside directors to similar decision contexts may influence the effectiveness of their role on the board in dealing with specific decisions that are to be made. Outside directors have been further classified in terms of the nature of their interlocking ties that can bring in different types of experience depending on whether such ties are incoming or indirect ties (Nebus, 2006; Westphal and Frederickson, 2001). In addition, outside directors' industry experience can also be beneficial as it often brings goodwill and ties with key industry players as well as access to information and resource networks within the industry (Carpenter and Westphal, 2001; Daily and Dalton, 1994; Pearce and Zahra, 1992; Useem, 1984).

Outside directors with vast industry experience have been noted to have more attractive board service than less experienced directors and they are often sought after for their legitimacy, advice and industry connections (Conyon and Read, 2006; Finkelstein and Hambrick, 1996). Director interlocks' influence on acquisitions or other strategic behaviours can vary with the network positioning of directors whereby directors who are highly interlocked may have greater board influence during boardroom discussions (D'Aveni and Kesner, 1993; Henke, 1986). Datta, Musteen and Herrmann (2009) also found that when there is a higher proportion of outside directors on a firm's board, there is a higher tendency for acquisitions to be chosen over joint ventures.

Research have emphasized the importance of going beyond broad board characteristics and have analyzed specific types of directors and their roles for firm outcomes (Agrawal and Knoeber, 2001; Booth and Deli, 1996; Masulis and Mobbs, 2009; Weisbach, 1988; Yermack, 1996). Outside directors with interlocks to firms that have high control entry mode experience such as foreign market acquisition experience can help bring this expertise and experience into a focal firm's boardroom, thereby adding to the firm's existing knowledge (Cohen and Levinthal, 1990; Nelson and Winter, 1982; Zahra and George, 2002).

By improving and protecting the unique resources belonging to firm, a firm's strengths and competitive position can be reinforced. However, smaller firms are generally characterized by a lack of internal resources and the availability of internal knowledge can be scarce or non-existing (Storey, 1994). In this respect, it is important for smaller firms to have experienced outside directors in order to overcome this lack of internal resources as well as to complement the management with experience, knowledge and skills (Castaldi and Wortman, 1984). The directors can be a bundle of strategic resource that can be leveraged upon by smaller firms as the directors can provide timely advice and counsel to the CEO and the management team in areas where internal knowledge is limited or lacking.

2.5.2 Overview on outside directors with an active CEO appointment

There has been limited research on the role of outside directors who are CEOs of other firms. Most studies tend to focus on the factors that encourage CEOs to take on outside directorships, while less attention has been given to the motives of firms in choosing to appoint such individuals as outside directors on a firm's board. One of the main factors that induce CEOs to take on outside directorships (Mace, 1986) is that outside directorships can be a source of prestige and business contacts (Fich, 2005). Monetary rewards and perquisites do not significantly attract highly compensated CEOs to outside directorships (Booth and Deli, 1996). It is also likely that as CEOs increasingly delegate more authority to their eventual successors, they find more time to devote to directorships on other firms and similarly, CEOs serving in firms with fewer growth opportunities may have more time that allows them to sit on other external boards (Booth and Deli, 1996).

Economists have long noted that in certain kinds of economic activity, there is a concentration of output among a few individuals, and therefore, a higher tendency for market size and reward to be skewed toward the most talented people who are engaged in the activity (Rosen, 1981). Fama (1980) suggested that prior accomplishments can be used as a measure of an individual's talents while Gilson and Kraakman (1990) reported that the likelihood of a CEO being offered an outside directorship is positively associated with the CEO' firm's successful performance.

Brickley, Linck and Coles (1999) found that CEOs who serve on their own firm's board as outside directors after retiring generate higher annual stock returns and higher annual accounting returns during their final years in office than CEOs who do not remain on their own firm's boards. These studies suggest that firms have a tendency to retain CEOs on their boards due to their proven managerial talent. In this context, it is suggested that individuals with superior abilities and records of accomplishment may also add value to different firms. Hence, it is arguable that the unique set of skills acquired by CEO directors sets them apart from other non-CEO directors. Such unique managerial talent is sought by firms looking to appoint outside directors to their boards and is recognized by investors as being value enhancing.

CEO outside directorships are important for several reasons according to Geletkanycz and Boyd (2011). Such individuals are able to share their experiences with a focal firm directly without an intermediary. This first-hand experience gives directors the fine-grained knowledge, which increases the quality and credibility of the information transferred compared to third party learning provided by outside directors who do not hold CEO appointments. For example, outside directors with an active CEO appointment can bring rich stories and accounts of personal experiences in formulating and implementing an emerging market entry strategy. The credibility of these directors' opinions for the focal firm should be especially high because vivid case type information is of high fidelity and more influential than abstract recounting of someone else's experience (Nisbett and Ross, 1980).

Active CEOs are the most sought after director candidates (Fich, 2005). Past literature has investigated the role of outside directors with CEO appointments in other firms and has acknowledged the advantages for firms when they appoint such directors onto their board. Fich (2005) found that announcement returns are significantly positive and higher when the outside director is a CEO of a different firm. Fich (2005) also reported that on average, at least four members of a 12-member board of directors of Fortune 1,000 firms are CEOs, suggesting that outside directors with CEO roles are value enhancing. Given that directors perform two broad functions, namely, monitoring and advising top management (Jensen, 1993), outside directors with an active CEO appointment can add value through better monitoring and better advising.

Outside directors with an active CEO appointment are also potentially motivated to oversee top management better because they have more reputational capital at stake. Furthermore, their experience as CEOs can provide them with important insights and ability to oversee management. They can also significantly contribute to the board's advising function. Stein (1989) argued that potentially entrenching governance provisions could facilitate managerial investment in risky but profitable long-term projects. A supportive board influenced by other CEOs can provide the implicit assurance necessary to induce a focal firm's CEO and top management to take strategic risks and invest in profitable long-term projects that have a higher degree of uncertainty.

2.5.3 Effect of outside directors with an active CEO appointment on the director interlocks – foreign market entry mode relationship

Foreign market high control entry modes such as greenfields or acquisitions are major strategic initiatives involving significant board input and oversight. In this study, director interlocks with firms that have high control entry mode experience are argued to have an influence over a focal firm's adoption of high control entry mode because the interlocks can provide the focal firm with the opportunity to leverage on prior high control entry mode experiences of other firms.

It is proposed that outside directors with an active CEO appointment are particularly valuable when firms pursue high control entry mode such as acquisitions. This is because they can provide better strategic advice from their unique professional experience. Additionally, the skills and professional experience of outside directors with an active CEO appointment will equip them with greater ability to perform important advisory functions that can facilitate board decision making particularly when dealing with foreign market entry issues. Outside directors with an active CEO appointment are able to contribute to board decision making in a variety of ways within the context of foreign market entry and especially in decisions that relate to entry modes.

Knowledge and experiences of high control entry modes that are shared across interlocks arising from various outside directors can be distinctly different. For instance, directors can differ in the type of experience they possess regarding specific domains of knowledge (Carpenter and Westphal, 2001) in which the focal firm may seek to learn such as in the context of foreign market entry modes. Some directors may have developed knowledge about market entry mode strategies through first hand action and experience (Kroll, Walters and Wright, 2008), while others may possess coarsely grained knowledge acquired from second hand observations of other firms' entry mode strategies (Geletkanycz and Hambrick, 1997; Haunschild, 1993) as a result of being a board member of such firms. Those with first-hand experience, such as outside directors with an active CEO appointment, are likely to be better transmitters of knowledge due to the primacy of their experience and the precision with which they can deliver their guidance. They are also likely to be more persuasive when applying their knowledge to a firm's existing strategy.

While research identifies outside directors as a key source of external advice (Abebe, Angriawan and Ruth, 2012; Jensen and Meckling, 1976; Kesner, 1987; Mizruchi, 1983), outside director experience is often treated without regard for the background of the director who possesses the valuable experience. Studies that researched on the link between outside directors of a firm and acquisitions have treated outside directors as being the same regardless of the background of the directors (McDonald, Westphal and Graebner, 2008; Subrahmanyam, Rangan and Rosenstein, 1997) and have attempted to establish a direct link between the two areas.

Backgrounds of outside directors can vary depending on whether they undertake executive roles at another firm with direct responsibility for its strategy or if they are merely outside directors with primarily an advisory role in other firms. For instance, some outside directors are CEOs with ultimate decisional authority in their respective firms, while others are non-CEO executives lacking this ultimate authority. This decisional authority confers credibility and increases a director's ability to play an influential role during the board decision-making process. According to Kroll et al. (2008), the difference in the hierarchical status of holding the position of a CEO in another firm may affect the credibility of the director and the potential to influence a firm's adoption of strategies.

The acceptance of advice is largely based on who is giving the advice (Berlo, Lemert and Mertz, 1969) and it is argued that directors may not be viewed as credible on all issues. Credibility is noted to be the most potent means of persuasion (McCroskey and Young, 1981) and is defined as the assessment of believability of an information source and whether that source is a reliable guide to belief and behaviour (O'Keefe, 2002). Outside directors with an active CEO appointment are believed to have higher credibility, as they are responsible for the formulation, implementation, and performance of their own firm's strategies (Angriawan and Abebe, 2011). Hence, they will have a higher level of hands on experience compared to other board members who do not have this experience. This experience should convey a degree of credibility of which, others will acknowledge them as expert advisers.

Focal firms with CEOs and top management teams who have limited familiarity with high control entry modes might benefit particularly from experienced outside directors with an active CEO appointment who can provide the required guidance and more especially so if the directors' source firms have prior high control entry mode experience. A similar argument applies to the situation of younger focal firms who are contemplating on pursuing high control entry modes and due to lack of familiarity or limited prior experience, such firms may seek experienced directors who can provide the required guidance. Supporting this, Adams and Ferreira (2007) emphasized the importance of the advisory role of the board of directors and stated that younger firms with more growth options are likely to benefit most from the expert advice of outside directors with CEO appointments who can help them exploit their growth potential and expand their markets.

Outside directors with an active CEO appointment can be optimal monitors because they bring an important mix of managerial, industry, and functional knowledge (Fich, 2005). As a result, they can help contribute to multiple areas of governance that are important for a firm's long-term success. This includes the development and vetting of a firm's corporate strategy, risk management, internal talent development, performance measurement, shareholder and stakeholder relations. They also bring important intangible attributes such as leadership skills, decision-making skills, the ability to prioritize and lead in a crisis, a strong work ethic as well as an abundance of networks (Larcker and Tayan, 2011). Such directors might even take an active role by offering the top management team advice on additional strategic moves, such as helping to inform the management team on potential acquisition targets (Abebe, Angriawan and Tran, 2010; Westphal, Seidel, and Stewart, 2001). Hence, an inference that can be drawn from this is that outside directors with an active CEO appointment can contribute their expertise to a firm in a multitude of ways when contemplating foreign market expansion.

Outside directors with an active CEO appointment may be able to expertly identify potential knowledge that can be useful in contributing to a firm's market expansion strategies. Therefore, in this manner, outside directors with an active CEO appointment are able to assist a firm in leveraging on benefits brought forth by a firm's director interlocks. Given the multiple angles that outside directors with an active CEO appointment can contribute to (McDonald, Westphal and Graebner, 2008; Subrahmanyam, Rangan and Rosenstein, 1997), it is proposed that the presence of outside directors with an active CEO appointment on a firm's board can help enhance strategic activities and decision-making process in a firm particularly with decisions related to foreign market entry. From this perspective, it is argued that by having outside directors with active CEO appointments on a focal firm's board, this can further amplify the influence of director interlocks on a firm's choice of entry mode.

Therefore, it is further hypothesized that:

Hypothesis 3: The positive relationship between director interlocks with firms that have high control entry mode experience and the adoption of high control entry mode in unrelated activities is further amplified with the presence of outside directors with active CEO appointment.

That is to say, the relationship in Hypothesis 2 is further amplified with the presence of outside directors with an active CEO appointment.

2.6 Director Stock Option Compensation

2.6.1 Introduction and background to director stock option compensation

Research on board of directors' compensation has mainly focused on the proper alignment and structuring of compensation contracts. There has also been a growing trend in studies that looked towards equity compensation and how equity compensation can help align board members' interest with those of the firm as a whole (Barrier, 2002; Dalton and Daily, 2001). Equity based compensation provides directors with an equity stake in the firm and can take two major forms. The first form involves grants of full value shares of stock that give directors an immediate real ownership stake in the firm. The second form involves stock options, which are contracts where directors are granted the right but without the obligation to purchase a specific number of shares of firm stock at a predetermined price within a specified future time range. Stock options are often granted annually and tend to be used with the hope of motivating directors to focus on a firm's long-term performance (Kesner, 1987). The conventional view states that by compensating board members with an equity stake in the firm, this decreases agency costs by bringing directors' incentives in line with those of shareholders (Lawler, 2000). According to this view, regardless of whether compensation from board service constitutes a larger or smaller percentage of a director's personal wealth, directors have no desire for a decrease in this level of wealth that comes about with a drop in the firm value. Equity is viewed as the primary vehicle for inducing directors to monitor management by thinking and acting in a manner that is representative of shareholders. Significant ownership encourages boards to work harder and fosters vigorous debate among board members on important issues. It also encourages involvement of management and promotes director engagement during difficult times (Aaron, 2013; Wiseman and Gomez-Mejia; 1998).

Literature recognizes that the governance mechanism may function more effectively when directors receive incentives that align their interests with shareholders. Studies have commended that stock options can provide directors with partial ownership of the firm, thereby motivating them to carry out their fiduciary duties and advocate actions that are consistent with shareholder preferences (Deutsch, Keil, and Laamanen, 2007). Recent research has also focussed on how director compensation involving stock options can help facilitate firms' risk decisions (Deutsch, 2007).

Equity compensation in the form of stock options has been argued to have an impact on risk taking behaviour in a different manner as compared to other forms of equity ownership (Sanders, 2001; Wiseman and Gomez-Mejia; 1998). This is because the value of equity ownership reflects readily accessible wealth including both upside and downside potential, whereas the value contained in unvested stock options is not immediately accessible. Furthermore, the acquisition of a stock option requires no initial investment and executives are under no obligation to exercise stock options when underwater, meaning that the current market stock value is lower than the stock option price (Lawler, 2000; Sanders, 2001).

Stock option based compensation schemes thus have been noted to encourage a higher level of risk taking (Coles, Daniel and Naveen, 2006; Dee, Lulseged and Nowlin, 2005) because there is minimal risk to personal wealth as individuals are not required to invest in anything in order to acquire the options. Thus, stock options are presumed to have asymmetric risk properties, offering directors the opportunity for potential wealth gains through increases in stock price, while insulating them from downside threats to current wealth (Lawler, 2000; Sanders, 2001).

2.6.2 Overview of linkage between inside director stock option compensation and risk taking propensity

Risk is one of the key components in managerial decisions and has been featured prominently in strategic management research (Ruefli, Collins and Lacugna, 1999). Numerous studies in the past have looked at the determinants of risk behaviour, focusing on the characteristics of decision makers (Hambrick, Cho and Chen, 1996) and the organizational contexts affecting managerial risk taking behaviour (Palmer and Wiseman, 1999). With agency theory as an underlying basis for development of a theoretical framework on risk, the basic assumption is that principals are risk neutral while managers or agents tend to be more risk averse (Hoskisson, Hitt and Hill, 1993).

Contracting theory states that the role of compensation contracts is to motivate agents to perform their duty beyond a necessary and relatively low level of effort as well as to align the interests of agents with those of the principal (Jensen and Meckling, 1976). The basic argument in the literature is that incentive contracts for top-level executives should be designed in a manner where incentives of executives are aligned with those of shareholders (Jensen and Meckling, 1976). This is because executives tend to be more concerned with their employment security and hence, their risk preference diverges from shareholders' risk preferences. Hence, appropriate compensation plans are required to motivate executives to be less risk averse than they would otherwise be by incorporating equity based elements into compensation plans.

Similarly, a well established argument by agency theorists states that top executives who receive stock option compensation are more likely to make riskier decisions since they participate in the upside potential of these decisions but not in their downside (Agrawal and Mandelker, 1987; Sanders, 2001). This argument has received widespread support in the literature (Devers, Cannella, Reilly and Yoder, 2007; Deutsch, Keil and Laamanene, 2007; Rajgopal and Shevlin, 2002; Williams and Rao, 2006; Wright et al., 2002) which argues that stock option compensation increases firm level risk taking.

Inside directors, who are also executive officers in a firm, are often viewed as being risk averse. Their risk aversion stems from the fact that they are faced with the risk of losing their jobs when undertaking risky projects. It is less likely for them to easily diversify their income streams and they may face personal liability in the case of corporate insolvency or financial distress (Beatty and Zajac, 1994; Coffee, 1988; Eisenhardt, 1989; Hoskisson, Hitt, and Hill, 1993). Hence, they are highly likely to be biased against projects that involve high levels of risk.

While the effects of equity compensation on firm risk taking have attracted attention in the literature (Devers et al., 2007; Harford and Li, 2007; Larraza-Kintana, Wiseman, Gomez-Mejia and Welbourne, 2007; Sanders and Hambrick, 2007; Williams and Rao, 2006), detailed research on equity compensation plans that have looked at the effects of director compensation on a firm level basis have received less emphasis (Cyert, Kang and Kumar, 2002; Deutsch, Keil and Laamanen, 2007; Hermalin and Weisbach, 1991; Hoskisson et al., 2002; Kor and Misangyi, 2008). Studies have not explicitly considered directors' own incentives and risk preferences and many of these studies have been built upon the basic assumption of risk-neutral directors and shareholders.

Inside directors are argued to be more concerned with employment risk and undiversified income streams (Coles, Daniel and Naveen, 2006). Stock options link inside directors' wealth directly to outcomes that shareholders value such as the share price. Therefore, stock options encourages risk seeking because higher risk increases the potential for greater returns to both shareholders and the inside directors (Sharpe, 1970).

The study by Jensen and Meckling (1976) underpins the well known agency theory whereby as a result of the separation of corporate ownership and control, the manager, who should theoretically work solely for the shareholders' best interests, acts in his or her own interest. Inside directors, who are considered as managers of firms, have most of their human capital at risk with their current firm (Drymiotes, 2007) and would typically prefer a less risky investment strategy for the firm as compared to shareholders of a firm. This is because shareholders can diversify their wealth among many financial assets while inside directors are frequently unable to diversify the risks specific to their firms. This is particularly so when the managers' reputation and job positions are closely linked to firm specific risks (March and Shapira, 1987). Stock options can then induce managers to take on riskier projects because their incomes become less dependent on the outcome of the projects. Hence, drawing on this theory, the overall theoretical rationale behind the use of stock options is that when inside directors' wealth is linked to the firm's stock price in this manner, they will then be more inclined to align their own interests with shareholders' interests.

Bryan, Hwang and Lilien (2000) proposed that stock options provide efficient incentives to influence risk behaviour and by combining these elements into directors' compensation packages, it will have an effect on directors' risk behaviour. In support of this view, Deutsch et al. (2007) found that performance based incentives for directors can affect a firm's acquisition behaviour. Similar findings have been documented by numerous studies following Jensen and Meckling (1976)'s study that examined the effectiveness of different compensation packages and suggested that stock options are an important component in compensation plans to converge managerial payoffs to shareholders' wealth (Brickley, Lease and Smith, 1988; Murphy, 1985; Smith and Watts, 1992).

Several theoretical studies propose that the use of stock options not only ties the wealth function of executives and shareholders more directly but also leads executives to more risk taking. Stock options can provide directors with incentives to increase their involvement in various board tasks and encourages them to steer a firm's decision making towards higher levels of risk taking (Yermack, 2004; Masulis and Mobbs, 2009). Haugen and Senbet (1981) similarly demonstrated that stock option compensation not only reduces agency problems related to perquisites consumption but it also provides an incentive to executives to engage in riskier investments. Smith and Stulz (1985) illustrated how shareholders can alleviate moral hazard conflicts by using stock options to structure managerial compensation as a convex function of firm performance. They also suggested that compensation contracts should be designed in a manner that encourages the bearing of more risks.

Several studies have also provided evidence that stock options are positively related to managerial risk taking (Canyon, 2006). Lambert (1986) investigated how managerial risk aversion and the structure of their wealth influence their valuation on the compensation contract. Hall and Murphy (2002) stated that stock option compensation motivates executives by offering a direct link between firm performance and executive wealth, thereby providing incentives for executives to take actions that increase share price and avoid actions that decrease share price. Rajgopal and Shevlin (2002) noted that stock options grants are positively related to future risk taking while Chen, Steiner and Whyte (2006) similarly found a positive relationship between stock option-based compensation and risk taking in the financial industry.

On the other hand, there are also other studies that challenged the notion of whether stock option compensation increases managerial risk taking. Carpenter (2000) emphasized the influence of option compensation on risk appetite when managers cannot hedge the option position in their portfolio. Ju, Leland and Senbet (2003) asserted that option compensation could only increase risk-taking incentive when managers' equity holding is low and the managers' risk aversion would dominate when managerial equity holding is very high.

2.6.3 Effect of inside director stock option compensation on the director interlocks - foreign market entry mode relationship

Despite the call by institutions and legislators towards greater outside director representation and higher levels of independence on boards, several recent theoretical models have highlighted the importance of the role of inside directors (Adams and Ferreira, 2007; Baranchuk and Dybvig, 2009; Harris and Raviv, 2008). The roles of inside directors are especially critical because of their knowledge of the firm (Kesner, 1987). As participants in the decision processes of a firm, inside directors have access to information that is relevant to the strategic desirability of initiatives (Baysinger and Hoskisson, 1990). Inside directors are involved in day-to-day operations of the firm and they possess important information such as details of firm operations, competitive position and investment opportunities. Hence, they have a powerful role in information provision, which can enhance the monitoring and advisory roles of a board. In addition, inside directors have been noted to help enhance board decision making by providing information from a non-CEO perspective (Coles, Daniel and Naveen, 2006; Masulis and Mobbs, 2009; Raheja, 2005).

According to Fama and Jensen (1983), inside directors take on an important role due to their valuable firm specific knowledge. They possess a high level of tacit knowledge, a factor that is considered a valuable resource and presumably, would have a high level of credibility among other decision makers in the firm and as a result, they can be positioned as being more influential due to their valuable firm specific knowledge. Apart from the CEO, inside directors are the main source of firm specific information (Fama and Jensen, 1983).

Inside directors' high level of tacit knowledge as well as familiarity with the detailed activities of a firm as compared to outside directors, particularly in circumstances such as when a firm is contemplating a foreign market entry, provides them with an informational advantage. This is because they are viewed to be the ones with the specialized knowledge needed to help guide the firm in such circumstances where outside directors may have limited knowledge. As members of the top management team, inside directors have higher frequency of involvement in managerial discussions. Therefore, inside directors can have strong influence over a firm's strategy development due to their daily involvement with activities within the firm. Not only do they facilitate effective decision-making, they can assist in educating outside directors on the firm's activities (Fama and Jensen 1983). In support of this, Ravina and Sapienza (2010) showed that inside directors tend to be better informed about the quality of a firm's investment projects by providing evidence that insiders make better returns on informed trading than outside directors. Hence, in terms of entry mode choice, it is posited that when a firm has access to director interlocks with other firms with high control entry mode experience, inside directors are well placed in an advantageous position to leverage upon such interlocks to derive maximum value and benefits from such interlocks to assist the firm in its own market entry.

There has been a growing volume of research that analysed the role of inside directors in helping to provide firm specific information in order to improve board decisions (Adams and Ferreira, 2007; Harris and Raviv, 2008; Raheja, 2005). This is because board decisions can be influenced through the strategic release of information by inside directors to the whole board prior to board decision-making. It is only after this stage that the whole team of board members can decide accordingly based on information that has been provided. This is the stage where inside directors can have an indirect influence over board decision making due to their ability to control the sharing of information. Pertinent information that is available mainly only to themselves can be consciously withheld, shared fully or shared partially with other board members (Mizruchi, 1983). It is argued that inside directors' motivation to share such information would depend on their perceived outcome of the decision making process and this is also highly likely to be tailored in a manner such that outcomes of the decision making process would be favourable to their choices.

According to assumptions that inside directors tend to be risk averse (Beatty and Zajac, 1994; Coffee, 1988; Eisenhardt, 1989; Hoskisson, Hitt, and Hill, 1993), it is likely that they will be biased against projects that involve higher levels of risk taking such as pursuing high control entry modes and more so, for entry into unrelated business activities. Literature has noted that inside directors may be in a less desired position to take on a fiduciary role as they may lack objectivity in decision-making and may support initiatives that benefit their roles. Therefore, they may advocate risk adverse strategies that will result in more certain outcomes in order to protect themselves (Zahra and Pearce, 1989) and may act in ways that advance corporate interests at the expense of shareholders' interests.

Prior literature has also shown that high control entry modes such as acquisitions are associated with an increase in CEO compensation (Harford and Li, 2007; Grinstein and Hribar, 2004) and CEO compensation in turn, has been found to be positively correlated with director compensation (Ryan and Wiggins, 2004). An inference from this suggests that there could be a linkage between high control entry modes such as acquisitions leading to higher director compensation, and the use of equity compensation such as stock options might enlarge director compensation to an even greater magnitude. This can then have an impact on inside directors' entry mode preference during formulation and proposal of foreign market expansion strategies. This is because in view of higher future compensation, inside directors might encourage and be highly supportive of CEOs who pursue acquisitions for the sake of empire building (Renee, Almeida and Ferreira, 2005).

It is therefore argued that the offering of a greater proportion of stock options to inside directors will provide them with the incentive to take on higher risks than they normally would normally take on. This can then have an effect on a firm's choice of entry mode through the influence of inside directors during the board decision-making process. For instance, if in their opinion, high control entry modes such as acquisitions are viewed as value increasing, their stake in the firm will gain value and this direct effect on their wealth might encourage inside directors to influence the board on pursuing such value increasing acquisitions. Along a similar line of reasoning, Datta, Iskandar and Raman (2001) investigated the relationship between the risk level of acquisitions and the compensation structure of managers and found that managers who received higher proportions of equity as compensation were more likely to purchase high growth targets when compared to managers who received less. Their study concluded that equity based compensation encourages managers to take on more risks.

In line with the context of this study and the hypotheses that have been developed on the role of director interlocks on a firm's choice of entry mode, it is argued that when inside directors receive a greater proportion of annual stock options, they will be more motivated to embrace a higher level of risk and as a result, are likely to be more supportive of high control entry modes particularly with entry into unrelated business activities.

Therefore, it is further hypothesized that:

Hypothesis 4**:** The positive relationship between director interlocks with firms that have high control entry mode experience and the adoption of high control entry mode in unrelated activities is further amplified when inside directors receive a greater proportion of annual stock options.

That is to say, the relationship in Hypothesis 2 is further amplified when inside directors receive a greater proportion of annual stock options.

2.7 Summary

This chapter examinesd the role of director interlocks on a firm's choice of entry mode. In this chapter, several theories that contributed to the understanding of the relationship between director interlocks and a firm's choice of foreign market entry mode was reviewed. A multi-theoretic approach combining several theories were used in order to strengthen the ability of each individual theory in helping to shed light on the role of director interlocks in influencing a firm's choice of entry mode. These theories provide the theoretical framework for the hypotheses of this study.

Traditional agency theory places emphasis on the control of power and authority in firms and classifies directors into two categories, inside and outside directors. This study follows thus by classifying directors as inside or outside directors. Agency theory's perspectives on motives for diversification was reviewed whereby diversification into new markets and new products such as into unrelated business activities are seen as a way to reduce risks and excess cash flows in a firm are often channelled towards acquisitions instead of paying stakes to owners of a firm. This study investigates the extent to which agency theory can be extended and applied to the decisions involving foreign market entry mode strategies. Agency theory has been applied to understand and predict management motivations following the separation of ownership and management roles (Healy and Palepu, 2001; Hendry, 2002) and states that the risk taking preferences of a firm depends on the different risk profiles of a firm's principal and agent (Jensen and Meckling, 1976). Inside directors who typically tend to take on an agent's role, can be more cautious when undertaking higher risk projects as these projects can involve a higher level of career risk and potential reputation loss. Consequently, they are said to be more risk averse in their decision-making (Fama, 1980) as they have more at stake when compared to shareholders. This provides the grounds for the argument on the use of stock options as a motivation to inside directors to take on activities that involve higher risks such as pursuing foreign market expansion with high control entry modes.

A review of entry mode studies has indicated a lack of emphasis on the role of decision makers in influencing a firm's entry mode choice such as the directors and particularly, the role of director interlocks on entry mode choice. Past studies that analyzed the role of top management and CEOs on a firm's entry mode choice have primarily been grounded upon the views of the upper echelons theory which states that the type of strategic decisions made can be dependent upon on a firm's senior executives' cognitive bases and values. In this study, the views of the upper echelons theory are extended to include the directors of a firm. Apart from CEOs and the top management team, it is argued that consideration needs to be given to directors of a firm as they are also part of the strategic decision-making team of a firm.

The resource-based view of the firm posits that a firm is a bundle of resources, knowledge, competencies and capabilities that can be used to create value (Barney, 1991). In this study, the resource-based view helps to highlight the importance of directors as a strategic resource for a firm and in particular, the importance and value of directors with interlock linkages. Directors with relevant interlocks can be leveraged on especially when a firm is contemplating foreign market expansion. By helping to provide access to scarce, valuable and non-replicable resources, directors with interlocks can help enhance a board's capabilities (Huse, 2007). They can be a valuable resource that is not easily duplicated or substituted and may help provide a firm with a distinct competitive advantage when expanding overseas. Hence, the resource-based view strengthens the proposal this study on the role of director interlocks on a firm's choice of entry mode.

Review of literature has suggested that the roles of directors in decision-making processes of firms have changed over time and this is due to the call for directors to respond to external pressures by being more involved in the strategic decision making processes of a firm and in the way they organize their work (Steiner, 1988). Resource dependence theory views directors as having the key role in helping to provide access to other resources and director interlocks are noted to be one the mechanisms through which directors can help firms in linking up with the external environment. This provides the grounds for the development of the main hypothesis of this study and further strengthens the argument on the role of director interlocks in influencing high control entry mode particularly in unrelated business activities as well as for the role of outside directors with an active CEO appointment. Directors can be valuable boundary spanners when a firm enters into an unrelated business activity by helping to create linkages with other firms as well as to provide support and access to resources. Outside directors with an active CEO appointment on the other hand, with their distinct experience as a CEO may also be able to provide highly valued advice and facilitate access to required resources.

This study merges two fields of research together in an attempt to facilitate further understanding on the role of director interlocks on a firm's entry mode choice. A review of literature has indicated that existing literature in these two separate areas, director interlocks and foreign market entry mode choice have given minimal attention to the role of director interlocks in influencing a firm's choice of entry mode and to date, there has been limited studies that have attempted to converge these two areas together. As a result, this has contributed to the limited number of recent citations used in this study in comparison to citation of older established studies of which this study builds on.

CHAPTER 3

DATA AND RESEARCH METHODOLOGY

This chapter reviews the data and discusses the methodological approach used in this study for testing the hypotheses presented in Chapter 2. This chapter is divided into 3 sections. The first section provides an overview of the research design, including sample population, data sources and data collection procedure. It also presents a brief plan of how the sample for this study was selected. The second section introduces the constructs used in this study and their measurements. The third section presents the model specifications and discusses the statistical methods used to test the proposed hypotheses.

3.1 Research design

This study requires testing of the model to determine the relationship between the dependent variable - a firm's choice of foreign market entry mode and several predictors, which include the independent variable - director interlocks as well as moderating and control variables, which are expected to affect the dependent variable.

The investigation for this study was carried out using a quantitative research method. This method was chosen because this study is essentially deductive, and the formulation of hypotheses extends findings found in previous entry mode and director interlock research that has been carried out using quantitative methods. Hence, the adoption of a quantitative research method for this study facilitates easier comparison of results with previous findings.

This study was based on secondary data that was obtained from established business databases as well as published annual reports and company websites. Access to reliable archival data sources and the usage of a structured quantitative methodology ensured strong objectivity for this study.

3.1.1 Sample population

The target sample population for this study was drawn from the listing of firms on the Standard and Poor's (S&P) 500 indices list. Firms on the S&P500 indices list are based on the market capitalizations of 500 leading firms publicly traded in the United States stock market as determined by Standard and Poor's. S&P's indices are designed to reflect the U.S. equity markets and, through the markets, the U.S. economy.

The S&P 500 indices has been noted as one of the most commonly followed equity indices and is considered the best representation of the market as well as a bellwether for the U.S. economy. It covers the large capital sector of the market and firms in the S&P 500 are considered leading companies in leading industries in the U.S. (Standard & Poor's, 2012) such as the consumer discretionary and consumer staples industries, energy, financials, health care, industrials, materials, technology and utilities industries.

The listing criteria for firms on the S&P 500 indices includes an unadjusted market capitalization of US$ 4.0 billion or more, an adequate liquidity level and a reasonable price whereby the ratio of annual dollar value traded to float adjusted market capitalization should be 1.00 or greater. The firm should trade a minimum of 250,000 shares in each of the six months leading up to the evaluation date and the firms must also have a public float of at least 50% of the stock and needs to be financially viable.

It is expected that top management teams and directors of these firms make strategic decisions that deal with complex and uncertain environments and thus, these firms are appropriate subjects for the study of director interlocks and foreign market entry modes.

Public listed firms such as those on the S&P500 list would have a history of operations that are more stable and therefore, their corporate governance structures would presumably be more stable. Such firms are also required to report firm related information such as the background and details of their directors as well as financial information. Past research from various disciplines has utilized S&P500 firms as their sampling populations (Anderson and Reeb, 2004; Keil, Maula, Juiha and Zahra, 2009; Klein, 2002; Menz and Scheef, 2013).

The years 2003 to 2010 were chosen as the time frame of the study because it was the most current data available and some requisite data for this study were only available for this time frame. Directors and foreign market entry data was collected yearly for the S&P 500 firms from the years 2003 to 2010 while financial data for the firms was collected yearly from year 2000 to 2010 to enable operationalization of some of the control variables that required previous years' data prior to observed market entry years. The dataset spans eight years and is considered long enough so that changes and additions to the firms' entry modes can be observed (Kumar, 2009).

3.1.2 Data sources

To the best of my knowledge, an existing dataset required for testing of the hypotheses of this study does not exist from a single source of publicly available secondary dataset. Hence, data was drawn from a number of sources. To enhance data accuracy, data collected from one source was verified by reference to other sources whenever this was possible. The data for this study were a compilation from several sources, mainly the Risk Metrics database, Securities Data Company (SDC) Platinum, fDi Markets, Mergent Online, Compustat and Execucomp.

The primary source of information on market entry modes was obtained from the SDC Platinum database as well as the fDi Markets database. Specifically, detailed information on firms' acquisitions and joint ventures was obtained from the SDC Platinum database while information on greenfield activities was obtained from the fDi markets database. The Securities Data Corporation's (SDC) database provides data on foreign joint venture and acquisition entries and is one of the most authoritative and up to date database on U.S. firms' international activities from the year 1985. It has been utilized as the primary source of acquisition information in research endeavours such as the World Investment Report (WIR).

The fDi Markets database is part of the fDi Intelligence portfolio of investment products and services that comes under The Financial Times which specialises in all areas relating to foreign direct investment (FDI) and investment promotion. The fDi Markets database provides the most comprehensive online database of cross border greenfield investments, covering all countries and sectors worldwide. It leverages off powerful online tools to monitor FDI flows and firm investment activities abroad. It is used by more than 150 government departments involved in investment promotion and economic development, multinationals, location consultants, multilateral organisations, NGOs and academic institutions

The Risk Metrics database offered through ISS Governance Services contains historical corporate governance data. The directors' data in the Risk Metrics database includes a range of variables related to individual board directors such as name, age, tenure, gender, committee memberships, independence classification, primary employer and title, number of other public company boards serving on, shares owned and others. Compustat, offered by Standard and Poor's provides more than 300 annual and 100 quarterly income statement, balance sheet, statement of cash flows and supplemental data items on more than 7500 publicly held U.S. firms. The Mergent Online database provides comparative data for firms worldwide with detailed information from annual reports, including financials and news in the last 15 years. The Execucomp database tracks executive compensation in S&P 1000 firms and includes top executives' salary, bonus and stock option data since 1992.

3.1.3 Data collection procedure

The data sourced from the various databases and sources were entered into a spreadsheet and supplemented by data from various business databases in a manner where the structure the data were configured in a variety of manners such as by firm name, director names, interlock firm names and others. The data was reviewed and filtered for inconsistencies. Subsequently, the data was converted into a usable format for analysis.

The number of entries in the initial raw sample was a consequence of several features of the sample construction method for this study. Firstly, the names of U.S. public firms listed in the year 2010 Standard and Poor's (S&P) 500 list were collated together with their primary Standard Industrial Classification (SIC) codes. Thereafter, foreign market entry information for these firms during the chosen sampling timeframe for the study from the year 2003 to 2010 were collected together with SIC codes for the new business entries.

Information on firm foreign market entry was obtained from the SDC Platinum database as well as the fDi markets database. The SIC code was used to determine relatedness of business activities. The SIC code has been noted as one of the most commonly used to distinguish between relatedness of business activities because of its objective approach (Ramanujam and Varadarajan, 1989). In addition, the use of SIC codes is consistent with the definition of diversification in terms of the range of lines of activity. The SIC codes available in the SDC Platinum database were found to be useful in performing this task as the database provides SIC codes for numerous public listed companies in the US and worldwide.

SIC codes were available for acquirer and acquiree firms involved in acquisition activities in the SDC Platinum database but were unavailable in the fDi markets database that provides information on greenfield activities. Hence, manual assignment to the closest corresponding SIC codes was done manually for greenfield activities abroad. The greenfield activities were subsequently classified as related if the two digit SIC codes were similar to a firm's primary two digit SIC code. It was classified as unrelated if otherwise.

This classification scheme to be used to distinguish between related and unrelated activities is similar to the classification scheme that has been used in other studies of acquisitions

(Ravenscraft and Scherer, 1987; Blair, Lane, and Schary, 1991) whereby an acquisition was coded as related when the two-digit Standard Industry Classification (SIC) code of the acquiring firm matched that of the acquired firm. These past studies similarly utilized SIC codes from the SDC Platinum database. Each high control entry mode activity was counted as one per occurrence and was summed accordingly to derive yearly cumulative counts for entry into unrelated and related activities as well as an aggregated yearly cumulative count of total of high control entry modes.

The next stage involved identifying the names of the directors of the selected S&P 500 firms. Information was sourced from the Risk Metrics database for the years 2003 to 2010. The directors' positions as inside or outside directors as well as other designations of CEO or board chair and the names of their interlocking firms were collected. Thereafter, data on high control entry mode experiences of the directors' interlocking firms were sourced from the SDC Platinum and fDi markets database. These data were then collated and each high control entry mode activity was counted as one per occurrence and was summed to derive an aggregated yearly cumulative count of total high control entry modes. This study focuses on director interlock ties with firms that have foreign market high control entry mode experience, as recent connections can typically be better leveraged to access information and because current experience will be particularly vivid due to recency effects on their knowledge repository (Tesluk and Jacobs, 1998).

Data for inside directors' stock options were compiled from the Execucomp database. Firms' annual stock options offered to executives were collected and ratios were then computed from the derived data to determine the proportion of stock options offered to inside directors.

The next stage involved the collection of other yearly firm level data for the S&P 500 firms for the years 2000-2010, that were required for control variables such as firm size, firm age and firm past performance. Firm level data were derived from Standard and Poor's COMPUSTAT database and ratios such as return on asset used as an indicator for firm past performance were further computed from the compiled financial data.

3.1.4 Sample selection procedure

The initial raw data sample gathered was a total of 35,547 observation cases. Thereafter, the ratio of counts of market entries performed through high control entry modes to total counts of all foreign market entries were calculated for all observation cases in the initial raw data sample. Observation cases without this ratio as a result of not having any foreign market entry were then filtered out from the sample. This reduced the number of observation cases to 20,327.

In the next step, observation cases without prior high control entry mode data in the last two and three years prior to the observed year of study were deleted. This prior high control entry mode data is important as it is an indicator of prior high control entry mode experience and needed to be controlled for in this study. Deletion of observation cases without this data further reduced the number of observation cases to 17,516.

Subsequently, observation cases without data on firm size, another key control variable, were deleted, leaving the sample with 17,115 observation cases. Finally, observation cases without firm age, a key control variable, were then deleted. This resulted in a final useable sample size of 16,708 observation cases for the study.

3.1.5 Data advantages and limitations

The method employed in obtaining information for this study was based on secondary historical data from multiple sources. It was dependent on the assumption that the data from the various sources have been comprehensively reported. The advantages of secondary datasets is that it provides access to large sample sizes, relevant measures, and longitudinal data, allowing the formulation of a generalizable answer from the study within a reasonable timeframe and cost as opposed to primary data collection.

Nevertheless, this approach also has its drawbacks and limitations when dealing with a very large dataset such as incongruence in matching of names and information as well availability of data over required timeframes and between different sources of datasets. Some degree of uncertainty is inherent with such data because of the possibility of facing evidence that is diverse, complicated and sometimes contradictory (Nevett, 1991).

Golder and Gerard (1993) noted that four main criteria should be met for usage of secondary archival data to ensure validity for a research study. Firstly, the element of competence must be met which involves the capability of the data source to report data correctly. Secondly, is the element of objectivity whereby the sources of information should be written by disinterested third parties. Thirdly, is the element of reliability whereby the source of data should have a good record for undisputed good data reporting. Lastly, there should also be an element of corroboration where confirmatory evidence can be obtained from a similar source.

For this study, the four main criteria were met. The competence criterion is met because the data is compiled from well-known database sources and are from the time frame of the intended study. The objectivity criterion is satisfied because the databases were presumed to be neutral. The reliability criterion is satisfied because the databases were all reputable. The corroboration criterion is satisfied because at least two data sources were used to complete the details for each firm. This facilitated the ability to perform cross checking between the databases for congruency of information.

3.2 Operationalization of variables

3.2.1 Dependent variable: Foreign market high control entry mode

For this study, a high control foreign market entry mode was defined as greenfield investments and acquisitions that occur outside a firm's home country. This variable was represented by the total number of counts representing the number of foreign greenfield investments and foreign acquisition activities undertaken by a firm in a particular year. This variable was set to equate to the count of one for each high control entry mode occurrence. This scale was based on previous research that used similar count measures for entry mode research (Erramilli and Rao, 1993; Sanchez-Peinado and Pla-Barber, 2006). Foreign market entry mode information was sourced from the SDC Platinum database as well as from the fDi Markets database.

3.2.2 Independent variable: Director interlocks with firms that have foreign market high control entry mode experience

Director interlocks occur when directors simultaneously serve on boards of other firms and can generally be measured in two ways. Firstly, director interlocks can be measured as the number of interlocks taking place between firms whereby a firm would be counted as having one interlock with another even if they both have several directors in common. This firm level measure captures the number of inter-organizational ties. A second alternative measure which is used at the individual level measures the number of boards an individual director serves on.

Previous research differentiates between intensity and diversity of directors' networks (Carpenter, 2000; Geletkanycz and Hambrick, 1997). The vast majority of studies of board networks have focused on director interlocks held by board members of a focal firm. As a result, proxies for director interlock ties include the absolute number of external directorships (O'Sullivan, 2000), or the intensity of interlocks calculated as the average number of external ties per director (Filatotchev and Toms, 2003), without making a distinction between the various types of interlocks.

This study focuses on director interlocks with firms that have prior foreign high control entry mode experience, as this provides a more precise and accurate form of measurement to capture the intended effect of director interlocking ties with firms that have high control entry mode experiences. Data collection for this variable followed a two-step procedure. Firstly, data was collected on director interlocks arising from all directors in a firm. Thereafter, firms that were linked through director interlocks were then investigated for presence of prior high control entry mode experience.

Data on director interlocks was obtained from the Risk Metrics Director's Data database, which lists information on directors' profiles and provides query options for interlocking directorships. Other sources for director data involved cross checking annual reports and firm websites. Once the director interlock information were established, acquisitions and greenfield investment data for the interlocked firms were gathered from the SDC Platinum and fDi Markets database respectively.

The sum of director interlocks' high control entry mode experience was then measured using the total number counts of prior foreign high control entry modes for firms that are tied to the directors' focal firm through director interlocks. Each occurrence of foreign high control entry mode for other firms through which the directors are was counted as one. This measure is similar to other measures of experience used by researchers (Carpenter and Westphal, 2001; Westphal and Fredrickson, 2001).

Using the counted number of prior high control entry mode experiences of firms tied to the focal firm through director interlocks takes into account the strength of experience that otherwise may not be accounted for by solely counting the number of directors with interlocks of high control entry mode experience. For instance, a director serving on the boards of a few other firms, each of which may have several high control entry modes, would be weighted on this measure more heavily than if the director was counted once for having interlocks with firms that have high control entry mode experience. As such, this measure indicated that repeated exposure to a particular experience could contribute more to knowledge and learning than a single exposure. This also provides a measure of the collective high control entry mode experience gained through interlocks of all the directors (Ensley, Pearson and Amason, 2002).

3.2.3 Moderating variables

3.2.3.1 Unrelated business activity

Two general approaches to operationalizing the concept of business relatedness have been found to be common in research in strategic management, namely, the categorical and continuous measures (Davis and Duhaime, 1992). Categorical measures used in this study involves classification of a firm in terms of one of several characteristic types of diversification, while continuous measurement puts a firm on a scale that indicates its relative degree of related or unrelated diversification.

Categorical measures have been built on the early work of Wrigley (1970) and Rumelt (1974), while continuous measures are derived from the Standard Industrial Classification (SIC) system. The use of continuous SIC based measures has been noted as the most popular approach in the strategy literature (Robins and Wiersema, 2003). These measures include the entropy index (Jacquemin and Berry, 1979) and the concentric index (Caves, 1982). Compared to categorical measures, these measures are less dependent on subjective assessments about the degree to which particular industries are related (Robins and Wiersema, 2003).

Another stream of measurement adopts Rumelt's (1974) approach where businesses are related when they share a common skill, resource or market. Examples of measuring relatedness in shared common resources can be seen in studies that looked at commonality in technology (Robins and Wiersema, 1995; Silverman, 1999) and human capital (Chang, 1996; Farjoun, 1994). Robins and Wiersema (1995) used patent cites to estimate inter-industry technology flows while Silverman (1999) measured how technology can be applicable across industry. Farjoun (1994) looked at similarity in human capital between pairs of industries using industry employment data, where two industries were considered related if they employ certain types of employees in similar proportions. MacDonald (1985) looked at similarities between an originating industry and the target industry by looking at patterns in areas such as R&D to shipment ratios and employment growth rates.

Numerous research (Hitt, Hoskisson and Hicheon, 1997; Kim, Hwang and Burgers, 1989; Palepu, 1985) on diversification has used the Standard Industrial Classification (SIC) codes to distinguish related from unrelated activities. These studies compare the SIC classification between industries in order to determine if they are related or not (Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000; Cho and Padmanabhan, 1995; Hennart and Park, 1993). Related diversification is then measured using the number of segments in a firm's business portfolio that are in the same two-digit SIC code as a firms' primary industry. Montgomery (1982) noted that this measure has an advantage in that it can be objectively defined.

Research on diversification typically relies on the SIC code in examining the relationship between corporate activities (Bryce and Winter, 2009; Teece, Rumelt, Dosi and Winter, 1994). This study follows this common approach for measurement of diversification to distinguish a new foreign business activity that a firm enters into is related or unrelated to its primary business activity. This study distinguishes entries made inside a firm's primary business domain from those outside by comparing industry groups, identified by two-digit SIC codes (Hoskisson et al., 1993). Business activities were considered related if they shared the same two-digit SIC codes. They were considered unrelated if otherwise.

Diversification information is coded using SIC codes from the SDC Platinum database as well as manual assignment of business sectors in the fDi markets database to the closest corresponding business sector match of SIC codes.

3.2.3.2 Outside directors with an active CEO appointment

Current CEOs are valuable candidates for serving on boards of directors because they bring an important mix of managerial, industry, and functional knowledge that equip them with the ability to advise and monitor a firm. They can contribute to multiple areas of governance that are important for a firm’s long-term success, including development and vetting of corporate strategy, risk management, internal talent development, CEO succession planning, performance measurement, shareholder and stakeholder relationship. They also bring important intangible attributes such as leadership skills, decision making, the ability to prioritize, the ability to lead in a crisis, and a strong work ethic. Bertrand and Schoar (2002) showed that preferences of executives can influence a wide variety of firm policies.

Outside director with an active CEO appointment was measured as a dummy variable coded 1 if an outside director holds an active CEO appointment elsewhere. It was coded 0 if otherwise. This followed similar measures in studies that investigated director interlocks (Phan et al., 2003; Chen et al., 2009).

3.2.3.3 Proportion of annual stock options to inside directors

Proportion of annual stock options to inside directors was measured as the percentage of a firm’s total annual stock options that is offered to executives who are also directors of the firm. Data on firms' annual stock options was derived from the ExecuComp database which calculates stock option values based upon the Black-Scholes method. The measurement for this variable followed a similar way of measurement used by other studies that looked at directors' and executives' equity holdings by calculating the percentage of firms' outstanding common shares or options offered to the firm's directors and executives (Deutsch, 2007; Hambrick and Jackson, 2000).

3.2.4 Control variables

To address potential confounds that may affect the hypothesized relationships in this study, the control variables listed below was used.

3.2.4.1 Firm age

Firm age has been viewed as an important source of organizational inertia (Hannan and Freeman, 1984). Guillen (2002) argued that firm age is a potentially important variable that can negatively affect new market entry. Accordingly, as firms age, they commit themselves to existing courses of action (Staw, 1981) and persist in using the same routines (Cohen and Levinthal, 1990), and also become less likely to engage in change or adaptation. Firm age has been noted to reduce a firm's ability to learn with likelihood of changing strategies being lesser as well as lower growth rates (Amburgey, Dacin and Kelly, 1994; Sorensen and Stuart, 2000). The age of a firm can also affect the number of director interlocks because older firms are more established, and hence are more likely to have more interlocked boards. They are also more likely to have established ties within the economy, and hence directors in such firms are more likely to form ties with firms with which they have business transactions

(Phan, Lee and Lau, 2003). Firm age was measured as the difference between the current year of observation and the firm's year of incorporation. Data for firm age was sourced from Compustat.

3.2.4.2 Board size

Board size was measured as the total number of directors on the board. It was important to control for board size, as the relative percentages of various types of directors may be an artefact of the size of the board (Johnson et al., 1996). Board size has been regarded as an important factor in effective corporate governance and research has suggested that board size is related to the size and complexity of the companies on which directors serve (Dalton, Daily, Johnson and Ellstrand, 1999; Pearce and Zahra, 1992). Larger companies generally have larger boards (Kiel and Nicholson, 2003) that can provide access to a greater pool of resources, opportunities and expertise which can be leveraged by the firm to achieve its objectives.

A larger board may also induce greater risk taking. Cheng (2008) contends that a CEO can influence board's decisions when the board size is large and there is a positive association between board size and risk taking. Pathan (2009) suggests that strong boards positively relate to firm risk taking behaviour. Lai and Lin (2008) also showed that higher undertaking of total equity risk and systematic risk were positively related to board size. Hence, it can be postulated that board size can have an effect on a firm's choice of entry mode and as a result, it has to be controlled for in this study. Data on board size was sourced from the Risk Metrics database.

3.2.4.3 Firm size

Dooley (1969) found that the number of director interlocks established by a firm is proportional to the size of the firm. Firms that are larger tend to have more director interlocks due to their greater economic power and hence, greater importance in the industry. Firm size is a relevant characteristic of firms that invest abroad, as it makes them more able to assume the risks associated with the decision to expand abroad, as well as allowing economies of scale to come into play (Lall, 1980).

Firm size affects investment levels and the choice of foreign market entry mode can be determined by the availability of skills and resources that a company has for facilitating international expansion (Erramilli and Rao, 1993; Welsh and White, 1981). Larger firms may have a greater ability to expend resources and absorb more risks than smaller firms and may conceivably be more likely to pursue high control entry modes. According to Kogut and Singh (1988), the larger the investing firm, the greater its' ability to pursue high control entry modes because high control entry modes generally require more financial and managerial resources. Studies have also shown that larger firms can have greater ability to integrate firm resources and that can be a potential determinant of entry mode choice (Agarwal and Ramaswami, 1992; Gatignon and Anderson, 1988).

In this study, firm size was measured as a natural logarithm of a firm's total assets, a commonly used measurement in other studies (Kogut and Singh, 1988; Yu and Ito, 1988). Some studies have also measured firm size with alternative measures such as sales volume (Agarwal and Ramaswami, 1991) and employee size (Birley and Norburn, 1987). However, the use of the measurement based on a firm's total assets has been widely used in strategic management and hence, usage of this measurement helps preserve consistency with other research (Robins and Wiersema, 1995). Data for the value of firm's total assets was sourced from COMPUSTAT.

3.2.4.4 Firm prior foreign high control entry mode experience

International experience is among one of the key intangible resources that helps firms develop and maintain their competitive edge when expanding operations to the international market. It is one of the factor determinants of international entry mode strategy, as a firm's international experience conditions its preference for similar markets (Erramilli, 1991). Similarly, a firm's prior high control foreign market entry mode experience is expected to offer advantages to a firm as such experience may provide the firm with the knowledge and skills necessary to operate in the foreign market (Davidson, 1982). Hence, to control for the advantages earned from prior experience, firms' prior high control entry mode experience was used as a control variable in this study.

A proxy variable for international experience which has been used in literature is the ratio of exports/total company sales (Brouthers and Brouthers, 2000). However, Slangen and Hennart (2007) argued that this measurement was not appropriate for all firms as certain firms, such as those with a high export ratio, may not have any experience in expansions abroad. International experience has also been approximated by the number of years the parent firm has been investing abroad (Hennart and Park, 1993) or the number of countries in which the parent firm has subsidiaries (Barkema and Vermeulen, 1998; Kogut and Singh, 1988).

To capture firms' prior high control entry mode experience for this study, prior high control entry mode experience was measured as the total number of high control entry modes (foreign acquisitions and greenfield) undertaken by the firm within a three year period prior to the observed current entry. Data was sourced from the SDC Platinum and the fDi Markets database.

3.2.4.5 Board independence

Board independence can potentially indicate the degree to which management is able to influence the board and thus, have an effect on board roles and a subsequent influence over firm strategies. Measures of board independence are considered important research variables and have been adopted in recent board research as board independence has been shown to influence how effectively a board can function (Byrd and Hickman, 1992; Weisbach, 1988). A higher level of board independence suggests a more vigilant board. Ellstrand, Tihanyi and Johnson (2002) observed that firms with vigilant boards were more willing to take risks in their international diversification efforts.

In contrast, those with less vigilant boards were characterized by greater risk aversion. Ellstrand, Tihanyi and Johnson (2002) also observed that firms lacking an independent board structure were more likely to adopt relatively low-risk international diversification approaches. Zahra (1996) suggested that when there is greater proportion of outside directors on a board, this potentially expands the base of expertise that top management can draw on from outside directors in the formulation of critical strategic decisions. Firms with greater access to outside directors are likely to be more confident in undertaking high control entry modes such as acquisitions.

Prior studies have also examined whether a board's structure can be related to indicators of the board's ability to control management (Baliga, Moyer and Rao, 1996; Finkelstein, 1992) and hence, have an influence over a firm’s decision-making process. Following this, this study uses the conventional measure of board independence by employing a continuous variable to measure the ratio of outside directors to the total number of board members.

For this study, data for outside directors were obtained from the Risk Metrics database which defines independent outside directors as directors who have no material connection to a firm other than a board seat.

3.2.4.6 Firm past performance

According to the free cash flow and managerial hubris theory, highly performing firms may use free cash flow to acquire other firms for purposes other than the maximisation of their shareholders’ wealth. Managers engage in empire building to increase their power and salary and sometimes for prestige (Jensen, 1988; Roll, 1986). Highly performing firms are also more likely to be involved in high control entry modes such as acquisitions rather than other entry modes (Barkema and Vermeulen, 1998; Herrmann and Datta, 2002). A measure of firm’s prior performance also controls for reverse causality (Hambrick, 2007).

Return on assets (ROA) is a widely used accounting measure for firm performance (Keats and Hitt, 1988) and this study follows thus, where a firm’s prior performance was measured as return on asset or return on equity for three years prior to the selected year. Data was sourced from COMPUSTAT.

3.2.4.7 CEO Duality

CEO duality takes place when a firm's CEO concurrently holds the position of the board chair. CEO duality is an important measure of board leadership structure and has been one of the most used variables in related research of boards and governance (Huse, 2007). The board chair is considered to perform an important role in creating the conditions for outside directors to be effective (Roberts, McNulty and Stiles, 2005; Stiles, 2001), and therefore, can have an impact on board dynamics. An effective chairperson is thought to create a culture of trust (Roberts et al., 2005), set the tone for the board, and orchestrate board self development and evaluations. Where the board is chaired by the CEO, managerial control can have the potential to become dominant (Huse, 2007; Westphal, 1998). This can also affect the distribution of power between the CEO and the board (Westphal and Zajac, 1997) with the potential to have an impact on certain firm strategies (Kim, Al-Shammari, Kim and Lee, 2009).

The duality structure also permits a CEO to effectively control information available to other board members (Jensen, 1993) and this can result in less effective monitoring of the CEO by the board. Given the decreased monitoring of the CEO, the potential agency costs of managerial decision making are then exacerbated, which can then have an impact on firm strategies such as foreign market entry strategies.

Thus, this study controlled for CEO duality by using a dichotomous variable coded 1 if the focal firm CEO concurrently held the position of board chair. It was coded 0 if otherwise.

3.3 Model specification and statistical method

The main statistical method used in this study is the Poisson regression. The Poisson regression characterizes the probability of observing any discrete number of events, given an underlying mean count or rate of events, assuming that the timing of the events is random and independent. The Poisson regression model has been widely used to model the number of occurrences of an event (Cameron and Trivedi, 1998; Greene 2003; Hair, Anderson, Tatham and Black, 1995; Zikmund, 1997) whereby the log of the expected count of the response or dependent variable is modelled as a function of the independent or predictor variables, with the assumption that the mean and the variance of the response variable are equal.

When the response or dependent variable is a count data type, it has been suggested that it is not appropriate to use the linear model based on normal distribution to describe the relationship between the response or dependent variable and a set of independent or predictor variables (Cameron and Trivedi, 1998). Logistic regression modelling is not appropriate because the response variable is not a binary variable. Standard OLS regression methods are also not appropriate for several reasons such as the existence of heteroscedasticity as well as non-normal conditional distributions that typically will be positively skewed with many low-count observations and no observations below zero. In this case, the Poisson regression model is a recommended tool (Cameron and Trivedi, 1998) to utilize given the nature of the data set.

Given that the count of high control entry mode in this study was a variable with non-negative integer values, Poisson regression analysis was employed when the dependent variable represent events that occur randomly and independently in time (Hausman, Hall, and

Griliches, 1984). It uses the natural log as the link function and models the expected value of the dependent variable. The natural log in the model ensures that the predicted values of dependent variable will never be negative. Poisson regression has been used in other entry mode studies such as acquisitions, in which the dependent variable is a count (Davis, Diekmann, and Tinsley, 1994). It has also been used in director interlock studies (Haunschild, 1994). STATA software was used for the poisson regression analysis of this study.

To test Hypothesis 1 that makes the prediction of a positive association between director interlocks' with firms that have high control entry mode experience and the focal firm's adoption of high control foreign market entry mode, the following regression model was estimated:

$$\mathbf{Log(Total\_HCEM)_{it} = \beta_0 + \beta_1(Sum\_DirInt)_{it} + \beta_2(PriorExp)_{it} + \beta_3\,(Performance)_{it} + \beta_4(Size)_{it} + \beta_5(Age)_{it} + \beta_6(Board\_Size)_{it} + \beta_7(Board\_Ind)_{it} + \beta_8(CEO\_Duality)_{it}}$$

where,

Total_HCEM	=	Cumulative total count of high control entry modes;
Sum_DirInt	=	Cumulative total sum of director interlocks' high control entry mode;
PriorExp	=	Firm prior high control entry mode experience;
Performance	=	Firm prior performance;
Size	=	Firm size;
Age	=	Firm age;
Board_Size	=	Board size;
Board_Ind	=	Board independence; and

CEO_Duality = 1 if focal firm CEO also holds position of board chair; 0 otherwise

i is firm i; t is year t

To test Hypothesis 2 that makes the prediction of the positive relationship between director interlocks with firms that have high control entry mode experience and the focal firm's adoption of high control entry mode that is stronger in the case of unrelated activities, the following regression models were estimated and compared:

$$\mathbf{Log(Unrel\_HCEM)_{it} = \beta_0 + \beta_1(Sum\_DirInt)_{it} + \beta_2(PriorExp)_{it} + \beta_3(Performance)_{it} + \beta_4(Size)_{it} + \beta_5(Age)_{it} + \beta_6(Board\_Size)_{it} + \beta_7(Board\_Ind)_{it} + \beta_8(CEO\_Duality)_{it}}$$

$$\mathbf{Log(Rel\_HCEM)_{it} = \beta_0 + \beta_1(Sum\_DirInt)_{it} + \beta_2(PriorExp)_{it} + \beta_3(Performance)_{it} + \beta_4(Size)_{it} + \beta_5(Age)_{it} + \beta_6(Board\_Size)_{it} + \beta_7(Board\_Ind)_{it} + \beta_8(CEO\_Duality)_{it}}$$

where,

Unrel_HCEM = Cumulative total count of high control entry modes into unrelated activities;

Rel_HCEM = Cumulative total count of high control entry modes into related activities

To test Hypothesis 3 that makes a prediction that the relationship in Hypothesis 2 is further amplified with the presence of outside directors with an active CEO appointment, the following regression models were estimated and then compared:

$$\mathbf{Log(Unrel\_HCEM)_{it} = \beta_0 + \beta_1(Sum\_DirInt)_{it} + \beta_2(PriorExp)_{it} + \beta_3(Performance)_{it} + \beta_4(Size)_{it} + \beta_5(Age)_{it} + \beta_6(Board\_Size)_{it} + \beta_7(Board\_Ind)_{it} + \beta_8(CEO\_Duality)_{it} + \beta_9(OutsideDirCEO)_{it} + \beta_{10}(OutsideDirCEOxSum\_DirInt)_{it}}$$

$$\mathbf{Log(Rel\_HCEM)_{it} = \beta_0 + \beta_1(Sum\_DirInt)_{it} + \beta_2(PriorExp)_{it} + \beta_3(Performance)_{it} + \beta_4(Size)_{it} + \beta_5(Age)_{it} + \beta_6(Board\_Size)_{it} + \beta_7(Board\_Ind)_{it} + \beta_8(CEO\_Duality)_{it} + \beta_9(OutsideDirCEO)_{it} + \beta_{10}(OutsideDirCEOxSum\_DirInt)_{it}}$$

where,

OutsideDirCEO	=	1 if outside director has an active CEO appointment; 0 otherwise;
OutsideDirCEOxSum_DirInt	=	Interaction term of outside directors with an active CEO appointment and cumulative total sum of director interlocks' high control entry mode

To test Hypothesis 4 that makes a prediction that the relationship in Hypothesis 2 is further amplified when inside directors receive a greater proportion of annual stock options, the following regression models were estimated and then compared:

$$\mathbf{Log(UnRel\_HCEM)_{it} = \beta_0 + \beta_1(Sum\_DirInt)_{it} + \beta_2(PriorExp)_{it} + \beta_3(Performance)_{it} + \beta_4(Size)_{it} + \beta_5(Age)_{it} + \beta_6(Board\_Size)_{it} + \beta_7(Board\_Ind)_{it} + \beta_8(CEO\_Duality)_{it} + \beta_9(Options\_InDir)_{it} + \beta_{10}(Options\_InDir\ xSum\_DirInt)_{it}}$$

$$\mathbf{Log(Rel\_HCEM)_{it} = \beta_0 + \beta_1(Sum\_DirInt)_{it} + \beta_2(PriorExp)_{it} + \beta_3(Performance)_{it} + \beta_4(Size)_{it} + \beta_5(Age)_{it} + \beta_6(Board\_Size)_{it} + \beta_7(Board\_Ind)_{it} + \beta_8(CEO\_Duality)_{it} + \beta_9(Options\_InDir)_{it} + \beta_{10}(Options\_InDir\ xSum\_DirInt)_{it}}$$

where,

Options_InDir	=	Proportion of annual stock options offered to inside directors;
Options_InDir xSum_DirInt	=	Interaction term for proportion of annual stock options offered to inside directors and total sum of director interlocks' high control entry mode

CHAPTER 4

ANALYSIS AND RESULTS

This chapter presents the analysis and results of the study. The first section reviews the descriptive statistics and correlation matrix of the variables in the study. This is followed by the presentation of results from the testing of the various hypotheses of this study.

4.1 Descriptive statistics

Descriptive statistics provided a simple summary of observations made on the sample of this study and a correlation matrix was used to check for the presence of any correlated relationship between the variables.

Table 1 presents the descriptive statistics and correlation matrix for the variables. It lists the mean, standard deviation and correlation between all of the variables. The average number of total high control entry modes undertaken by firms in the sample is 4.87, with an average number of high control entry modes into unrelated activities of 2.01 and an average number of high control entry modes into related activities of 2.85. The average number of total high control entry mode experiences of other firms linked through director interlocks is 2.49. The firms have an average prior high control entry mode experience of 11.27 entries in past three years. Average age of the firms is 57.27 years and the firms have an average board size of 11.45 directors. The firms also have on average, a relatively high level of board independence with 86.04 percent of all the directors on board being outside directors.

Checking for the degree of collinearity between variables is essential before regressions are performed. The term collinearity implies that two variables are near perfect linear combinations of one another. When there is a perfect linear relationship among predictor variables, the estimates for a regression model cannot be uniquely computed. When more than two variables are involved it is often called multicollinearity. The primary concern is that as the degree of multicollinearity increases, the regression model estimates of the coefficients become unstable and the standard errors for the coefficients can get inflated. Examination of the correlation matrix for the variables of this study in Table 1 showed that the correlations between the independent variable and other variables were low, with a maximum value of 0.149. This suggests that this study does not have a problem of multicollinearity (Anderson and Coughlan, 1987; Green and Tull, 1978).

Although a suggestive indication of the presence of multicollinearity may be achieved by an examination of the correlation matrix, another method used to diagnose multicollinearity is the variance inflation factor (VIF). It is a widely used measure to diagnose multicollinearity of the independent variable with the other variables in regression models (O'Brien, 2007). A value of 10 has been recommended as the maximum threshold level of VIF to indicate that multicollinearity was not a problem (Hair, Anderson, Tatham, & Black, 1995; Kennedy, 1992; Myers, 1990). Examination of the VIF values for the variables of this study in Table 1 showed that they fall below the value of 10, with a mean of 1.18 and are within the tolerance level. This provides further suggestion that this study does not suffer from a multicollinearity problem.

4.2 Regression

This section presents the findings and results of the hypotheses of this study, which include results for the main variables as well as the control variables. Tables 2, 3 and 4 shows the results of the regression for the various hypotheses of this study.

4.2.1 Results for testing of Hypothesis 1

In Table 2, Model 1 presents the baseline model with the control variables only for the full sample. In Model 2 of Table 2, the effects of director interlocks with firms who have high control entry mode experience are examined by introducing the independent variable, the sum of director interlocks' high control entry mode. Model 2 addresses hypothesis 1, which predicts that director interlocks with firms that have high control entry mode experience is positively associated with adoption of high control entry mode.

The coefficient of the sum of director interlocks' high control entry modes in Model 2 is positive and statistically significant *($\beta = 0.002$, $p < 0.001$)*, providing evidence that director interlocks with firms who have high control entry mode experience do have a positive association with the focal firm's adoption of high control entry mode. Hypothesis 1 is thus supported.

As judged by the differences in the log likelihood between models 1 and 2, the increase from Model 1 to Model 2 by a value of 45.53 indicates that the hypothesized effect in Model 2 added significant explanatory value to the baseline model 1. The variance explained increases from pseudo $R^2 = 0.3833$ in Model 1 to 0.3836 in Model 2.

4.2.2 Results for testing of Hypothesis 2

Models 3 and 4 in Table 2 addresses Hypothesis 2 which predicts that the positive relationship between directors interlocks with firms that have high control entry mode experience and the focal firm's adoption of high control entry mode is stronger in the case of unrelated activities than in the case of related activities. To test this hypothesis, separate analyses where performed for high control entry modes into related and unrelated activities.

Total high control entry mode into related activities was used as the dependent variable in Model 3 while total high control entry mode into unrelated activities was used as the dependent variable in Model 4. The coefficient for sum of director interlocks' high control entry modes in Model 3 is positive and statistically significant (*$\beta = 0.0020, p < 0.001$)*. This suggests that for related activities, director interlocks with firms that have high control entry mode experience do have a positive association with the focal firm's adoption of high control entry modes. Interpreting this Poisson regression estimate for related activities in an original count metric, the exponential of the regression coefficient is $e^{0.00203} = 1.00203$. The coefficient for the sum of director interlocks' high control entry modes in Model 4 is also positive and statistically significant when high control entry mode into unrelated activities was used as the dependent variable. This suggests that for market entry into unrelated activities, the sum of director interlocks' high control entry modes has a positive association with focal firm's adoption of high control entry modes (*$\beta = 0.0027, p < 0.001$).* Interpreting this Poisson regression estimate for unrelated activities in original count metric, the exponential of the regression coefficient for sum of director interlocks is $e^{0.00273} = 1.00274$.

Comparing Model 3 and Model 4, the coefficient sizes for the sum of director interlocks' high control entry modes between related (*$\beta = 0.0020, p < 0.001$)* and unrelated activities (*$\beta = 0.0027, p < 0.001$)* appeared to vary by only a minimal amount. However, Model 4 which tested market entry into unrelated activities, has a slightly higher coefficient than Model 3 which tested entry into related activities. Nevertheless, contrary to the expectation of a larger variation, this finding partially supports Hypothesis 2, which predicts a stronger positive relationship between director interlocks with firms that have high control entry mode experience and the focal firm's adoption of high control entry mode in the case of unrelated activities.

4.2.3 Results for testing of Hypothesis 3

Table 3 presents the results of the analyses that addressed Hypothesis 3. Hypothesis 3 predicts that the relationship in Hypothesis 2 is further amplified with the presence of outside directors with an active CEO appointment.

To test Hypothesis 3, analysis was performed separately for high control entry modes into related and unrelated activities, which subsequently allowed for comparisons to be made between entry into related and unrelated activities. An additional variable denoting the presence of outside directors with an active CEO appointment was included into the regression for Models 1, 2, 3 and 4 in Table 3 in order to test the effect of the presence of outside directors with an active CEO appointment.

Total high control entry modes into related activities was used as the dependent variable for Models 1 and 2 in Table 3. The coefficient for outside director with an active CEO appointment was negative but statistically significant (*β = -0.010, $p < 0.001$)* in Model 1, suggesting a negative association between the presence of outside directors with an active CEO appointment and a firm's adoption of high control entry mode in related activities.

Meanwhile, the coefficient for sum of director interlocks' high control entry modes (*β = 0.002, $p < 0.001$)* in Model 1 was positive and statistically significant, suggesting that for entry into related activities, directors interlocks with firms that have high control entry mode experience do have a positive association with the focal firm's adoption of high control entry modes with the inclusion of outside director with an active CEO appointment variable.

To test potential effects in related activities, an interaction term was created by multiplying outside directors with an active CEO appointment with the sum of director interlocks' high control entry modes. Model 2 shows the results after the interaction term was entered into the regression model. The change in log likelihood fit from Model 1 to Model 2 increased by 4.86, indicating a slight improvement in model fit. The pseudo R^2 = 0.292 remained the same in both Model 1 and Model 2.

The results indicated a positive amplifying effect for entry into related activities. The interaction of outside directors with an active CEO appointment and the sum of director interlocks' high control entry modes was positive and statistically significant (*β = 0.0253, $p < 0.05$)*. This suggests that with the presence of outside directors with an active CEO appointment on the board, there is a stronger association between the sum of director interlocks' high control entry modes and focal firm's adoption of high control entry modes in related activities.

Total high control entry mode into unrelated activities was used as the dependent variable for Models 3 and 4 in Table 3. With the presence of outside directors with an active CEO appointment being added as an additional variable in the regression equation, results in Model 3 show that the coefficient size for outside directors with an CEO appointment is positive and statistically significant ($\beta = 0.160, p < 0.001$). This suggests a positive association between the presence of outside directors with an active CEO appointment and a firm's adoption of high control entry mode in unrelated activities

The results also show that for entry into unrelated activities, the coefficient for the sum of director interlocks' high control entry modes was positive and statistically significant ($\beta = 0.0024, p < 0.001$).This suggests that for entry into unrelated activities, directors interlocks with firms that have high control entry mode experience do have a positive association with the focal firm's adoption of high control entry mode with the inclusion of the outside directors with an active CEO appointment variable.

To test moderating effects in unrelated activities, an interaction term was created by multiplying outside directors with an active CEO appointment with the sum of director interlocks' high control entry modes. Model 4 shows the results of the interaction effect of outside directors with an active CEO appointment and the sum of director interlocks' high control entry modes for entry into unrelated activities. This interaction term showed a negative but significant coefficient ($\beta = -0.0274, p < 0.05$) indicating a negative effect for entry into unrelated activities. This suggests that with the presence of outside directors with an active CEO appointment, there is a weaker association between the sum of director interlocks' high control entry modes and the focal firm's adoption of high control entry mode in unrelated activities. The change in log likelihood fit from Model 3 to Model 4 increased by

4.45, indicating a slight improvement in model fit.The variance increased from pseudo R^2 = 0.2466 in Model 3 to 0.2467 in Model 4.

Comparing Model 4 with Model 2 in Table 3 after the interaction term of sum of director interlocks HCEM X Outside Director CEO was entered into the regression model, a positive moderating effect was found for entry into related activities in Model 2 while a negative moderating effect was found for entry into unrelated activities in Model 4. This negative relationship in Model 4 is in the opposite direction from the hypothesized relationship and therefore, Hypothesis 3 is not supported.

4.2.4 Results for testing of Hypothesis 4

Table 4 presents the results of the analyses that addressed Hypothesis 4. Hypothesis 4 predicts that the relationship in Hypothesis 2 is further amplified when inside directors receive a greater proportion of annual stock options.

To test Hypothesis 4, analysis was performed separately for high control entry modes into related or unrelated activities, which then subsequently allowed for comparisons to be made between entry into related and unrelated activities. An additional variable denoting inside directors with a greater proportion of annual stock options was included in the regression for Models 1, 2, 3 and 4 in Table 4.

Total high control entry modes into related activities was used as the dependent variable in Models 1 and 2. In Model 1, the coefficient for inside directors with a greater proportion of annual stock options was positive and statistically significant (*$\beta = 0.003$, $p < 0.001$)*. The coefficient for the sum of director interlocks' high control entry modes in Model 1 was positive and statistically significant (*$\beta = 0.002$, $p < 0.001$)* with the introduction of this additional variable, suggesting that for related activities, the sum of director interlocks' high control entry mode experience is positive and statistically significant with this additional variable.

To test amplifying effects in related activities, an interaction term was created by multiplying inside directors with a greater proportion of annual stock options with the sum of director interlocks' high control entry modes. The proportion of annual stock options was measured as the percentage of firm's total annual stock options that was offered to executives who are also directors of the firm. Model 2 shows the results after the interaction term was entered into the regression equation. The interaction of inside directors with a greater proportion of annual stock options and the sum of director interlocks' high control entry modes was positive and statistically significant ($\beta = 0.008$, $p < 0.01$). The results indicate a positive amplifying effect for entry into related activities and therefore, there is evidence that when inside directors receive a greater proportion of annual stock options, there is a stronger association between the sum of director interlocks' high control entry modes and focal firm's adoption of high control entry modes in related activities. The coefficient for inside directors with a greater proportion of annual stock options was positive and statistically significant ($\beta = 0.002$, $p < 0.001$). The change in log likelihood fit from Model 1 to Model 2 increased by 8.78, indicating a slight improvement in model fit. Pseudo $R^2 = 0.2938$ remained the same for both Modes 1 and 2.

Total high control entry modes into unrelated activities was used as the dependent variable for Models 3 and 4 in Table 4. Model 3 shows that the coefficient for inside directors with a greater proportion of annual stock options is statistically significant (*$\beta = 0.003$, $p < 0.001$).* The results also show that for unrelated activities, the sum of director interlocks' high control entry modes is positive and statistically significant with this additional variable (*$\beta = 0.003$, $p < 0.001$).*

To test amplifiying effects in unrelated activities, an interaction term was created by multiplying inside directors with a greater proportion of annual stock options with the sum of director interlocks' high control entry modes. Model 4 shows the results of the interaction effect of inside directors with a greater proportion of annual stock options with the sum of director interlocks' high control entry modes for entry into unrelated activities. This interaction term showed a positive and significant coefficient (*$\beta = 0.015$, $p < 0.001$)* indicating a positive amplifying effect for entry into unrelated activities. The change in log likelihood fit from Model 3 to Model 4 increased by 19.7, indicating an improvement in model fit. Variance explained by Pseudo $R^2 = 0.2487$ in Model 3 increased to 0.2489 in Model 4.

Comparing Model 2 with Model 4 in Table 4 after a similar interaction term was entered into the regression models, a positive amplifying effect for entry into both related and unrelated activities have been witnessed. However, the interaction coefficient for the effect on entry into unrelated activities in Model 4 appears to be higher than the interaction coefficient in Model 2 for entry into related activities. Hence, Hypothesis 4 is supported.

4.2.5 Control variable effects

In the baseline model, Model 1 in Table 2, firm size ($\beta = 0.468$, $p < 0.001$), firm past performance ($\beta = 2.313$, $p < 0.001$) and firm prior high control entry mode experience ($\beta = 0.018$, $p < 0.001$) exhibited a positive and highly significant relationship ($p<0.001$) with firms' adoption of high control entry modes. Firm age ($\beta = -0.000$, $p < 0.05$), board size ($\beta = -0.022$, $p < 0.001$) and board independence ($\beta = -0.015$, $p < 0.001$) exhibited a negative but significant relationship with firms' adoption of high control entry modes. CEO duality on the other hand, had a negative ($\beta = -0.027$, $p<0.1$) coefficient and was significant only at the 0.1 level.

4.2.5.1 Main model control variable effects

In the main model, Model 2 of Table 2, firm size ($\beta = 0.464, p < 0.001$), firm past performance ($\beta = 2.280, p < 0.001$) and prior high control entry mode experience ($\beta = 0.018, p < 0.001$) exhibited a positive and highly significant relationship ($p<0.001$) with firms' adoption of high control entry modes. Meanwhile, the coefficients for firm age ($\beta = -0.000, p < 0.001$), board size ($\beta = -0.022, p < 0.001$) and board independence ($\beta = -0.015, p < 0.001$) exhibited a negative but significant relationship with firms' adoption of high control entry modes. The coefficient for CEO duality ($\beta = -0.029, p < 0.1$) was negative but significant only at the 0.1 level.

4.2.5.2 Sub-sample control variable effects

In the sub-sample that analyzed related activities, Model 3 in Table 2, firm size (*β = 0.484, p < 0.001)*, firm past performance (*β = 2.420, p < 0.001)* and prior high control entry mode experience (*β = 0.018, p < 0.001)* exhibited a positive and highly significant relationship ($p<0.001$) with firms' adoption of high control entry modes. Firm age (*β = -0.000, p < 0.01)*, board size (*β = -0.024, p < 0.001)*, board independence (*β = -0.016, p < 0.001)* and CEO duality (*β = -0.075, p < 0.01)* exhibited a negative but significant relationship with firms' adoption of high control entry modes.

When outside directors with an active CEO appointment were included to test for interaction effects in related business activities (Model 2 in Table 3), firm size (*β = 0.486, p < 0.001)*, firm past performance (*β = 2.409, p < 0.001)* and prior high control entry mode experience (*β = 0.018, p < 0.001)* exhibited a positive and highly significant relationship ($p<0.001$) with firms' adoption of high control entry modes. Variables such as firm age (*β = -0.000, p < 0.01)*, board size (*β = -0.024, p < 0.001)*, board independence (*β = -0.015, p < 0.001)* and CEO duality (*β = -0.084, p < 0.001)* exhibited a negative but significant relationship with firms' adoption of high control entry modes.

When stock options for inside directors were included to test for interaction effects in related business activities (Model 2 in Table 4), firm size (*β = 0.478, p < 0.001)*, firm past performance (*β = 2.456, p < 0.001)* and prior high control entry mode experience (*β = 0.019, p < 0.001)* exhibited a positive and highly significant relationship ($p<0.001$) with firms' adoption of high control entry modes. Firm age (*β = -0.000, p < 0.001)*, board size (*β = -0.028, p < 0.001)*, board independence (*β = -0.013, p < 0.001)* and CEO duality (*β = -0.078,* *p < 0.001)* exhibited a negative but significant relationship with firms' adoption of high control entry modes.

In the sub-sample that analyzed unrelated activities (Model 4 in Table 2), firm size (*β = 0.436, p < 0.001)*, firm past performance (*β = 2.083, p < 0.001)* and prior high control entry mode experience (*β = 0.018, p < 0.001)* exhibited a positive and highly significant relationship (p<0.001) with firms' adoption of high control entry modes. Board size (*β = -0.019, p < 0.001)* and board independence (*β = -0.015, p < 0.001)* exhibited a negative but significant relationship with firms' adoption of high control entry modes. Firm age (*β = -0.000, p > 0.1)* and CEO duality (*β = 0.033, p > 0.1)* were insignificant, suggesting that these two variables are not related to a firm's adoption of high control entry mode in unrelated business activities.

When outside directors with active CEO appointment were included to test for interaction effects in unrelated business activities (Model 4 in Table 3), firm size (*β = 0.432, p < 0.001)*, firm past performance (*β = 2.101, p < 0.001)*, prior high control entry mode experience (*β = 0.018, p < 0.001)* and CEO duality (*β = 0.048, p < 0.05)* exhibited a positive and highly significant relationship (p<0.001) with firms' adoption of high control entry modes. Board size (*β = -0.018, p < 0.001)* and board independence (*β = -0.015, p < 0.001)* exhibited a negative but significant relationship with firms' adoption of high control entry modes. Firm age (*β = -0.000, p > 0.1)* was negative but insignificant.

When stock options for inside directors were included to test for interaction effects in unrelated business activities (Model 4 in Table 4), firm size (*β = 0.427, p < 0.001)*, firm past performance (*β = 2.118, p < 0.001)* and prior high control entry mode experience (*β = 0.019,*

$p < 0.001$) exhibited a positive and highly significant relationship ($p<0.001$) with firms' adoption of high control entry modes. Board size ($\beta = -0.023$, $p < 0.001$), board independence ($\beta = -0.012$, $p < 0.001$) exhibited a negative but significant relationship with firms' adoption of high control entry modes. Firm age ($\beta = -0.000$, $p > 0.1$) was negative but insignificant. CEO duality ($\beta = 0.029$, $p > 0.1$) was positive but insignificant.

CHAPTER 5

DISCUSSION

The aim of this study was to investigate the role of director interlocks on a firm's choice of foreign market entry mode. This study was motivated by the desire to address gaps in prior research as well as to combine perspectives from the board of director research together with foreign market entry mode studies in order to gain a more thorough understanding of firms' choice of entry mode when they diversify into foreign markets. This chapter discusses and interprets the results of the analysis that was presented in Chapter 4.

5.1 Discussion of results

5.1.1 Discussion of results for Hypothesis 1

This hypothesis addressed the first research question of whether director interlocks with firms that have high control entry mode experience increases a focal firm's adoption of high control entry modes. Drawing on the literature from director interlocks and foreign market entry mode studies, it is argued that director interlocks with firms that have high control entry mode experience is positively associated with the focal firm's adoption of high control entry mode. The result for testing of this hypothesis confirmed the hypothesized relationship.

This result is consistent with findings in past-related studies that looked at how director interlocks influence strategic activities like acquisitions and strategic innovations by helping firms with the provisioning of information and establishment of relationships (Haunschild, 1993; Palmer, Jennings and Zhou, 1993). Haunschild (1993) found significant association between director interlocks and acquisition activities and suggested that director interlocks can act as a source of contacts among executives, which can subsequently affect acquisition activity. Along a similar vein, Palmer, Jennings and Zhou (1993) provided support that certain types of director interlocks can help provide information on strategic innovations used by other firms, which subsequently increased the likelihood of adoption by the focal firm. A common thread that runs through these previous studies and this study runs parallel to Davis et al., (2003)'s suggestion that the propensity for interlocked firms to adopt similar strategies and structures has been likened to a process of contagion, wherein board overlaps function as potent vectors for the flow of ideas and information among corporations.

The results of this study support the resource based view of the firm which posits that a firm is a bundle of resources, knowledge, competencies and capabilities that can be used to create value (Barney, 1991) and directors in this sense, are strategic resources for a firm (Barney, 1991; Grant, 1991; Hillman, Cannella, and Paetzold, 2000). The results of this study support elements of resource theory, notably with regard to information exchange from director interlock connections. It echoes the views of studies that suggest that director interlocks function as channels of communication that allow information flows between firms (Davis, 1991; Haunschild, 1993), allowing firms to gain access to valued information and the prospect of coordinated action (Mizruchi, 1992; Useem, 1984). Directors with interlocks to firms that have high control entry mode experience would be able to offer their insights and knowledge to a focal firm based on their exposure and experiences with high control entry modes in the interlocked firms.

From a resource dependence perspective, the results also suggest that directors are able to help manage complexity by scanning the business environment and sharing advice (Rindova, 1999; Useem, 1984) that is often gleaned from experience on other firms' boards (Davis, Yoo and Baker, 2003; Richardson, 1987). Podolny (2001) described such linkages as conduits or pipes for information and resources and directors are described as valuable resources that are able to help a firm navigate through uncertainty with their external connections (Davis et al., 2003).

The results also suggest evidence of expressions of inter-firm learning as well as firms' efforts to manage the uncertainty of foreign market entry by establishing ties with other firms on which they depend for resources (Pfeffer and Salancik, 1978; Pennings, 1980). This reaffirms the role that directors play in helping firms to deal with uncertainty associated with strategic decisions (Galaskiewicz and Wasserman, 1989; Pfeffer and Salancik, 1978).

The results lend support to Hambrick and Mason's (1984) upper echelon theory of management, which states that characteristics of senior executives such as their background and prior experiences will greatly influence their interpretations of situations, leading to different preferences that will affect the choices that they ultimately make. The results also provide support for Finkelstein and Hambrick's (1996) suggestion that organizational transition events such as acquisitions, divestitures and joint venture activities are important strategic decision points where the board of directors are likely to be involved. To the extent that board of directors provide counsel and advice to the management team, directors' knowledge and experiences gained through director interlocks are shared and through this role, the board becomes actively involved in the strategic decision making process (Pearce and Zahra, 1992). Results also suggest that interlocking directors are able to provide detail and insight as to the design and implementation of practices of other firms that cannot be easily observed by others. This result agrees with the view that, through their positions, board members have both access to timely information and channels to needed resources and that director interlocks play a crucial role in this process of information acquisition and interpretation (Zahra and Pearce, 1989). Gaining insight through exposure in multiple firms gives interlocking directors the opportunity to contribute their firsthand knowledge of practices elsewhere.

The results also show the significance of the role of director interlocks with firms that have high control entry mode experience. This confirms Finkelstein and Hambrick's (1996) argument that the upper echelon perspective, which usually focuses on top management teams, can similarly be applied to a firm's board of directors. They suggested that strategic leadership is a shared activity among a small group of top executives in the firm and characteristics of this group of executives such as tenure, affiliations, network ties and industry background relates to firm outcomes. In this study, the results provide support for this view, highlighting directors' leadership role in a firm with regard to decision making on entry modes and how their interlocks with other firms that have high control entry mode experiences can have a subsequent influence on the board's decision to adopt high control entry modes.

5.1.2 Discussion of results for Hypothesis 2

Hypothesis 2 addresses the second research question of this study: whether the influence of director interlocks with firms that have high entry mode experience on a focal firm's adoption of high control entry modes is stronger in unrelated business activities as compared to related business activities. The hypothesis expected that it would be stronger in the case of unrelated business activities but findings from testing of this hypothesis offered marginal support. Several possible explanations are as follows.

Resource dependence theory holds that director interlocks exist to coordinate the inter-organizational exchange of resources such as capital, information and market access to buffer the effects of environmental uncertainty (Pfeffer and Salancik, 1978). Firms that face uncertainty can become more efficient in acquiring resources by coordinating their efforts from the top such as with the board of directors (Mizruchi, 1996). This study predicted that when firms diversify into unrelated activities, there would be a greater reliance on director interlocks due to the element of higher uncertainty in unrelated activities. However, the results from testing this hypothesis only partially supported this.

According to Tuschke, Sanders and Hernandez (2013), various types of director interlocking ties can affect a focal firm's market entry strategy, and they can vary under different conditions with different impact. This explanation offers another potential reason for the observed results. It could be that director interlocks may have played different roles by contributing differently to unrelated and related business activities respectively and it may not have assumed similar type of roles for these both activities.

In addition, the source of director interlocks may have also played a role, such as whether the interlocks are with other firms in related or unrelated industries, as this may have differing impact. According to Pfeffer and Salancik (1978), for firms to successfully engage in foreign direct investments, the experience of other firms from related industries is beneficial. Thus, directors with ties to such experienced firms can help the focal firm develop relationships with other firms and governments that will be necessary for them to establish foreign operations (Pfeffer and Salancik, 1978).

Another potential contributing reason for the observed results could be related to a firm's learning capability and informational needs and the extent to which director interlocks addresses these from the perspective of foreign market entry by taking into consideration a firm's level of prior experience and exposure to the type of business activity that the firm enters into. As firms learn from their own experiences, their informational needs are also likely to change. Prior experience can enhance the impact of certain director interlocks on firms' actions while diminishing the importance of others. Related prior experience in particular, can be a potential substitute for director interlocks (Tuschke, Sanders and Hernandez, 2013). The logic of substitution between interlocks and firm experience are based on the notion of knowledge redundancy. With high uncertainty decisions such as entry into emerging markets, information that is available internally may obviate the need to look outside the firm if managers' local search provides a satisfactory level of uncertainty reduction (Cyert and March 1963).

Director interlocks are noted to be most valuable for strategic decision making when they transfer information not available elsewhere (Haunschild and Beckman, 1998). According to this logic, interlocks can become less influential if functionally equivalent information is available inside the firm. Haunschild and Beckman (1998) also added that alternative external sources of information such as industry associations could sometimes be alternatives or substitutes for learning gained from director interlocks. This line of reasoning could also have provided another possible explanation for the observed results and as a result, the influence of director interlocks on choice of entry mode could not be thoroughly captured when comparing entries into related and unrelated activities.

5.1.3 Discussion of results for Hypothesis 3

Hypothesis 3 addresses the third research question of this study: whether the positive relationship between director interlocks with firms that have high control entry mode experience and the adoption of high control entry mode in unrelated activities is further amplified with the presence of outside directors with an active CEO appointment.

The role of outside directors is important to firms as they are seen as boundary spanners and individuals, who as a result of their reputations and positions in industry, are able to help firms obtain needed resources and to provide timely information to the firm's executives (Zahra and Pearce, 1989). Outside directors with an active CEO appointment, have been deemed more valuable because in their role as CEOs of other firms, such directors are ultimately responsible for the formulation, implementation, and performance of their own firm's strategies (Rudiger, Low and Rene, 2010).

Firms that invite CEOs of other firms to be on their boards as outside directors are signalling that they deem the individual an expert, capable of providing valuable counsel and guidance (Conger, Lawler and Finegold, 2001; Lorsch and McIver, 1989). This is looked upon as an acknowledgement that reflects favourably on the CEO's source firm (Burt, 1992) as it has also been noted that to the extent that executives' directorship ties link their firms to other firms of similar standing, important status gains accrue (D'Aveni and Kesner, 1993; Podolny, 1993), hence their implications for competitive success are significant. Such links help firms attract a wider set of potential exchange partners (Podolny and Castellucci, 1999) and thus achieve faster organizational growth (Podolny, Stuart and Hannan, 1996) while lowering transaction costs (Podolny, 1993).

This study's findings indicated that the interaction terms between outside directors with an active CEO appointment and director interlocks with firms that have high control entry mode experience is significant but negatively related to a firm's adoption of high control entry mode in unrelated activities. On the other hand, for related activities, the interaction term appears to be significant but positive.

The results are contrary to this study's prediction. However, this counter-intuitive observation can be further interpreted to expand our understanding in this subject area. A possible interpretation of the negative interaction found in unrelated business activities is the possibility that directors choose to be more risk averse with entries into unrelated business activities. There are several possible reasons for this. According to Booth and Deli (1996), a host of potential personal benefits such as personal prestige and development of valuable networks and contacts play a major role in attracting outside directors with an active CEO appointment to serve on a focal firm's board. By comparison, monetary compensation plays a minimal role (Bacon and Brown, 1974). By serving as an outside director and also by being a CEO, such individuals gain enhanced status in the business community that is expected to accrue directly to them personally (Mace, 1986) and in addition, they become more efficient CEOs in their own source firms (Bacon and Brown, 1975). They are the most sought after type of director candidates (Fich, 2005) and are often highly concerned about their reputation (Fama and Jensen, 1983).

As a result, it is likely that outside directors with an active CEO appointment will have the desire to provide effective managerial oversight with the added possibility of a reputation and credibility effect especially when they have several interlocking ties with other firms. Therefore, it would be reasonable to expect them to exert more caution when it comes to reviewing strategic projects and are likely to be more risk averse towards pursuing foreign market entry into unrelated business activities, which tends to increase a firm's risk profile (Bettis and Hall, 1992; Lubatkin and Chatterjee, 1994; Montgomery and Singh, 1984).

Assuming that risks associated with high control entry modes into unrelated business activities can have negative consequences for the credibility and reputation of directors, this may also affect future board opportunities for the directors (Westphal and Stem, 2007). In light of this, outside directors with an active CEO appointment may choose to be more risk averse with decisions pertaining to foreign market entry modes, with lower tendency to choose high control entry modes particularly in unrelated business activities. Hence, this could also possibly explain the negative interaction found in the results for unrelated activities. Gilson and Kraackman (1990) documented fewer board seats for outside directors after having served on boards of firms that experienced financial distress while Coles and Hoi (2003) showed that outside directors have fewer new directorships if the board supports actions that are against shareholders' interests.

Research has shown that outside directors with an active CEO appointment face higher costs for their roles, when compared to other types of directors (Fich and Shivdasani, 2006, 2007; Harford and Li, 2007; Yermack, 2004). This could provide another reason for the negative interaction found in results for unrelated activities. Fich and Shivdasani (2007) found that directors' reputation suffers when they sit on the board of firms involved in a corporate scandal. For outside directors with an active CEO appointment, this not only affects their success on the labour market for directors but it also directly affects their ability to perform their job. Additionally, being associated with failure in an outside director position can adversely affect a CEO’s job opportunities (Harford and Li, 2007; Yermack, 2004).

The risks of potential shareholder lawsuits and litigation would also have a greater negative impact on an outside director with an active CEO appointment (Booth and Deli, 1996) as it can potentially expose the individual as well as source firm to liabilities and loss of reputation. As a result, such directors may exhibit higher risk averse behaviour that can have an impact on board decision-making, resulting in lower tendency to choose high control entry modes for unrelated activities. Ellstrand, Tihanyi and Johnson (2002) explained that directors can be influenced by risks in the international context and can be fearful when faced with a strategy that might negatively affect their roles as well as their professional reputation.

Using the same line of reasoning, these reasons could also explain the positive and significant finding for the interaction terms between outside directors with an active CEO appointment and director interlocks with firms with high control entry mode experience on the adoption of high control entry mode for related business activities, given that related business activities would be perceived to be less risky than unrelated business activities (Park, 2003).

The findings also provide general support for the view that access to executives of other firms is valuable because such executives can offer a more independent and objective perspective on issues that are being faced by a firm (Geletkanycz and Hambrick, 1997; Mason and Westphal, 2001). An inference drawn from the findings also suggests the relative influential strength of outside directors with an active CEO appointment. While outside directors are a key source of external advice, director experience is often viewed as being the same without further regard for the identification of the director who possesses the experience such as who is the director. Berlo et al. (1969) explained that the acceptance of advice is largely based on who is providing it. Directors acting as advice providers may not be uniformly viewed as being credible on all issues. Source credibility is the most potent means of persuasion and is a function of expertise, veracity, and benevolence (McCroskey and Young, 1981). In light of this, results from testing this hypothesis that shows the significance of outside directors with an active CEO appointment may suggest that these directors are also likely to have higher influential power. This is due to the directors being perceived as having a higher level of expertise than other directors without an active CEO appointment, particularly with expansion into foreign markets.

A different line of reasoning to explain the unexpected results is the possibility of an inter-play of factors such as CEO-board social connections or friendship ties (Kroll et al., 2008; Westphal, 1999; Westphal, Boivie and Ching, 2006) that can affect the roles of CEOs in the focal firm and the roles of outside directors with an active CEO appointment. This in turn may have overshadowed the influence of director interlocks on a firm's choice of entry mode. According to Tajfel and Turner (1979), outside CEO directors who serve as top executives themselves are subjected to a unique set of influences that can negatively affect the performance of their monitoring duties.

Tajfel and Turner (1979) noted that individuals tend to identify with others based on shared characteristics and act with positive bias toward those perceived as members of the in-group. Among all directors, other CEO directors are arguably the most similar to a focal firm CEO in terms of professional and social experience. Similarly, Useem (1984) added that corporate

CEOs are a relatively homogeneous and cohesive group who can identify with one another and be sympathetic in evaluating strategic plans, resulting in biased decision-making. Hence, the choices of such outside directors may be dependent upon the choice of the focal firm's CEO. This can particularly be so if the CEO has been involved in the process of appointing outside directors (Shivdasani and Yermack, 1999), who may have been deliberately selected to fulfil the CEO's agenda for foreign market expansion.

5.1.4 Discussion of results for Hypothesis 4

Hypothesis 4 addresses the forth research question of this study: whether the positive relationship between director interlocks with firms that have high control entry mode experience and the adoption of high control entry mode in unrelated activities is further amplified with the granting of a greater proportion of annual stock options to inside directors.

This fourth hypothesis draws on previous research findings that incentives such as stock options can motivate and encourage inside directors to leverage opportunities that may be higher in risks and of longer term (Hoskisson and Hitt, 1990; Li and Simerly, 1998) in order to increase their personal wealth (Malatesta and Walking, 1988). This study's fourth hypothesis predicted that the positive relationship between director interlocks with firms that have high control entry mode experience and the adoption of high control entry modes in unrelated activities is further amplified when inside directors receive a greater proportion of annual stock options.

The testing of the amplifying effect when inside directors receive a greater proportion of annual stock options was found to be positive and significant in both related and unrelated activities. The results suggest that while director interlocks with firms that have high control entry mode experience is positively associated with firms' adoption of high control entry mode, stock options provide the additional financial incentive to motivate inside directors towards the inclination of choosing high control entry modes as opposed to low control entry modes.

Research that echoes agency theory view argues that managers will tend to act largely out of self-interest and will generally prefer to pursue corporate strategies of diversification that minimizes risks to the firm and their personal income stream (McDougal and Round, 1984). The use of equity based compensation such as stock options has been shown to increase managerial risk taking propensity (Bryan et al., 2000; Linn and Park, 2005; Yermack, 2004). Findings from this study support this part of agency view and suggest that stock options have the potential to increase the risk tolerance levels of inside directors. This should then encourage them to assume a higher level of risk taking by choosing high control entry modes.

The finding also supports the agency theory view on mechanisms that help reduce agency loss (Eisenhardt 1989) such as implementation of executive incentive schemes that maximises shareholder interests. Inside directors are essentially managers of a firm (Berle and Means, 1968) and managers are said to be more risk averse in their decision making than diversified shareholders (Fama, 1980) as they have more at risk when compared to shareholders. By providing inside directors with greater proportion of stock options that reward long-run value maximisation of the firm, this helps deter short-run executive actions that can harm firm value. Thus, this helps align the financial interests of inside directors with those of shareholders (Jensen and Meckling 1976).

The direction of this finding is consistent with findings of Datta et al. (2009) who found that managerial incentives play an important role in influencing the choice between acquisitions and joint ventures. In Datta et al.'s (2009) study, it was found that when incentives such as stock options are linked to long-term performance, executives become supportive of acquisitions. The results also lend support to the notion that stock options are presumed to offer asymmetric risk properties, offering the opportunity for potential wealth gains through increases in stock price while offering insulation from downside threats to current wealth (Lawler, 2000; Sanders, 2001). Thus, stock options can affect directors' decision-making which subsequently, increases a firm's risk taking propensity (Rajgopal and Shevlin, 2002; Sanders, 2001) because their wealth gains are not penalised in any way by threats or business failure.

Entering a foreign market through a high control entry mode is an investment strategy that involves higher fixed costs and higher risks as well as a long-term orientation (Agarwal and Ramaswami, 1992; Herrmann and Datta, 2006). As stock options are linked to the long-term performance of a firm, an inference that can be drawn is that stock options can act as an effective incentive to entice inside directors to take on a higher level of risk such as when it comes to decisions on choosing a foreign market entry mode. This also supports the view that stock options need to be tied to appropriate situations for them to be effective (Meulbroek, 2001).

In comparing the strength of the amplifying effect between related and unrelated activities, the results showed that the amplifying effect was stronger in unrelated activities. Hence, this provides evidence to support this hypothesis's argument that the relationship proposed in Hypothesis 2 is further amplified when inside directors receive a greater proportion of annual stock options. This finding aligns with other similar findings on stock options being linked to higher levels of acquisition activities being undertaken by firms (Sanders, 2001) as well as how stock options promote the undertaking of a higher level of risk taking in acquisitions (Wright et al., 2002). The finding also echoes Benston's (1985) view that managerial incentives addresses management desires such as an aspiration for empire building, personal power and status, which can often play a role in motivating management's choice for unrelated diversification activities over related activities.

The results highlight the significance of the role of stock options as an influencing and motivating factor behind inside directors' choices in decision making, which ultimately, highlights the ability of inside directors to influence board decision making processes with regard to foreign market entry. The findings are also consistent with the view that inside directors can be very influential because they possess valuable firm specific information (Fama and Jensen, 1983). Inside directors can contribute to a more effective firm decision making process (Fama and Jensen, 1983). This is due to their in-depth understanding of the business and industry environment and thus, they may have relevant information that may be helpful for strategic decision-making (Lorsch and McIver, 1989). As such, insiders are generally viewed as being better advisors to management as they are able to carry out an important internal monitoring function. Without inside directors on a firm's board, there may be considerable information asymmetry between the CEO and the board (Lorsch and McIver, 1989).

The results also suggest that inside directors' knowledge of firm resources and capabilities can be more valuable in circumstances such as foreign market expansion and this may help alleviate the increased risks associated with high control entry modes particularly in unrelated business activities. This is in line with research that has shown that in situations where significant uncertainty and risks are involved, inside directors are more likely to have better information (Zahra, 1996). Extending this, the results also highlight the importance of information sharing among board members such as between inside and outside directors especially when a firm is pursuing a foreign market expansion. Drawing on the reasoning that involvement of inside directors can lead to more effective decision-making processes (Fama and Jensen, 1983), a further inference is that inside directors can be motivated by the use of stock options to further contribute to the information sharing process with other board members.

Information sharing between inside and outside directors has been noted to be a critical process that can influence optimal board structure (Raheja, 2005) and affect a firm's decision making and ultimately, firm performance (Harris and Raviv, 2008). Shareholders tend to prefer to delegate control to insiders when the value of insider's knowledge is high. Related to this line of reasoning, the result also highlight a possible concern associated with the use of stock options for inside directors as an incentive to encourage them to pursue higher risk strategies such as high control entry modes into unrelated business activities that may not be in the best interest of shareholders. This is because stock options can indirectly function as a motivation for inside directors to control the exchange of information with other board members during entry mode decision making process, which hinges upon the existence of private benefits of control according to several studies (Harris and Raviv, 2008; Raheja, 2005).

5.1.5 Discussion of results for control variables

5.1.5.1 Firm age

Firm age was found to be negatively related to a firm's adoption of foreign high control entry mode and was significant mainly for entries into related business activities. This suggests that younger firms are more likely to adopt high control entry modes in related business activities. This supports the view that younger firms may suffer from potential liabilities of newness but are able to build core competencies through knowledge sharing and development through personal networks, mainly through ties among key individuals (Sharma and Blomstermo, 2003), implying that director interlocks can play a significant role particularly for younger firms when diversifying into foreign related business activities. As suggested by Johanson and Mattsson (1988), the success of a foreign entry relies on a firm's relationships within a particular market rather than the cultural and market specific characteristics.

Firm age was not significantly associated with entry into unrelated business activities, demonstrating that it is not possible to establish a relationship between firm age and a firm's adoption of high control entry mode for unrelated business activities. This appears to be in line with Aksoy and Kaynak (1994)'s suggestion that the age of a firm does not matter when deciding entry modes for a new country.

5.1.5.2 Firm Size

Firm size was positively associated with the adoption of high control entry mode, indicating that the larger the firms, the more likely they are to choose high control entry modes. This finding is consistent with past studies that found a positive and significant relationship between firm size and degree of control for entry mode (Taylor, Zou and Osland, 1998). Larger firms may have more resources that can be utilized for investments in innovation and to finance aggressive expansion. It can also allow firms to be more prepared for risks (Cohen, Eliashberg and Ho, 1996) and hence, larger firms may have higher tendency of choosing high control entry modes. Furthermore, in terms of foreign market entry, larger firms may have stronger bargaining power that enables them to get concessions and incentives from the government of a host country (Brewer, 1993). Larger firms might be financially stronger and are able to absorb more risks as opposed to smaller firms (Hennart and Larimo, 1998). This relationship has been confirmed by other related research (Larimo, 2003).

The size of a firm is often an indicator of its competitive advantage in financial, physical, human, technological, or organizational resources. The findings support the evidence where a positive relationship was found between large firm size and sole ownership of a foreign affiliate (Buckley and Casson, 1976; Terpstra and Yu, 1988; Yu and Ito, 1988). The findings also support the notion that larger firms tend to choose higher control entry modes such as greenfield or acquisitions, as larger firms have greater organizational slack (Horst, 1972) that can enable greater allocation of resources to the new foreign market.

5.1.5.3 Firm past performance

The findings indicated a positive and significant association between a firm's past performance and adoption of high control entry mode, suggesting that higher performing firms prefer to have more control in their foreign operations, hence, a higher likelihood of choosing high control entry modes. This is in line with past studies that have shown that highly performing firms are also more likely to be involved in high control entry modes such as acquisitions rather than other types of entry modes when entering into a foreign market (Barkema and Vermeulen, 1998; Herrmann and Datta, 2002).

5.1.5.4 Firm prior high control entry mode experience

The findings indicated a positive and significant association between a firm's prior high control entry mode experience and the adoption of high control entry modes, suggesting that when firms have performed foreign market entries through high control entry modes, this prior experience conditions their subsequent choice towards adopting a similar mode of entry. The observation suggests that firms learn from their own experiences and replicating prior decision such as choosing a high control entry mode will allow the focal firm to take advantage of prior learning through the development of routines that can subsequently be applied to similar choices (Amburgey and Miner, 1992).

A firm's prior high control foreign market entry mode experience is expected to offer advantages to a firm as such experience may provide the firm with the relevant knowledge and skills necessary to enter and operate in the foreign market (Davidson, 1982). Prior experience has also been regarded as a central driver of the rate and direction of foreign expansion (Johanson and Vahlne, 1977). The findings provide support for literature on learning from experience by firms, especially the literature on organizational learning from experience with acquisitions (Haleblian and Finkelstein, 1999; Hayward, 2002).

5.1.5.5 Board size

The findings indicated a significant but negative association between board size and firms' adoption of high control entry modes. This suggests that with a larger board size, there is lower likelihood of adopting high control entry modes.

This finding is contrary to the resource dependence perspective, which argues that larger boards will be required when a firm that is facing environmental uncertainty and turbulence, will need new skills in order to pursue new strategies (Zahra and Pearce, 1989) such as foreign market entry. In environments characterized by high uncertainty, decision-making tasks become more difficult and in these environments, there is a greater information processing need to examine new opportunities and threats that may require the firm to fundamentally alter its structure and strategies (Haleblian and Finkelstein, 1993). These information-processing requirements create a need for larger teams to reduce the burden on the CEO (Bantel and Jackson, 1989; Keck and Tushman, 1993).

An explanation for this negative association can be due to effects of group dynamics within the board of directors during group decision making of which, according to social psychology literature, argues that larger sized groups may experience communication and coordination problems (Shull, Delbecq and Cummings, 1970) and when groups are smaller, they are more cohesive (Shaw, 1981) and may be able to reach consensus faster than larger groups (Priem, 1990).

Jensen (1993) suggested that as a firm's board size increases, coordination among board members becomes more difficult and this outweighs the benefits of having more directors on the board. This view is shared by Lipton and Lorsch (1992) who argued that larger boards are more likely to be associated with inefficient board decision making. Judge and Zeithaml (1992) suggested that larger boards are less participative and less cohesive and thus, are less likely to reach consensus in making value maximising decisions than smaller boards. Hence, when there is less cohesiveness and inefficiency in board decision making, it is likely to have an impact on board decision making pertaining to critical issues such as pursuing high control entry modes.

5.1.5.6 Board Independence

Board independence in this study follows a similar measure used by other studies (Byrd and Hickman, 1992; Weisbach, 1988), which is the ratio of outside directors to the total number of board members in a firm. Findings indicated a negative but significant association between board independence and firms' adoption of high control entry modes, suggesting that the higher the level of board independence, the lower the likelihood of adopting high control entry modes. This is in line with the assumption in the governance literature drawn from agency theory which states that boards that are more independent will tend to protect shareholders' interests by constraining managers' over-pursuit of diversification strategies that could result if their actions were unbridled by the governance of a board (Baysinger and Hoskisson, 1990; Jensen, 1988). Additionally, a highly independent board has been shown to be associated with lower levels of business diversification (Goodstein and Boeker, 1991).

Agency theory argues that effective board monitoring is central to minimizing agency problems and ensuring congruency between managerial and shareholder interests. The literature on board composition suggests that boards composed of a higher proportion of outside directors are in a better position to exercise their fiduciary responsibilities (Lorsch and McIver, 1989; Zahra and Pearce, 1989). The finding also supports suggestions from other studies that boards are increasingly playing a more active role in influencing the strategic behaviour of firms (Bacon, 1985; Berenbeim, 1995).

5.1.5.7 CEO Duality

The findings for CEO duality as a control variable resulted in mixed results, showing variations in the direction of the relationship as well variations in levels of significance for related and unrelated activities. Firstly, results indicated a negative but significant association between CEO duality and firms' adoption of high control entry modes for entry into related business activities. The findings are taken to suggest that with CEO duality, there is lower likelihood of adopting high control entry modes in related business activities. This is in line with Ellstrand et al. (2002)'s observation that firms with a CEO duality leadership structure are less likely to adopt a relatively high-risk international diversification approach.

On the other hand, findings appeared insignificant for entry into unrelated business activities indicating that it was not possible to establish the presence of any relationship between CEO duality and adoption of high control entry mode for unrelated business activities. The only exception when CEO duality appeared positive and significant for entry into unrelated business activities was when outside directors with an active CEO appointment were taken into account in the model. This observation could be indicative of CEO power over a board (Finkelstein and Hambrick, 1996) that hampers boards' monitoring ability, thus resulting in decisions that tend to benefit the CEO at the expense of shareholders. It could also indicate the possibility of CEO's opportunistic behaviour that emphasizes personal goals over organizational interests (Mallette and Fowler, 1992) and the allegiance of outside directors to the focal firm CEO who may have managerial incentives for unrelated diversification, such as aspiration for empire building, personal power and status (Benston, 1985).

CHAPTER 6

CONCLUSION AND IMPLICATIONS

6.1 Review of the study

This thesis looked at the role of director interlocks in a focal firm's choice of foreign market entry mode. The study began by introducing some of the most prominent literature on the topic of director interlocks and foreign market entry mode choice. The drivers for existence of director interlocks, contributions and underlying attributes of director interlocks were reviewed. Key determinants of foreign market entry modes as well as literature on the general areas pertaining to diversification and board of directors were discussed.

Four main research questions were formulated to address and explore the role of director interlocks in a firm's choice of foreign market entry mode:

1. Do director interlocks with firms that have high control entry mode experience increase the adoption of high control entry mode?
2. Is the influence of director interlocks with firms that have high control entry mode experience on the adoption of high control entry mode stronger in unrelated business activities as compared to related activities?
3. Is the influence of director interlocks with firms that have high control entry experience on the adoption of high control entry mode in unrelated business activities further amplified with the presence of outside directors with an active CEO appointment?
4. Is the influence of director interlocks with firms that have high control entry experience on the adoption of high control entry mode in unrelated business activities

further amplified with the granting of a greater proportion of annual stock options to inside directors?

By merging perspectives from two different streams of research areas, findings for this study offered some important insights to help provide better understanding on the role of director interlocks on a firm's choice of foreign market entry mode, which was discussed in Chapter 5. The implications and limitations of this study as well as suggestions for future research are covered in this chapter.

6.2 Implications

6.2.1 Theoretical implications

The aim of this study was to examine the influence of director interlocks on a firm's choice of foreign market entry mode. A review of existing literature in Chapter 2 led to the development of specific hypotheses regarding the relationship between director interlocks and a firm's choice of foreign market entry mode as well as other factors that can have a further impact on this relationship. Several theoretical implications can be drawn from the results of the testing of the hypotheses, which provide further suggestions for potential refinements to existing theory. This thesis contributes to the research in the areas involving director interlocks and foreign market entry mode.

The general results support the argument underlying the main hypothesis with evidence to suggest that there is a positive association between director interlocks with firms that have high control entry mode experience and a focal firm's adoption of high control entry mode.

This finding provides support for studies that have similarly looked at how director interlocks affect firm strategies (Davis, 1991; Palmer, Jennings and Zhou, 1993) and in particular, how director interlocks influence acquisition activities (Haunschild, 1993).

This study demonstrates the efficacy of applying the upper echelons approach to further aid our understanding of factors that influence a firm's choice of foreign market entry mode (Herrmann and Datta, 2002). Upper echelons theory suggests that characteristics of directors such as their background and prior experiences greatly influences their interpretations of situations, leading to different preferences and subsequently, affects the choices that they ultimately make (Hambrick and Mason, 1984). This study supports the view that highlights the importance of considering a firm's decision makers while explaining how foreign investment decisions are made (Brouthers and Hennart, 2007). This study also provides support for the argument that foreign expansion is determined by a certain set of strategic choices made by executive decision makers of a firm (Nielsen and Nielsen, 2011), reaffirming the critical role that board of directors play in influencing strategic decision making processes within a firm.

This study also demonstrates the efficacy of applying the resource based view of the firm and the resource dependence theory to further aid our understanding on the role of directors and director interlocks on a firm's choice of foreign market entry mode. The findings support the resource-based view of a firm whereby in addition to directors' resource contribution through their involvement with the firm, they are recognized as strategic resources for a firm (Barney, 1991; Grant, 1991; Hillman, Cannella, and Paetzold, 2000). Hence, valuable directors on a can help enhance a firm's board capabilities, which then may provide the firm with a distinct competitive advantage.

The positive findings on the role of director interlocks on a firm's choice of entry mode reaffirms the applicability of the resource dependence theory in explaining how director interlocks can help firms acquire and manage their dependence on resources available through the external environment (Hillman and Dalziel, 2003; Pfeffer and Salancik, 1978). According to resource dependence theory, firms are unable to create all their own resources or handle all functions that would allow them to be completely independent (Aldrich and Pfeffer, 1976). Therefore, director interlocks appear to be one of the ways to manage their reliance on other firms (Aldrich and Pfeffer, 1976), or individuals (Selznick, 1957) for resources and services.

The findings also suggest that director interlocks can help allow a firm to learn about the efficacy, viability, and appropriateness and implementation of a high control entry mode without having to use a focal firm to first test the strategy (Gulati & Westphal, 1999). Therefore, interlocks allow firms to garner information to reduce the uncertainty regarding potential strategic foreign market expansion plans they may choose to adopt (Pfeffer & Salancik, 1978).

Findings for the moderating variables suggest that the interacting effect of some of these variables on the relationship between director interlocks and foreign market entry mode needs to be re-examined. For example, the results for the strength of relationship between director interlocks and choice of foreign market entry mode varied minimally between entry into related and unrelated business activities. This phenomenon could partly be due to firstly, the measures that were used. Secondly, it could indicate the possibility of other interacting factors that may not have been taken into consideration in this study but had a role in affecting the hypothesized relationship. This comparison between related and unrelated activities could be re-examined with different measures and further theoretical development between these constructs should be beneficial in helping to predict the role of director interlocks with regard to entry into related and unrelated business activities.

Another implication that arises from this study is with regard to how outside directors are viewed from the perspective of governance research. While board independence calls for an increase in representation of outside directors on a firm's board, findings suggest that there is a strong need to distinguish between the different types of outside directors based on their background and experiences because this may have an impact on the role they play and the contribution they make to a firm. The findings for this study has implications for the future theoretical development and testing of the roles of outside directors and the resource endowments that they can bring to a firm specifically in helping firms in foreign market expansion.

This study did not find support for the argument that with the presence of outside directors with an active CEO appointment, the strength of the positive relationship between director interlocks and adoption of high control entry mode in unrelated business activities will be further amplified. On the contrary, a negative relationship was observed and this should encourage researchers to further explore this dimension pertaining to outside directors with an active CEO appointment in their studies. Corporate governance literature suggests the presence of mutual influence of multiple theoretic approaches (Hillman and Dalziel, 2003), implying the potential for interactions among various constructs. Therefore, it is likely that there could have been some other untested relationship that had an effect on this particular tested interaction. Inclusion of other constructs in the model in the future may further improve our understanding of this phenomenon.

An implication that arises from this contradictory result that warrants further study is the need to explore the effects of outside directors with an active CEO appointment on a firm's choice of entry mode. It has been noted that at times, CEOs tend to appoint new outside directors with an agenda to perpetuate their power (Zajac and Westphal, 1996). Such appointed outside directors often defer to the CEO and other inside directors, especially if the decisions are idiosyncratic and the outside directors do not have adequate information regarding the issue on which the decision is based on (Zajac and Westphal, 1996). Hence, this could have been one of the contributing factors leading to the observed contradictory findings on outside directors with an active CEO appointment.

The findings also support the agency theory view on the relationship between principals and agents and how this relationship should be constructed so that there is efficient access to information and fair distribution of risk-bearing costs (Jensen and Murphy, 1990). This study's findings also provide support for utilisation of mechanisms that help reduce agency loss (Eisenhardt 1989) such as the implementation of executive incentive schemes like stock options that can help maximize shareholder interests. By rewarding inside directors with greater stock options that rewards long-run value maximisation of the firm, this helps deter short-run executive actions that can harm firm value. Thus, this helps align the financial interests of inside directors with those of shareholders (Jensen and Meckling, 1976).

In this study, when a greater proportion of annual stock options are being offered to inside directors, the strength of the positive relationship between director interlocks and adoption of high control entry mode in unrelated business activities was further amplified. This may have also potentially captured the effect of managerial power, which represents the power of a firm's dominant coalition (Cyert and March, 1963; Finkelstein, 1992). Managerial power involves the capacity of management to influence strategic direction and has been noted to play a role in acquisitions (Finkelstein, 1992).

An implication that arises is the call for future research to take into consideration the role of managerial power in affecting foreign market entry strategies. It has been noted that acquisitions resulting from managerial motives can be seen as a result of managers' maximization of their own interests (Andrew, 1992; Trautwein, 1990) and accordingly, maximization of managerial power may be a particularly salient motive with respect to unrelated acquisitions (Bergh, 1997). It has been noted that unrelated acquisition provides the opportunity to expand the scale and scope of a firm (Bergh, 1977). Unrelated acquisitions are more likely to expand executives' compensation base and may enhance their power through increased market power, managerial economies and economies of scale and scope (Bergh, 1997).

In this study, relevant director interlocks such as interlocks with firms that have high control entry mode experience were investigated to study the influence of director interlocks on a focal firm's adoption of high control entry mode. This suggests that the hypothesized relationships should be tested with variables that are consistent with the type of decisions being made and that decision specific models are more important than general models. Future research should benefit from this approach. In addition, future research that adopts a more holistic theoretical stance that includes other potential explanatory variables that could further help explain the influence of director interlocks on entry mode choice would appear to hold promise.

6.2.2 Managerial implications

The strategic functions of director interlocks were explored in this study in terms of experiences of firms with foreign high control entry mode and how other firms can leverage upon these experiences when they share the same directors on their respective boards. The main implication drawn from findings suggest that the strategic role of directors, especially directors with interlocks, is important and would be more effectively fulfilled if firms consciously create and leverage upon such director interlocks to deliver the highest possible strategic benefits to a firm.

Findings of this study suggest that the resource endowment of a firm and its board of directors need to be carefully analyzed. This should be done with special reference to the director interlocking network in which the firm embeds itself and the various director interlocking ties that involve the inside and outside directors of the firm (Belliveau, Charles, O'Reilly and James, 1996; Bian, 1997). With a more in depth understanding of director interlocking ties made available to a firm, the firm can then plan and strategize ways to leverage on such interlocks to aid in its foreign market expansion plans.

Hung (1998) identified six roles of directors, which include the ability to link, coordinate, control, strategise, maintain and provide support to a firm. These roles serve to assist firms in achieving their corporate objectives but the ability for all of these roles to be fulfilled effectively remains a challenge. Directors' experience is imperative to fulfil their roles effectively and when a firm can maximize the utilization of the interlock ties as an additional source of experience, a firm will then be able to strategically position itself in terms of future expansion and growth.

This study also highlights the benefits that director interlocks can bring forth to a firm with regard to their foreign market expansion plans. Directors with beneficial interlock ties can be a low cost reservoir of resources such as information as they can provide channels to facilitate exchange of knowledge and resource information between firms (Gulati and Singh, 1998; Gulati and Westphal, 1999) that can be useful when contemplating foreign market entry. Relevant director interlock ties can also help a firm build up its reputation, fame as well as legitimacy in a new foreign market.

This study also highlights the importance of outside directors apart from the monitoring roles that they take on. Outside directors can be leveraged on as means to obtain valuable firm resources and to help pre-empt potential threats of external organizations (Pfeffer and Salancik, 1978; Doz, 1996; Uzzi, 1997). Through such directors, not only can a firm make use of the resource endowment of these directors, but it can also gain access to the networks to which these directors belong. The implication of this is that firms need to know how to strategically utilise their directors in order to leverage their experiences and skills when needed or when opportunities arise. Another important implication that arises is that senior executives of a firm can be encouraged to take up board seats on other firms if doing so can serve the purpose of exchanging information and learning from these other firms. Technologies, skills and expertise can be solicited from interlocking firms through these directors (Gulati and Singh, 1998; Uzzi, 1997).

6.3 Limitations of research

It is important to consider some of the limitations of this study while interpreting the results for this study. Firstly, an important consideration is the sampling frame, which consisted of firms and directors of firms that were listed on the S&P 500 companies list. Firms that were not on the S&P 500 companies list are excluded. As a result, the findings from this study may not be generalizable to firms with directors serving exclusively on boards of private firms, not for profit boards or boards of firms based outside of the United States. Caution needs to be exercised if the findings of this study are to be applied to smaller firms or non-listed firms where governance structures might be different, unless strong theoretical arguments can be made for similarities across the groups on the variables of interest.

This study employed a binary variable of outside director with an active CEO appointment versus those without an active CEO appointment. The binary variable was also used for directors who hold dual positions of CEO and board chair in the focal firm versus those who do not hold both positions concurrently. However, the power dimensions and dynamics in corporate governance are a lot more complex than the formal structure of outside directors and CEOs who hold multiple positions such as CEO positions elsewhere or board chair positions (Finkelstein and Mooney, 2003). This study follows past related studies that have used similar binary measures (Boyd, 1995; Datta et al, 2009; Fich, 2005; Kim and Gray, 2008; Rechner and Dalton, 1991). However, the use of a binary variable may not accurately capture intended effects and future research may benefit from utilizing better measures.

Another important consideration that needs to be highlighted is the definition of high control entry modes adopted by this study, which includes both foreign acquisitions and foreign greenfield investments. No distinction has been made between either forms of high control entry mode and as a result, caution needs to be exercised if findings of this study are to be applied to future research that might focus directly on either acquisitions or greenfield investments, where some aspects of management strategy may differ one from another (Gwendolyn and Marvin, 2010; Harzing, 2002; Tan, 2009).

Another potential limitation of this study is with regard to the measure of relatedness of the market entries, which were classified as entries into either related or unrelated business activities without any further distinction. It follows the approach of a large number of studies (Fowler and Schmidt, 1989; Krishnan, Miller, and Judge, 1997; McDonald et al., 2008; Shropshire, 2011), whereby high control entry modes such as acquisitions were coded as related when the primary two-digit Standard Industrial Classification (SIC) code of the acquiring firm matched that of the acquired firm, while codes that did not match were coded as unrelated. As a result of this oversimplified classification, the predicted effects may not have been captured thoroughly and the opportunity for further investigation into the degree of relatedness of business activity to a focal firm's core business activities was limited.

6.4 Directions for future research

The theorizing and results of this study suggest a number of promising avenues for future research. Important directions for future research include more detailed exploration of the characteristics of director interlocks, testing of the validity of the dimensions used, investigation of the variation in roles of interlocking directors in general and relating these factors to a firm's choice of foreign market entry mode.

Firstly, this study focused specifically on the high control mode perspective of market entry. Future research may benefit from examining the influence of director interlocks on other forms of entry mode such as joint ventures and alliances. In addition, research on director interlocks with financial institutions and other institutional organizations might be beneficial in helping to understand the potential impact of different types of director interlocks on a firm's choice of entry mode.

This study looked at director interlocks stemming from inside and outside directors. However, a more detailed level of analysis that incorporates directors on board committees and sub-committees (Gendron, Bedard and Gosselin, 2004) might enhance one's level of understanding in this respect. Future research investigating a firm's choice of entry mode might choose to focus on the decision processes of the board especially within the key board committees such as the executive committee, risk or investment committee. By doing so, it addresses the call for less aggregated board research and more board committee specific research (Zahra and Pearce, 1989; Bilimoria and Piderit, 1994) because a large portion of decisions attributed to the entire board tend to be made inside specific board committees (Kesner, 1988).

Future research may also examine the international experience and other forms of diversity of a firm's board of directors (Van der Walt, Ingley, Shergill and Townsend, 2006) as explanations for foreign market expansion efforts and take issues such as global and ethnic diversity of board of directors into consideration. Director interlocks between firms and large corporations domiciled in other countries known as transnational board interlocks may offer additional insight. It has been noted that for a firm exteriorizing its corporate power through outward investment, transnational interlocks can help improve the firm's business scan that often facilitates effective decision-making (Useem 1984). In addition, inclusion of samples from other countries with different cultural and institutional environments should enrich our appreciation of this subject.

Future analysis of directors' motivations to become board members on multiple firms, as well as the way they perceive and define their corporate responsibilities from the perspective of foreign market entry is warranted. How these motivations can have a further impact on a firm and its foreign market strategy will further aid our understanding of director interlocks. Additionally, research into issues that enhance a director's motivation to share their experiences from other firms is critical to understanding the effectiveness of director interlocks in transmitting knowledge and experiences between firms.

Future research can also benefit from investigating when the influence of director interlocks are strongest and under what circumstances. It has been noted that the influence of director interlocks can vary depending on circumstances and a director's service on other boards may not always be a major channel of influence (Heracleous and Murray, 2001). Interlocks can be less influential for larger firms or for firms with CEOs who have alternative sources of information, such as professional associations. Director interlocks can also be more influential when the interlock ties are between similar rather than dissimilar firms (Haunschild and Beckman, 1998). A study on the origin of director interlocks, such as whether the director interlocks are with firms from related or unrelated industries would be of value. The effects of director tenure on the role of director interlocks in choice of entry mode would also be another potential area worthy of future research.

6.5 Conclusion

In an era where board of directors and foreign market entry mode issues have received an increasing amount of research attention, there has been limited studies that looked at the linkage between these two elements together. Specifically, there has been a lack of research particularly on the role of director interlocks on a firm's choice of foreign market entry mode. This study attempts to fill this gap and to provide additional insight and support for the limited research that has been done in terms of the linkage between these two areas.

Taken together, the findings of this study jointly contribute to the advancement of our understanding of the influence of director interlocks on a firm's choice of foreign market entry mode, which helps us move towards achieving a more thoroughly specified model of the antecedents of foreign market entry mode choice. While attempts were made to control for a number of variables that may influence the relationship between director interlocks and a firm's choice of entry mode, the existence of alternative explanations for the results cannot be ruled out. The findings of this study provide a complementary perspective that supports well-known determinants of the entry mode choice and concurrently, provides an avenue for future research.

		Mean	Std. Dev.	VIF	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Total HCEM	4.871	7.335		1.000												
2	Total Unrelated HCEM	2.014	4.039		0.724	1.000											
3	Total Related HCEM	2.857	5.218		0.845	0.243	1.000										
4	Prior HCEM Experience	11.276	19.094	1.32	0.809	0.595	0.676	1.000									
5	Firm past performance	0.066	0.066	1.12	0.025	0.017	0.023	0.038	1.000								
6	Firm Size	10.285	0.658	1.77	0.417	0.305	0.351	0.444	-0.249	1.000							
7	Firm Age	57.279	42.122	1.07	0.050	0.041	0.038	0.051	0.088	0.078	1.000						
8	Options to Inside Directors	43.141	27.364	1.04	-0.035	-0.020	-0.034	-0.089	-0.017	-0.011	0.097	1.000					
9	Board Size	11.455	2.856	1.36	0.125	0.094	0.103	0.126	-0.130	0.465	0.178	0.107	1.000				
10	Board Independence	86.043	7.279	1.07	-0.021	-0.014	-0.019	0.021	-0.053	0.199	0.086	-0.056	0.169	1.000			
11	CEO Duality	0.054	0.226	1.01	-0.014	-0.004	-0.017	-0.016	0.009	-0.010	0.023	0.006	-0.046	0.030	1.000		
12	Outside Director CEO	0.061	0.245	1.03	0.071	0.077	0.040	0.068	-0.004	0.069	0.089	0.020	0.016	0.059	-0.059	1.000	
13	Sum Dir Interlocks' HCEM	2.489	7.721	1.06	0.134	0.102	0.109	0.149	0.040	0.161	0.095	0.000	0.042	0.046	0.058	0.082	1.000

Table 1: Descriptive statistics and correlation matrix (N = 16708)

Table 2: Poisson regression results for director interlocks on adoption of high control entry mode – Hypothesis 1and Hypothesis 2

Variable	*Full sample* (Model 1)	*Full sample* (Model 2)	*Rel HCEM* (Model 3)	*Unrel HCEM* (Model 4)
Intercept	-2.255*** (0.075)	-2.211*** (0.076)	-2.901*** (0.099)	-2.872*** (0.118)
Firm Age	-0.000* (0.000)	-0.000** (0.000)	-0.000** (0.000)	-0.000 (0.000)
Firm Size (Log assets)	0.469*** (0.007)	0.464*** (0.007)	0.484*** (0.009)	0.436*** (0.011)
Firm Past Performance	2.313*** (0.064)	2.280*** (0.064)	2.420*** (0.084)	2.083*** (0.100)
Prior HCEM Experience	0.018*** (0.000)	0.018*** (0.000)	0.018*** (0.000)	0.018*** (0.000)
Board Size	-0.022*** (0.002)	-0.022*** (0.002)	-0.024*** (0.002)	-0.019*** (0.002)
Board Independence	-0.015*** (0.000)	-0.015*** (0.000)	-0.016*** (0.001)	-0.015*** (0.001)
CEO Duality	-0.027† (0.016)	-0.029† (0.016)	-0.075** (0.022)	0.033 (0.024)
Sum Dir Interlocks' HCEM		0.002*** (0.000)	0.002*** (0.000)	0.003*** (0.000)
Number of Observations	16708	16708	16708	16708
LR Chi-square (df)	60583.73 (7)	60629.26 (8)	36564.47 (8)	24103.41 (8)
Improvement in Fit - Change in LR Chi-square (df)		45.53***		
Pseudo R^2	0.3833	0.3836	0.2917	0.2459

Two-tailed tests. † $p < 0.10$; $* \, p < 0.05$; $** \, p < 0.01$; $*** \, p < 0.001$. Standard errors are in parentheses.

Table 3: Poisson regression results for director interlocks on adoption of high control entry mode – Hypothesis 3

Variable	*Rel HCEM* (Model 1)	*Rel HCEM* (Model 2)	*Unrel HCEM* (Model 3)	*Unrel HCEM* (Model 4)
Intercept	-2.927*** (0.099)	-2.924*** (0.099)	-2.824*** (0.118)	-2.827*** (0.118)
Firm Age	-0.000* (0.000)	-0.000** (0.000)	-0.000 (0.000)	-0.000 (0.000)
Firm Size (Log assets)	0.486*** (0.009)	0.486*** (0.009)	0.432*** (0.012)	0.432*** (0.011)
Firm Past Performance	2.412*** (0.084)	2.409*** (0.084)	2.097*** (0.100)	2.101*** (0.100)
Prior HCEM Experience	0.018*** (0.000)	0.018*** (0.000)	0.018*** (0.000)	0.018*** (0.000)
Board Size	-0.024*** (0.002)	-0.024*** (0.002)	-0.018*** (0.002)	-0.018*** (0.002)
Board Independence	-0.015*** (0.001)	-0.015*** (0.001)	-0.015*** (0.001)	-0.015*** (0.001)
CEO duality	-0.084*** (0.021)	-0.084*** (0.021)	0.049* (0.025)	0.048* (0.025)
Sum Dir Interlocks' HCEM	0.002*** (0.000)	0.002*** (0.000)	0.002*** (0.000)	0.003*** (0.000)
Outside Director CEO	-0.010*** (0.017)	-0.116*** (0.019)	0.160*** (0.018)	0.177*** (0.020)
Sum Dir interlocks' HCEM x Outside Director CEO		0.0253* (0.011)		-0.027* (0.013)
Number of Observations	16708	16708	16708	16708
LR Chi-square (df)	36599.93 (9)	36604.79 (10)	24177.94 (9)	24182.39 (10)
Improvement in Fit - Change in LR Chi-square (df)		4.86*		4.45*
Pseudo R^2	0.2920	0.2920	0.2466	0.2467

Two-tailed tests. † $p < 0.10$; $*$ $p < 0.05$; $**$ $p < 0.01$; $***$ $p < 0.001$. Standard errors are in parentheses.

Table 4: Poisson regression results for director interlocks on adoption of high control entry mode – Hypothesis 4

Variable	*Rel HCEM* (Model 1)	*Rel HCEM* (Model 2)	*Unrel HCEM* (Model 3)	*Unrel HCEM* (Model 4)
Intercept	-3.107*** (0.101)	-3.085*** (0.101)	-3.124*** (0.120)	-3.087*** (0.120)
Firm Age	-0.000*** (0.000)	-0.000*** (0.000)	-0.000 (0.000)	-0.000 (0.000)
Firm Size (Log assets)	0.478*** (0.009)	0.478*** (0.009)	0.430*** (0.011)	0.427*** (0.012)
Firm Past Performance	2.464*** (0.084)	2.456*** (0.000)	2.133*** (0.100)	2.118*** (0.100)
Prior HCEM Experience	0.019*** (0.000)	0.019*** (0.000)	0.019*** (0.000)	0.019*** (0.000)
Board Size	-0.028*** (0.002)	-0.028*** (0.002)	-0.024*** (0.003)	-0.023*** (0.003)
Board Independence	-0.013*** (0.001)	-0.013*** (0.001)	-0.012*** (0.001)	-0.012*** (0.001)
CEO duality	-0.075*** (0.022)	-0.078*** (0.021)	0.032 (0.024)	0.029 (0.024)
Sum Dir Interlocks' HCEM	0.002*** (0.000)	0.002*** (0.000)	0.003*** (0.000)	0.003*** (0.000)
Options to Inside Directors	0.003*** (0.000)	0.002*** (0.000)	0.003*** (0.000)	0.003*** (0.000)
Sum Dir Interlocks' HCEM x Options to Inside Directors		0.008** (0.003)		0.015*** (0.003)
Number of Observations	16708	16708	16708	16708
LR Chi-square (df)	36824.92 (9)	36833.70 (10)	24384.26 (9)	24403.96 (10)
Improvement in Fit - Change in LR Chi-square (df)		8.78**		19.7***
Pseudo R²	0.2938	0.2938	0.2487	0.2489

Two-tailed tests. † $p < 0.10$; $*\ p < 0.05$; $**\ p < 0.01$; $***\ p < 0.001$. Standard errors are in parentheses.

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