INTERCORPORATE STRUCTURAL HOLES AND PATTERNS OF CORPORATE ENTREPRENEURSHIP (INTERACTIVE PAPER)

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Principal Topic

This paper presents a novel test of structural hole theory (Burt, 1992) using a large dataset on firm positions in intercorporate networks. Structural hole theory suggests individuals, organizations - and even industries - occupying brokerage positions in networks are more likely to exhibit entrepreneurial behaviors because of access to non-redundant information in a network. The current empirical study investigates corporate venture capital investment (CVC) among S&P500 companies to see if firms occupying brokerage positions in interlocking boards invest more in corporate entrepreneurship.

Interlocking boards are critical to 'business scan' (Useem, 1984), or executive efforts to access and integrate information about changing business environments and organizational opportunities. Additionally, existing management research shows clearly that interlocking boards are a locus for the diffusion of information about new organizational practices (such as acquisition strategies), new organizational forms (such as the M-form organization), and executive job opportunities (Haunschild, 1993, Palmer, Jennings & Zhou, 1993, Mizruchi 1996; Geletkanycz & Hambrick, 1997). This research examines the implications of information flow at the board level and asks: How do firm positions in interlocking boards impact corporate entrepreneurship?

Method

I examine CVC investment by S&P500 companies, considering 1,772 S&P firms as linked by 12,930 unique board directors. The dependent variable is average CVC investment as percentage of revenues (3-year average). Controls include: board composition/board independence, S&P economic group, firm degree centrality, firm betweenness centrality, firm sales, liquidity/current ratio, ROA/past performance, and executive stock ownership. S&P company director data are from the Investor Responsibility Research Center/Wharton Research Data Services; CVC investment data come from Venture One/Venture Xpert.

Results and Implications

The research shows, counter to predictions made by structural hole theory, firms with structural holes in their interlocking boards are less likely to practice corporate entrepreneurship as measured by CVC investment. Among the implications for entrepreneurship research is the importance of access to non-redundant versus redundant information for corporate entrepreneurship as determined by firm network position. The findings suggest that information redundancy - or repetition or overlap of information - may play an important role in influencing corporations to act entrepreneurially. At the extreme, an overavailability of non-redundant information may create a crisis of interpretation regarding changes in the environment and opportunities for corporate entrepreneurship.

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