INTERLOCKING BOARDS AND PATTERNS OF CORPORATE ENTREPRENEURSHIP (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

INTERLOCKING BOARDS AND PATTERNS OF CORPORATE ENTREPRENEURSHIP

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Principal Topic

Relationships between corporate governance and corporate entrepreneurship are of growing research interest because company boards often influence firm risk-taking, proactiveness and innovativeness (Covin and Slevin 1986, Zahra 1996, Zahra, Neubaum, and Huse 2000). Zahra (1996) demonstrated a correlation between insider-dominated boards and heightened corporate entrepreneurship. However, the designs and effects of interlocking boards have received scant attention in the corporate entrepreneurship literature.

This research examines interlocking boards as a network for the contagion of one type of corporate entrepreneurship activity: corporate venture capital investment (CVC) (Rogers 1962, Mizruchi 1996, Gompers 2002). The following question is asked: Is a focal firm more likely to make CVC investments if it has numerous interlocking board ties with other firms which make CVC investments?

Prior research has shown that organizational structures (such as the M-form organization) and organizational practices (such as acquisition strategies/acquisition intensity) diffuse according to interlocking board ties (Palmer, Jennings & Zhou 1993, Haunschild 1993). I examine if corporate venture capital investment, one form of external corporate venturing, also diffuses according to interfirm board ties (Schildt, Maula & Keil 2005).

Methods

Multi-industry data on 13,792 directors for 1,472 firms from the IRRC/WRDS database, year 2003, are used to address the above question. The data include information for all directors affiliated with companies in the S&P500, S&PMidCap400 and S&PsmallCap600. Collectively, these three indices capture a large part of the market capitalization of the American and New York Stock Exchanges.

Structural network analysis, including an examination of firm centrality in director networks, is used to test an interorganizational contagion model to see if cohesion (direct or indirect contact with other firms that venture) increases the likelihood a focal firm will venture. CVC investment data is from SDC Platinum. Controls considered as part of the analysis include: sector and industry CVC investment intensity, firm size (assets in millions of dollars), firm age, firm return on sales (ROS), and firm slack resources (liquidity/current ration, debt-to-common equity ratio). The author is currently completing the analysis.

Results and Implications

To date, corporate entrepreneurship activity has not been examined as a consequence of interlocking board ties. This investigation has the potential to put corporate entrepreneurship research in a broader context as well as to offer new insights into antecedents of corporate entrepreneurship and possible methods of diffusion.

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