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Mitigating Psychic Distance and Enhancing Internationalization of Fintech SMEs from Emerging Markets: The Role of Board of Directors

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Prior research suggests that corporate boards and directors play important roles in firm strategy and performance. In this paper, we examine an important yet under-explored avenue and focus on their role in overcoming the multilevel psychic distance (PD) faced by internationalizing small and medium-sized enterprises (SMEs) originating from an emerging market. Analysing Indian Fintech SMEs, using multiple case studies, our findings reveal that boards contribute important network-level resources and knowledge about foreign markets, which in turn assists internationalizing SMEs in mitigating PD. We demonstrate that the human and social capital of boards play important, yet distinctly different, roles in mitigating PD at pre- and post-internationalization phases. At the pre-internationalization phase, directors' prior international and industry experience, as well as board interlocks and prior connections, are most valuable, whereas at the post-entry phase, transnational boards, and those with stronger trust-based personal relationships (i.e. greater depth of social capital, facilitate faster experiential learning. Taken together, our findings contribute novel insights into the mechanisms through which boards affect the outcomes of firms operating, and originating from, extreme institutional environments. Further, we draw implications for research and practice.

Introduction

Firms face many challenges when expanding into new international markets, including issues surrounding legitimacy, the liability of foreignness (Johanson and Vahlne, 2009; Zaheer, 1995) and psychic distance (PD) (Dow and Karunaratna, 2006; Johanson and Vahlne, 1977; Safari and Chetty, 2019). Such issues are amplified in the case of small and medium-sized enterprises (SMEs), given their often limited internationalization experience and the relatively fewer resources at their disposal compared to multinational enterprises (MNEs) (George, Wiklund and Zahra, 2005). SMEs also face additional challenges associated with liabilities of foreignness, newness and smallness (Prashantham and Floyd, 2012; Puthusserry, Child and Rodrigues, 2014). Hence, SMEs must overcome or mitigate PD, in order to successfully enter foreign markets and satisfy global ambitions. Given current worldwide threats to internationalization, including trade wars, protectionism and extreme institutional environments, this is a particularly important and nuanced challenge for firms, governments and societies alike.

This study focuses on the pre- and post-internationalization of Fintech SMEs originating from an emerging market – India – which is characterized by weak governance and under-developed institutions. Using a novel dataset constructed from multiple case studies, we explore how various levels of PD influence different stages of SMEs' internationalization and the role of boards in mitigating PD.

Few studies have probed the challenges emerging market SMEs face in coping with PD (cf. Puthusserry, Child and Rodrigues, 2014). Instead, most consider the impact of PD on business decisions and/or on MNEs from developed markets (Child, Rodrigues and Frynas, 2009; Ojala, 2015; Safari and Chetty, 2019; Yan, Hu and Liu, 2020), with a focus on its effects during the pre-internationalization stage, while neglecting its effects on the post-internationalization stage (Child, Rodrigues and Frynas, 2009; Yan, Hu and Liu, 2020). This is surprising, given the various challenges SMEs face in overcoming PD at business and country levels at the post-internationalization stage. For example, the tendency for PD to change over time, with markets often appearing more distant (than perceived) following entry (Safari and Chetty, 2019). Furthermore, only a few studies have investigated multilevel PD (country, business and individual), with most instead relying on various proxies to capture PD at single levels (Nebus and Chai, 2014; Ojala, 2015). Finally, the utility of board interlocks and board capital on firms' coping mechanisms to overcome PD have largely been overlooked by researchers (cf. Gonzalez, 2019a) and, more generally, research on boards of directors has typically focused on larger firms.

Against this backdrop, we draw key insights from resource dependence theory (RDT) (Pfeffer and Salancik, 1978), the PD literature (Child, Ng and Wong, 2002; Dow and Karunaratna, 2006; Ojala, 2009; Puthusserry, Child and Rodrigues, 2014) and a rich interdisciplinary literature on board capital and networks (Holm, Johanson and Kao, 2015; Johanson and Vahlne, 2009) and interlocks (Adams and Ferreira, 2007; Gonzalez, 2019b; Haynes and Hillman, 2010; Hillman and Dalziel, 2003; Lungeanu and Zajac, 2019) to explicate the utility of boards in overcoming PD for internationalizing SMEs originating from a dynamic industry and an emerging market.

Specifically, we focus on Indian Fintech SMEs, which allows us to comprehend the means by which boards contribute to firm governance in weak institutional environments with inherent institutional voids (Ilhan-Nas *et al.*, 2018; Khanna and Palepu, 1997) and in a dynamic and highly competitive industry. Emerging market firms face political instability, uncertain business environments and receive limited governmental support, which affects their internationalization and performance (Khanna and Palepu, 1997; Khanna and Rivkin, 2001). Further, these firms have under-developed capital and lack direct access to financial markets. Consequently, they face greater resource scarcity and may need to structure their boards to purposely utilize resource facilitation and service roles, which comprise advice and counsel to top management teams (TMTs) (Singh and Delios, 2017). When such firms pursue overseas growth strategies, board interlocks in host markets represent vital bridges (with home markets), which can yield crucial informational advantages (Zona *et al.*, 2018). Additionally, PD poses greater challenges to SMEs than MNEs, owing to liabilities of smallness and newness (Child, Rodrigues and Frynas, 2009), which forces them to assume additional transaction costs to overcome PD and influence host-country governments.

We make several contributions. First, by integrating the diverse streams of literature on board capital/board interlocks and PD, and by treating PD as a multilevel concept that encompasses country, business and individual perspectives (Safari and Chetty, 2019), we provide novel insights as to how emerging market SMEs from a dynamic industry overcome challenges posed by PD during internationalization (Ambos and Håkanson, 2014; Child, Rodrigues and Frynas, 2009; Puthusserry, Child and Rodrigues, 2014). Our contribution is to provide a nuanced and delineated exposé of SMEs' choices of coping mechanisms (bridging vs. ad hoc), which we show are contingent on the levels of PD encountered. More specifically, our study sheds important light on micro-processes (i.e. interactions and inputs from executive and non-executive directors), as SMEs utilize boards' human and social capital dimensions to mitigate PD. We show that bridging mechanisms are employed at the pre-internationalization stage, whereas both bridging and ad-hoc PD coping mechanisms are used at the post-internationalization stage.

Second, we advance knowledge on the levels of PD warranting greater attention (in terms of mitigation) at pre- and post-internationalization stages. SMEs mostly attempt to mitigate business and country-level PD in the pre-internationalization stage, while the focus is on addressing business and individual-level PD in the post-internationalization stage. From a network perspective, we further highlight attempts by Indian Fintechs to overcome liabilities of outsidership (becoming an insider in the network) in host markets through leveraging board interlocks and directors' prior connections and experience (Holm, Johanson and Kao, 2015; Johanson and Vahlne, 2009) in order to overcome challenges attributable to differences in regulatory and governance systems in host markets.

Third, we contribute to the literature on the role of board capital. Prior studies establish that boards' human and social capital dimensions matter for access to additional external resources and institutional learning (Coviello, 2006; Johanson and Vahlne, 2003). This is consistent with the notion that boards with higher levels of human capital act as boundary spanners and facilitate learning and development of bridging ties, and improve links between firms and external environments (Kane and Levina, 2017; Roberts and Beamish, 2017; Zhao and Anand, 2013). In this regard, prior experience, connections and board interlocks are thought important for maximizing the potential of board capital to help firms navigate internationalization challenges (Holm, Johanson and Kao, 2015; Johanson and Vahlne, 2009). We add to this literature by highlighting a role for boards' human and social capital in overcoming the risks and challenges posed by multilevel PD for internationalizing emerging market SMEs.

In doing so, we address calls to explore the role of boards in overcoming PD in the context of SMEs' internationalization (cf. Gonzalez, 2019a) and the influence of outside boards in high-tech startups, particularly their service role (Knockaert and Ucbasaran, 2013). Our findings demonstrate that board-level human and social capital are crucial in helping emerging market SMEs traverse initial and subsequent internationalization stages. However, boards with more diverse (breadth of) human and social capital are more effective in helping overcome PD at pre-entry. Conversely, during post-entry, boards are more effective in mitigating PD when they have more international experience, and when relationships with TMTs and international partners are better established through trust-based personal relationships. Together, these factors are shown to facilitate greater experiential learning at the post-entry phase, and are associated with greater depth of board capital.

Conceptual background

Psychic distance and SMEs' internationalization

PD has long been prevalent in the international business (IB) literature (Johanson and Vahlne, 1977) as a key factor influencing several facets of firms' overseas expansion. Initially conceived as a micro-level construct, PD has been found to influence various aspects of IB, including location choice, entry mode, performance (Evans and Mavondo, 2002; O'Grady and Lane, 1996) and digital internationalization (Yamin and Sinkovics, 2006).

Conceptually, PD stems from the unfamiliarity of foreign markets in terms of institutional and socio-cultural environments (Child, Ng and Wong, 2002). PD matters since it increases perceived (and real) risks associated with internationalization, attributable to inherent uncertainties of foreign market operations (Johanson and Vahlne, 1977). It also impedes effective knowledge transfer across borders – creating learning barriers and raising transaction costs (Puthusserry, Child and Rodrigues, 2014). However, the conceptualization of PD in the extant literature has been mainly dominated by objective analysis of macro (country-level) differences in national culture and/or institutions (e.g. Kogut and Singh, 1988). Studies have largely neglected cognitive or perceptual components from decision-makers' perspectives (Håkanson and Ambos, 2010), despite the fact that decision-makers' motivations, intentions and actions, in pursuit of overseas ventures, set firms' onward trajectories.

Consequently, questions have been raised over the appropriateness of single indicators like cultural distance in capturing the multifaceted nature of PD (Evans, Treadgold and Mavondo, 2000; Tung and Verbeke, 2010). This warrants examination of PD as a multilevel concept (Ambos, Leicht-Deobald and Leinemann, 2019; Dinner, Kushwaha and Steenkamp, 2019; Safari and Chetty, 2019) encompassing country, business and individual-level factors. While geographic, cultural, institutional and economic distances represent country-level factors (Ambos, Leicht-Deobald and Leinemann, 2019; Dow and Karunaratna, 2006), differences – including business practices, competition and strategies (operation, sales, marketing) – characterize business-level distance (Dinner, Kushwaha and Steenkamp, 2019; Evans, Treadgold and Mavondo, 2000; O'Grady and Lane, 1996). Finally, individual-level antecedents of PD may influence managers' PD perceptions (Ambos, Leicht-Deobald and Leinemann, 2019; Child, Rodrigues and Frynas, 2009; Puthusserry, Child and Rodrigues, 2014).[1]

The IB literature reports two contrasting theoretical perspectives on PD and firms' effectiveness. From one perspective, the internationalization process model (Johanson and Vahlne, 1977) suggests a positive correlation between PD and the liability of foreignness (Zaheer, 1995), with higher PD undermining learning and transfer of information. This model predicts that during the initial stages of development, firms venture into psychically closer foreign markets (low PD). As they accumulate knowledge and experience, they gradually increase commitments to psychically more distant markets (medium and high PD). In contrast, the PD paradox view implies a positive association between PD and firm performance (Evans and Mavondo, 2002; O'Grady and Lane, 1996). According to this view, firms dedicate significant resources and proactively seek out knowledge pertaining to both foreign markets and the business and customers in order to address PD challenges (Nordman and Tolstoy, 2014). SMEs achieve this learning through networks established in host countries and by avoiding 'liabilities of outsidership' (Johanson and Vahlne, 2009). This is especially evident in born global and emerging market firms, which have been shown to bypass some initial stages of the process model; quickly adopting rapid internationalization strategies – even to high-PD countries (Child and Rodrigues, 2005; Knight and Cavusgil, 2004).

The fundamental principles of these models are related to decision-makers' ability to anticipate differences between home and host markets, and to adapt to business challenges in the host market (Dinner, Kushwaha and Steenkamp, 2019). However, individual perceptions are primarily influenced by macro (country-level) distance stimuli (Dow and Karunaratna, 2006). For example, if country-level stimuli are similar (low-objective PD), decision-makers may not anticipate market-specific business challenges and may therefore not amend approaches and strategies. Conversely, positive relationships between distance and performance are likely driven by decision-makers' ability to perceive and react to the potential impact of distance, which calls on them to subsequently adapt approaches and strategies to dynamic host-country environments – which is challenging.

O'Grady and Lane (1996) argue that addressing business-level PD is most important for post-entry internationalization, even in psychically closer markets. Hence, Nebus and Chai (2014: 11) propose that alongside macro-level distance dimensions, PD research should comprehend and integrate the 'foreign business environment, manager's experiences and familiarity with this environment, managerial decision making, and manager's perceptions of those elements'.

Such studies highlight the importance firms place on the mitigation of PD to target attractive foreign markets, acquire strategic assets and become formidable global players (Child, Rodrigues and Frynas, 2009). Towards this goal, firms may adopt different bridging or coping strategies (Child, Ng and Wong, 2002; Ojala, 2008; Puthusserry, Child and Rodrigues, 2014). For instance, they may use bridge-makers with host market knowledge, which relies on establishing and maintaining trust-based relationships (Safari and Chetty, 2019). Similarly, coping strategies are primarily based on learning, capability building and reliance on networks – often forming conscious managerial actions (Child, Rodrigues and Frynas, 2009; Prashantham and Floyd, 2012). Firms also mitigate PD by vicariously learning from the experiences of similar internationalizing firms (Jiménez and de la Fuente, 2016; Puthusserry, Khan, Knight and Miller, 2020). Alternatively, firms may even follow an avoidance-based strategy (Child, Rodrigues and Frynas, 2009).

Nonetheless, most PD research has focused on its impact on firms' pre-entry strategies (Evans, Treadgold and Mavondo, 2000). Less consideration has been given to its influence on post-entry operations (O'Grady and Lane, 1996; Ojala, 2008; Safari and Chetty, 2019), despite the fact that PD

[1]Including prior country-specific international experience, education, cultural background and use of common language.

affects firms' post-entry operations (Ojala, 2008). For example, countries perceived to be psychically close during pre-entry phases have turned out to be more distant in post-entry stages (Safari and Chetty, 2019). Moreover, prior studies (Johanson and Vahlne, 2003; Nordman and Mélen, 2008) infer that SMEs' (specifically high-tech firms') market selection and pre-entry strategies are more attuned towards niche markets where their products/services are more competitive and based on founders'/key decision-makers' established relations and international networks. Hence, PD is more likely to play a significant role during post-entry (Nordman and Tolstoy, 2014).

Board of directors and board interlocks

The role of corporate boards includes the provision of guidance and direction to TMTs, the facilitation of preferential access to relevant resources and the facilitation of communication between firms and their wider institutional environments (Haynes and Hillman, 2010; Pfeffer and Salancik, 1978). Boards are said to contribute the above through two channels: board monitoring, involving overseeing the behaviour and decision-making of firm management, and board advising, in which board members offer advice and counsel to management (Adams and Ferreira, 2007; Linck, Netter and Yang, 2008).

Boards play a vital role in firms' internationalization strategies and ventures (Aguilera, Marano and Haxhi, 2019; George, Wiklund and Zahra, 2005; Haynes and Hillman, 2010),[2] with heterogeneity in board capital important in both pre- and post-internationalization stages. Moreover, board roles may be particularly important in extreme institutional environments, since these challenge the authority and ability of firms and core stakeholder groups to adapt and survive (Klein *et al*., 2019). For these reasons, board functions are thought particularly complex and challenging under extreme institutional environments, such as those of emerging markets.

The efficacy of internationalizing SMEs' boards is largely a function of directors' capital (both human and social), which is made up of breadth and depth dimensions (Haynes and Hillman, 2010). Breadth includes the diversity of board members' relative skills, experience, education, networks, connections and reputations (Adams and Ferreira, 2007), while depth captures the embeddedness of directors in the focal industry in terms of managerial positions/experience and/or interlocking directorships (Haynes and Hillman, 2010). Both dimensions are important for firm operations and strategies (Haynes and Hillman, 2010; Lungeanu and Zajac, 2019). For example, they help firms in quickly and efficiently learning about overseas operations, which helps overcome PD and internationalization-related uncertainties (Forsgren, 2002; Gonzalez, 2019b).

Prior literature has also stressed the importance of board interlocks, wherein firms share one or more directors (Mizruchi, 1996). These provide an ideal setting for organizational learning from interlocking directors' network ties, whose value is contingent on the extent of non-redundant ties and access to valuable and rare resources (Bastos and Greve, 2003). Consistent with a network view of internationalization, such networks gradually develop into trust-based relationships fostering greater learning and commitment (Forsgren, 2002).

Interlocks can be national or transnational in nature, with twenty-first-century global trends facilitating a rise in transnational interlocks (Gonzalez, 2019a). The role of board interlocks includes scanning business environments, shaping social ties, acquiring information and resources, diffusing organizational practices and influencing decision-making (Haunschild and Beckman, 1998). Consistent with RDT (Pfeffer and Salancik, 1978), firms engage in board interlocks to co-opt scarce resources in order to reduce uncertainties (Mizruchi, 1996). During times of uncertainty, interlocked directors can act as boundary spanners[3] for firms by connecting them with external stakeholders and providing opportunities for them to learn from their experiences and expertise (Hillman, Canella and Paetzold, 2000; Roberts and Beamish, 2017). This may be especially valuable when SMEs internationalize, because they are likely to encounter uncertain and complex situations due to PD. Thus, interlocked directors, characterized by their

[2]For example, board composition has been found to influence MNEs' export propensity (Lu, Xu and Liu, 2009) and foreign equity strategies (cf. Ilhan-Nas *et al*., 2018).

[3]Boundary spanners are unique individuals in an organization who relate the internal organization to the external environment (Zhao and Anand, 2013).

valuable relevant expertise and experience, could be leveraged by SMEs to mitigate PD challenges.

In terms of internationalization, board members' cross-border network ties in potential host markets could open up new opportunities for internationalizing firms (Prashantham, 2011) and help mitigate PD. This is especially true of transnational board interlocks, which represent key sources of non-experiential knowledge in addressing PD challenges (Gonzalez, 2019b), since these enable firms to understand other firms' activities and acquire market-related information from host markets. For resource-constrained SMEs originating from emerging markets, these can be cost-efficient and valuable sources of indirect knowledge which could accelerate institutional learning (Forsgren, 2002).

Board of directors and psychic distance

This study integrates two diverse streams of literature (board of directors and PD) to explicate the role of board of directors in mitigating PD for internationalizing Fintech SMEs from an emerging market – India. As stated earlier, the paper utilizes RDT (Pfeffer and Salancik, 1978) and the network view of internationalization (Forsgren, 2002; Johanson and Vahlne, 2009) to establish linkages between board capital and mitigation of PD. RDT explains the exchange of resources by the firm – specifically when they are resource-constrained and face legitimacy issues and uncertain situations (Zona *et al*., 2018). This is pertinent because internationalizing emerging market SMEs face substantial resource constraints and legitimacy issues in relatively unfamiliar and uncertain host environments (Puthusserry, Child and Rodrigues, 2014; Safari and Chetty, 2019). This unfamiliarity and uncertainty could prevent or discourage such SMEs' internationalization initiatives. To address these issues, it becomes imperative that they mitigate/overcome PD (the source of most uncertainties and higher transaction costs). Towards this goal, the previous section established an important role for directors' capital, with connections – especially interlocked connections – facilitating increased access to critical information and co-opt resources (Pfeffer and Salancik, 1978).

In uncertain situations, consistent with RDT, firms set up linkages with external actors (via board capital and through interlocks) to attenuate resource constraints, gain legitimacy and receive necessary counsel and advice, which helps mitigate PD (Gonzalez, 2019a; Mizruchi, 1996). Connections between board directors enable competitive confederations (Pfeffer, 1972), which are vital to emerging market SMEs tackling PD. For instance, board directors with transnational interlocks and international networks (social capital) can enable SMEs to link with suppliers, distributors, customers and regulatory agencies in host countries.

Directors with extensive international experience and exposure to foreign markets (human capital) also act as boundary spanners, as they help to develop awareness of host-country environments (including regulations, institutions, business norms, markets and competitors) through building bridging ties (Roberts and Beamish, 2017). The learning and collaborative relationships facilitated by directors' human capital can be decisive for resource-constrained SMEs' internationalization efforts while coping with or mitigating PD (Puthusserry, Child and Rodrigues, 2014). Board directors having interlocks with reputed firms can also result in superior quality perceptions (Higgins and Gulati, 2003) for internationalizing SMEs, which helps establish presence in host markets. Hence, RDT provides a useful lens to examine the role of board capital and interlocking directors in mitigating the impact of PD during internationalization.

The network view of internationalization (Johanson and Vahlne, 2009) also emphasizes the vital role of networks in internationalization. This perspective also discusses the disadvantages that firms face when they are outsiders (liability of outsidership) in relevant business networks within host markets, and also views internationalization itself as a network development process (Johanson and Mattsson, 2015). According to this view, networks help firms learn about foreign business environments, including main actors, and also assist in developing trust and commitment – all vital for internationalization (Nordman and Tolstoy, 2014). However, if firms remain outsiders in relevant business networks, this serves to attenuate organizational learning, resulting in unfamiliarity with host business environments and contributing to higher PD, which in turn hinders internationalization (Johanson and Vahlne, 2009). Hence, the network view posits that insidership in relevant host-country business networks should help SMEs cope with PD challenges when expanding overseas.

Relational capital is particularly important for firms where institutions are under-developed (institutional voids), such as is typical of emerging markets (Khanna and Palepu, 2000). Relationship-oriented motivations often govern internationalization decisions more than market-oriented motivations (Johanson and Vahlne, 2003; Puthusserry, Child and Khan, 2020). Leveraging business relationships in host markets is one way resource-constrained SMEs from weak institutional environments gain insidership (and subsequently cope with PD) into relevant host-country business networks (Li and Fleury, 2020). For SMEs adopting such relationship-specific or network-oriented approaches to tackle PD in order to pursue internationalization, board capital and interlocks provide easier access to relevant transnational networks in host countries. As discussed earlier, links to such business networks allow them to become insiders and acquire vital information, guidance and other resources in host markets. In this vein, insidership into relevant business networks through board capital helps firms learn about foreign markets, expand networks and facilitates building of commitment and trust, thereby helping SMEs overcome PD as they internationalize.

Context and methods

To gain insights on an understudied topic – 'how the boards of directors of internationalizing SMEs operating in more extreme institutional environments cope with the potential impact of psychic distance' – we adopted a multiple case study approach focused on Indian Fintech SMEs. Aside from aiding theory development (Eisenhardt, 1989; Yin, 2009), this approach allowed us to engage in a comparative analysis (Eisenhardt and Graebner, 2007) and thereby gain a deep understanding of the role of executive and non-executive directors in facilitating SMEs' internationalization. Specifically, their role in helping offset liability of foreignness and potential impacts of PD (Child, Ng and Wong, 2002; Safari and Chetty, 2019). Moreover, a case study approach allowed us to capture board of directors' cognition related to distance and its impact on pre- and post-internationalization processes (Pratt, 2009).

Research context

We selected Indian Fintech firms because, first, Fintech is one of the fastest-growing, most dynamic and innovative industries (Ernst & Young, 2019). It is expected to be valued at $191,840.2 million by year-end 2025 and has had a compound annual growth rate (CAGR) of over 10.2% (TBRC, 2020). Global adoption of Fintech services has also demonstrated strong upward growth, from 16% in 2015 to 64% in 2019 (Ernst & Young, 2019).

Second, India is one of the fastest-growing Fintech markets in the world in terms of both investment and number of startups (PwC, 2019). In 2019 India was ranked joint top in Fintech adoption rate with China (Ernst & Young, 2019), and the market is estimated to reach $140 billion by 2023 (Mankotia, 2020). In terms of Fintech focus, innovation in payments systems has been at the forefront of India's digital revolution (PwC, 2019). Digital payments were valued at $65 billion in 2019 and are expected to grow at a CAGR of 20% until 2023. Apart from digital payments, significant growth is predicted in related areas, including artificial intelligence (AI), blockchain technology and the Internet of Things (IoT) (PwC, 2019).

Third, despite its global emergence, the Indian Fintech sector is still in an embryonic stage. 64% of Indian Fintech firms were founded after 2014, and the median number of firm employees is 14 (IFOR, 2018). About 60% of industry professionals are under 40 years old, and possess less than 5 years of work experience. Interestingly, 90% of them have a STEM background (IFOR, 2018). A major driver of the emergence of the Indian Fintech sector is the country's robust and dynamic Fintech ecosystem and associated supportive regulatory policies. These offer an ideal platform for innovative startups to quickly build technological and entrepreneurial capabilities and scale up their businesses (KPMG, 2016; Medici, 2019b).

In terms of worldwide trends, global Fintech deal activities accelerated over 2019 as firms increasingly collaborated internationally in order to expand operations and learn about country-specific Fintech environments (Deloitte, 2020; Medici, 2019a). Among other things, liability of smallness, newness, limitations in product/service offerings and the burdens of regulatory compliance are key factors hindering international expansion (Medici, 2019a).

Recent studies indicate that COVID-19 may create additional opportunities for new digital financial services in an increasingly digitized world (Zachariadis, Ozcan and Dinçkol, 2020). Although the immediate situation may lead to decreased investment and declines in 'payment businesses' (McKinsey, 2020), the situation may also offer unique advantages for dynamic and flexible Fintech firms which can leverage capabilities to provide innovative financial service solutions that increase customers' financial wellbeing (Deloitte, 2020). For instance, Fintech firms with expertise in blockchain technology, AI and the IoT may be able to rapidly create and deliver innovative service solutions in credit, personal finance management, bank-tech, insure-tech and property-tech (Deloitte, 2020). Technological expertise, innovative thinking and agility may therefore enable the internationalization of Indian Fintech firms (PWC, 2019). However, a lack of financial services and global industry regulations-related knowledge may hinder internationalization efforts. Additionally, such firms face higher PD while expanding into foreign markets, given their weak resource base and extreme institutional setting.

Sample selection

Given the exploratory and under-explored nature of the topic, we employed the following criteria in selecting case SMEs. (1) To establish relevance, we only conducted interviews with directors involved in pre- and post-internationalization decisions, and who could respond based on personal experience. (2) Selected directors were either executive or non-executive directors from the home country and relevant foreign subsidiaries. (3) To explore the impact of PD on initial and post-internationalization phases, we only selected firms with multiple clients and/or those that had entered multiple countries. (4) Following Eisenhardt and Graebner's (2007) direction regarding theory building, we selected cases in order to balance requirements for comparability with a need to 'maximize opportunities to discover variation' (Strauss and Corbin, 1997: 201) and advance the recognition of main construct patterns and relationships.

Our final sample consisted of nine Indian Fintech SMEs founded between 2012–2017 which internationalized either from inception or within 1 year. All provide technology solutions to finance and banking-sector firms. In terms of turnover, all belong to the European classification of micro-enterprises (≤ €2 million) and, if we consider total employees, all except Case (firm) 6 can be categorized as small enterprises (< 50).

There were some important and interesting differences between case firms, including in the diversity of board members' backgrounds – such as extent of industry and international experience – as well as cross-sectional variation in firms' international commitments. To illustrate, while four (out of nine) firms were 100% export-oriented, Cases 3 and 9 were mainly domestically focused with strong international orientations. Thus, our sampling was purposeful (Ghauri, Gronhaug and Strange, 2020). As Eisenhardt (1989) noted, these measures reduce the potential impact of a retrospective approach. Table 1 provides an overview of our case firms.

Data sources

We utilized several data sources: (1) in-depth semi-structured interviews with 18 board directors and founding managers of the nine Fintech SMEs;[4] (2) interviews with two industry experts; (3) internal archival materials including company background data, clients' presentation documents, business plans, cultural training documents and directors' LinkedIn profiles; (4) industry reports and site visits. Using these various sources facilitated triangulation and increased the accuracy of data and findings (McDonald and Eisenhardt, 2020). Finally, site visits (to six firms) helped enhance internal validity by offering insight into the behaviours of directors involved in internationalization-related decisions (Cohen, Bingham and Hallen, 2019: 818).

We conducted 18 face-to-face semi-structured interviews in English, lasting 30–45 minutes each. Twelve of these were conducted at respondents' premises between 2018 and 2019. However, due to COVID-19 restrictions, six were subsequently conducted digitally face-to-face over Skype and Zoom. Given the COVID-19 pandemic, it is important to recognize the benefits of such technologies in data collection. Following Cohen, Bingham and Hallen (2019), we adopted strict

[4]Guidelines for qualitative studies recommend between six and eight interviews in the case of a homogeneous population (Fintech firms) (Kuzel, 1992) and 12–20 participants in the case of a heterogeneous population (Saunders and Townsend, 2016).

Table 1. Case overview

Case number	Product/service	Employees	Turnover ($)	% Foreign sales	Founded	First export	Country of first foreign sales	Number of countries	Board type (number of directors)
Case 1	Payment application	16	95,000	100%	2013	2013	UAE	4 – UAE, Qatar, UK, USA	Transnational (3)
Case 2	Software solution	25	190,000	95%	2014	2015	UAE	5 – UAE, Indonesia, Kuwait, Qatar, Bahrain	Transnational (3)
Case 3	Digital media	23	100,000	30%	2012	2012	USA	7 – North America, UK, Singapore, Korea, Japan, Qatar, UAE	Domestic (5)
Case 4	Technology solutions	18	180,000	80%	2015	2016	UK	1 – UK	Transnational (2)
Case 5	Travel insurance solution	30	100,000	70%	2013	2015	Thailand	6 – Thailand, UK, Australia, Spain, USA, UAE	Domestic (6)
Case 6	Payment app	7	42,000	100%	2014	2014	UK	2 – UK, UAE	Transnational (2)
Case 7	Technology management	16	500,000	100%	2017	2017	UK	1 – UK	Transnational (2)
Case 8	Payment gateway	30	900,000	100%	2015	2015	Germany	4 – Germany, Belgium, Italy, Spain	Transnational (4)
Case 9	IoT	10	55,000	30%	2017	2018	Turkey	5 – Turkey, Mexico, UAE, USA, Germany	Domestic (3)

procedures to reduce potential bias.[5] Table 2 provides an overview of the interviews and archival materials used.

We adopted a general interview guide approach (Patton, 1990) for each interviewee, which provided a core structure to alleviate validity concerns associated with collecting data across cases (Miles and Huberman, 1994). The approach also allowed an element of freedom and storytelling, whereby directors could reflect on personal internationalization journeys (see Appendix 1 in the online Supporting Information). To triangulate and further enrich the semi-structured interviews, we gathered internal archival data from multiple sources (see Appendix 2 in the online Supporting Information).

Data analysis

Following established case-based research methods, we analysed the data in several stages (Eisenhardt and Graebner, 2007; Yin, 2009). We began by analysing industry reports to build a narrative of the Fintech industry – worldwide and then in India to understand the context. Next, we synthesized company-level data into separate case histories. The cases helped identify directors' perceptions regarding PD challenges and how they coped with these during pre- and post-internationalization phases. Consistent with prior literature, PD challenges were categorized at country, business and individual levels (Safari and Chetty, 2019). Following Child, Rodrigues and Frynas (2009), we categorized PD coping methods as bridging and ad hoc. To facilitate within-case analysis (Eisenhardt, 1989), secondary sources (e.g. company background and cultural training materials) were combined with interview transcripts to build descriptive narratives around

[5]Respondents were informed about confidentiality and anonymity issues to improve the integrity of responses. In six cases we included respondents from both head offices and foreign subsidiaries with transnational boards, while in the remaining three cases we included executive founder directors and an advisory non-executive director. Identifying and accessing founder directors for research studies is challenging (Blackburn and Kovalainen, 2009), yet their reflections – based on personal experiences – help increase the validity of findings (Nummela *et al.*, 2014). All interviews were audio-recorded and transcribed verbatim, which facilitated the analysis of narratives emerging from each interview. Finally, each interview was initially analysed by two study authors before being checked by the remainder to ensure accuracy.

Table 2. Personal profile of interviewees

Case number	Internal informants (location)	Industry experience (years)	International experience (number of countries)	Archival sources
Case 1	CEO (India)	22	14 years (Singapore, Europe, ME, USA)	Client presentation videos; business plan; meeting minutes
	Director (UAE) ethnic Indian	5	25 years (UAE)	
Case 2	MD (India)	15	6 years (Taiwan)	Company background; directors' LinkedIn profile
	ED (UAE) ethnic Indian	6	15 years (UAE)	
Case 3	CMO (India)	5	Worked with foreign clients	Client presentation videos; directors' LinkedIn profiles; company background
	NED (India)	30	10 years (USA, Europe & UAE)	
Case 4	Director (India)	8	Worked with foreign clients	Cultural training documents; client presentation documents
	CEO (UK)	10	8 years (India, USA, Europe)	
Case 5	Director (India)	5	3 years (USA)	Company background; directors' background; client presentation videos
	NED (India)	20	12 years (USA, UK)	
Case 6	Director (India)	12	Worked with foreign clients	Client presentation slides; cultural training documents
	MD (UK) ethnic Indian	18	18 years (India, Europe)	
Case 7	Director of engineering (India)	25	Worked with foreign clients	Cultural training documents; client presentation slides; meeting minutes
	CEO (UK) ethnic Indian	15	10 years (India, USA & UK)	
Case 8	Director (India)	12	6 (USA and Belgium)	Company background; directors' LinkedIn profiles
	Director (Germany)	10	8 India, Europe, USA, Germany	
Case 9	Business director (India)	26	20 years (global experience)	Company background; client presentation documents; business plan
	CEO (India)	5	Worked with foreign clients	
Industry experts	Senior executive – Indian MNE	20	18 years (USA, Europe)	Industry reports by PWC, EY, KPMG, Medici
	Fintech consultant (India)	15	5 years (USA, Europe); foreign clients	

each case. Following our study aims, we first captured SMEs' multilevel PD challenges during pre- and post-internationalization phases by labelling them as country, business or individual-level distances. We then identified emerging patterns related to PD coping approaches at each internationalization phase – categorizing whether executive or non-executive directors helped. This resulted in several key themes within each case. Next, using an abductive approach (Dubois and Gadde, 2002; Gyongyi and Karen, 2005), we conducted cross-case analysis (Miles and Huberman, 1994) to identify common themes and constructs. This was an iterative approach, whereby cases were analysed separately by all authors who then came together to compare within-case and across-case themes (Sinkovics, Penz and Ghauri, 2008). Variations in interpretations were resolved through further discussions with all authors. This process enhanced the reliability and validity of the findings (Sinkovics, Penz and Ghauri, 2008). Tables 3a and 3b provide an overview of the data structure.

Findings

In this section, we report how Indian Fintech SME directors leverage their social and human capital to address PD challenges during pre- and post-internationalization phases.

Psychic distance and the role of directors during pre-internationalization phase

Directors reported that both country and business-level PD challenges impacted the pre-internationalization phase. Breadth of directors' social and human capital dimensions was identified as important in helping bridge PD impact at this stage.

Human capital heterogeneity of directors. Directors' prior international and industry experiences helped SMEs comprehend institutional and governance differences between home and host markets. Additionally, they helped mitigate potential challenges arising from such differences, which could negatively affect emerging market Fintech SMEs' internationalization efforts, given the weak support they receive from home governments. Specifically, it was highlighted as a critical bridging mechanism during initial phases of internationalization.

As shown in Table 4, the UK-based CEO of Case 4 inferred that his *prior experience was instrumental in learning about data protection (GDPR) challenges in the UK market*. Additionally, and consistent with an important role for human capital, directors' educational backgrounds and prior work experience were found complementary in helping overcome specific business challenges during initial internationalization phases. This is demonstrated in the responses of both UK and Indian directors in Cases 7 and 9.

Although knowledge provided to firms through directors' prior experience and education (congenital knowledge) represented important sources for bridging differences between home and host markets, directors of several SMEs disclosed that they adopt an intentional and systematic approach to developing first-hand experience through indirect internationalization (experiential learning) (Huber, 1991) in order to address PD. For example, one senior executive, who coordinates small firms for big banking projects requiring several software solutions (system integrator), made the point that regulatory differences are especially challenging for small startups from weak and evolving institutional environments – such as those observed in emerging markets. This infers that board directors' knowledge of host markets and business segments is crucial in mitigating such challenges.

Responses also revealed, similar to Huber's (1991) 'grafting', that firms co-opt experienced non-executive directors and/or consultants to boards when they lack prior experience and networks to deal with foreign clients and other institutional related differences. In such cases, specialists, including accountants, lawyers, industry experts and consultants, were selected as non-executive directors, primarily to augment the expertise and experience of executive directors. This was indicated in the response by a non-executive director of Case 3.

Network heterogeneity of directors. The responses revealed that having directors with diverse networks in different markets and industries helped internationalizing SMEs understand the impacts of differences in culture, language, technological development, infrastructure, political and legal systems. For example, this is highlighted in the response by the managing director of Case 1.

Table 3a. An overview of the data structure pre-entry

Open coding	First-order themesAxial coding	Aggregate dimensions	Level of PD	Role of directors	Type of coping
Regulatory differences are always a challenge when you first enter a new market… I have several years of experience and I live and work in the UK, so I know that it is a major challenge for foreign companies	– Prior experience – Congenital learning	Human capital heterogeneity	– Country	Executive	Bridging
I have worked in industry and academia. I was also providing consultancy services [technology-related] that not only gave me connections but helped learn about the market, technology, industry	– Prior experience & education – Congenital learning		– Country – Business	Executive	
I have an engineering degree and have worked in an [Indian] IT MNE for several years	– Education – Congenital learning		– Country – Business	Executive	
[Startups] usually start as a secondary vendor to gain experience and understanding of the market and business	– Experience/indirect entry – Experiential learning		– Country – Business	Executive	
I helped them deal with international clients as they were fresh computer graduates and did not have any business experience. I have several years of experience in India and abroad. I now provide consultancy services and sit on the boards of a few companies here	– Prior experience & education – Grafting		– Country – Business	Non-executive	
I did not face any major challenges in the early stages as my partner dealt with the contractual & other legal issues	– Relying on partner – Vicarious learning	Social capital heterogeneity of directors	– Country – Business	Executive	Bridging
I made an intentional effort to create connections. Those connections helped me a lot… The legal expert who deals with the legalities of GDPR and I were on the advisory board of an aerospace company	– Personal relationship – Grafting			Executive Non-executive	
He saw an opportunity in this field. I manage the technical team here… He [partner in the UK] is a technical person but he is a businessman as well. He has very good connections there. He looks after the market. He gives us all client and market-related information	– Partnership – Vicarious learning		– Business	Executive	

Table 3b. An overview of the data structure post-entry

Open coding	First-order themesAxial coding	Aggregate dimensions	Level of PD	Role of directors	Type of coping
There are different types of customers. We have to be clear and transparent if the customers are educated, knowledgeable, technical people. If they are not, we try to make things clear to them otherwise we discontinue the contract	– Industry & host market experience – Experiential learning	Homogeneous industry and host market-specific human capital	– Individual	Executive	Ad hoc
It [GDPR] is simple if we understand the basic logic; otherwise, even a simple breaching can be an issue… Although we got some help from legal experts, we learned this over time through our experience	– Host market experience – Experiential learning		– Business	Executive	
Our people [Indian directors and employees] lack cultural skills as they are mainly engineering graduates… We provide formal training. It varies from country to country	– Host market experience – Experiential learning		– Business – Individual	Executive	Bridging
It [UAE] is not a very transparent market. Sometimes they side-step that by asking us to show a lower price. It is not suitable for us, but we have no other option as they are one of our prestigious customers. It is a government organization. Pricing is an issue here	– Industry experience & network – Experiential learning	Homogeneous industry/market-specific human & social capital	– Business	Executive	Ad-hoc approach
Developing a personal-level trust-based relationship is also important to address the specific business and more micro-level issues that we face once we are in the market	– Personal trust-based relationship – Experiential learning	Homogeneous industry/host market-specific social capital	– Business – Individual		Bridging
We allowed them to interact with the clients directly. They made mistakes initially but learned from that. Some of them [Indian executives] even came here [UK] and worked with the clients	– Partner support – Experiential learning		– Business – Individual	Executive	
My legal expert is a close friend. He deals with GDPR, corporate tax and other bureaucratic issues. He runs workshops	– Social network – Experiential learning		– Business	Executive	

Table 4. Qualitative evidence of psychic distance and the role of directors during pre-internationalization phase

Case ID	Dimensions	Representative quotes
Human capital heterogeneity of directors		
Case 4	Prior international and industry experience	Regulatory differences are always a challenge when you first enter a new market. We know that GDPR is an issue in Europe and we need to be clear about that before we even start the deal. We should declare how we manage the data, including how and where we store it, who will access it. Moreover, the data processing should be in the UK. I have several years of experience in this industry and I live in the UK, so I know that it is a major challenge for foreign companies… experience and connections are important to deal with this issue. [CEO – UK]
Case 7	Educational background	I am a technically qualified person and I have worked in both industry and academia. While I was in academia, I was also providing consultancy services [technology-related] that not only gave me connections but helped learn about the market, technology, industry. [CEO – UK]
Case 7	Educational background and prior experience	We complement each other. Although I have a very good understanding of the business, my skills and strengths are in technology. I have an engineering degree and have worked in an [Indian] IT MNE for several years. But, my partner in the UK deals with business and other issues [regulatory]. It [data protection] is challenging as we do not pay much attention to it as our system is different here. My partner knows it well. He provides training for us. We complement each other. [Engineering director – India]
Case 9	Prior industry experience and qualifications	We [three directors] have diverse backgrounds. I am the business director. I deal with all business-related matters. I worked for several MNEs, so I know the industry very well and have developed a very good network over the years. My other two directors are technical people. They also have diverse expertise. One of them is a software engineer, and the other one has a degree in electronics. We know the industry and have the technology as well.
Industry expert	Experiential knowledge of host market	Big clients [in Europe] are difficult to deal with if you do not have experience and knowledge about the market. Technical knowledge is not enough. You will have to comply with their security audit [GDPR], which is usually tricky for startups. They [startups] usually start as a secondary vendor to gain experience and understanding of the market and business. [Industry expert 1]
Case 3	Co-opting experienced directors	I helped them deal with international clients as they were fresh computer graduates and did not have any business experience. I have several years of experience in India and abroad. I now provide consultancy services and sit on the boards of a few companies here. I think open communication is crucial as they [foreign clients] always have some reservations about us [Indians]. We have to be professional, such as responding promptly, attending meetings on time, showing our expertise, etc. are essential. We have to be careful about how we communicate. [Non-executive director – India]
Network heterogeneity of directors		
Case 1	Network relationship with business associates/partner	This business came through my [then] partner, who is the director of my company now. He had a different business in Dubai for several years. He has good connections there. He speaks Arabic. I did not face any major challenges in the early stages as my partner dealt with the contractual and other legal issues. Also, I lived there for several years so I have some understanding of the differences. [CEO – India]
Case 7	Directors' social network	I have been living and working in foreign countries for several years. Wherever I went, I made an intentional effort to create connections. I used to provide consultancy services to companies when I was an academic. I was in constant touch with people in the field. Those connections helped me a lot. For example, the legal expert who deals with the legalities of GDPR and I were on the advisory board of an aerospace company. I provide them technology [blockchain]-related advice, whereas my friend provides legal advice to them. [CEO – UK]
Case 6	Ethnic ties	My partner is an Indian living in the UK. I did some work for him before we decided to start this. He saw an opportunity in this field. I manage the technical team here. All my team members have worked with me at my previous company. He [partner in the UK] is a technical person but he is a businessman too. He has very good connections there. He looks after the market. He gives us all client and market-related information. [Case 6]

Directors felt that although international experience encouraged learning about cultural differences, the main benefits were opportunities to develop network relationships in foreign markets. Interactions with network associates appeared to strengthen knowledge connections and facilitated vicarious learning of acquired second-hand experience through interacting and observing the approaches and strategies of each other (Huber, 1991; Puthusserry, Khan, Knight and Miller, 2020). Directors' network relationships also facilitated acquisition of experts' tacit knowledge to overcome knowledge gaps (grafting) and mitigate PD. This is emphasized in the response by the UK-based CEO of Case 7. These findings support observations by Blomkvist and Drogendijk (2013), who found that managers' prior experiences are important in overcoming PD.

Furthermore, board network heterogeneity augmented vicarious learning and offered a distinctive capability to identify and mitigate specific business-related challenges, including customer requirements, market trends, competition and technological developments (as indicated by the Indian director of Case 6). This is consistent with Puthusserry, Child and Rodrigues' (2014) study on the PD coping strategies of British and Indian partner SMEs.

Psychic distance and the role of directors during post-internationalization phase

Major challenges for Indian Fintech SMEs at the post-internationalization stage included business and individual-level (company-specific) PD, stemming from differences in the legal and language systems of host markets. Directors indicated that their prior experiences and networks specific to particular host markets, industry and businesses were important in mitigating PD.

In Table 5 we provide qualitative evidence further detailing the role of boards in mitigating PD during the post-entry phase.

Homogeneous industry/market-specific human capital. Directors' human capital, including prior industry and market experiences, educational background and expertise, were identified as critical in meeting post-entry-related PD challenges. Particularly, prior experience was found to improve the quality of directors' decision-making regarding PD coping mechanisms. Experience of specific markets was vital in understanding customer requirements and behaviour. This is consistent with Child *et al.*'s (2017) observation that prior experience is a key learning component because it facilitates SMEs' internationalization and improves performance. This is further confirmed by the responses of both Indian and United Arab Emirates (UAE) directors in Case 2.

Directors' host market and/or industry-specific experiences (congenital knowledge) were always valuable in helping firms select appropriate PD coping mechanisms. This supports the view that congenital knowledge enhances directors' international entrepreneurial orientation (Puthusserry, Khan, Knight and Miller, 2020), thereby promoting more proactive self-learning approaches (experiential learning) – important for post-internationalization performance. The UK-based CEO of Case 4 reported that *he learned about the challenges of GDPR over time through his experience of dealing with it*.

Responses revealed that directors' experiential learning was valuable in addressing business-specific post-entry PD challenges. These included ad-hoc approaches seemingly most relevant to more turbulent and 'extreme' institutional environments, including 'side-stepping' regulations and/or legislation, using alternative communication mechanisms or accepting payments in advance or in instalments. This is illustrated in the response of the UAE-based director in Case 1.

Responses also showed that transnational directors offer formal training to newer SME managers and employees who lack international experience. The review of training documents revealed that post-internationalization training was mostly focused on company or business and individual-level issues, including communication protocols, and how to address client queries and requirements, cultural etiquette and other business-specific issues. This was highlighted in the response of a German-based director and ethnic Indian (Case 8).

Homogeneous industry/market-specific network of directors. Directors' market and industry-specific network relationships helped understand specific mechanisms to mitigate PD at the post-internationalization phase. The interviewees suggested that developing personal trust-based relationships with key stakeholders in host markets

Table 5. Qualitative evidence of psychic distance and the role of directors during post-internationalization phase

Case ID	Dimensions	Representative quotes
Homogeneous industry/market-specific human capital		
Case 2	Prior host market-specific experience	There are different types [of] customers. We have to be clear and transparent if the customers are educated, knowledgeable, technical people. The Middle East is a small market, so if we do not deliver what we promise, the negative publicity can spread and will be challenging to survive. We have to be also perfect with technical aspects. As a technical person, I always find it easy to work with them. In contrast to this, people who do not have technical knowledge usually would not have any idea about the whole process. They do not know how much time is required to develop products like ours. They think it's just computer-generated work so we should be fast. It is challenging to work with them. Some of them think that we are just imitating others… they do not realize that app/software development would sometimes take 3 to 4 days. They are always suspicious. They would think that we were trying to cheat them. We try to make things clear to them otherwise we discontinue the contract. [Both Indian and UAE directors]
Case 4	Host market experiential knowledge & international entrepreneurial orientation	It [GDPR] is simple if we understand the basic logic; otherwise, even a simple breaching can be an issue. You are safe if you have a clear data governance plan. You need to make sure that you do not store data on local computers in India. You should store it in the cloud with the European server. You should also have a clear idea about the people who access the data. You should report that to your client. You are safe if you follow the proper procedure. Although we got some help from legal experts, we learned this over time through our experience. [CEO – UK]
Case 1	Experience of living and working in the host market	The entry was easy for us, but surviving in this market [UAE] is difficult. The quality of competition in the UAE market is not that good. For example, their policies are weak. There are several loopholes to bypass the policies… I mean, it is not a very transparent market. Although quality is an essential criterion for survival, there are other issues as well. For example, the company will have to go for a tender if the project cost is above 100,000 UAE Dirhams. However, they often side-step that… they ask us to show a lower price. It is not suitable for us, but we have no other option. They are one of our prestigious customers, and we have to capture the business as well. It is a government organization. Pricing is an issue here. They want lower prices but cannot compromise the quality. [Director – UAE]
Case 8	Host market experience of transnational directors	Our people [Indian directors and employees] lack cultural skills as they are mainly engineering graduates. Technical skills are not enough to deploy them, so our responsibility is to prepare them to deal with foreign clients and to do business in this industry. We provide formal training. It varies from country to country. In order to deal with customers, essentially you should first know their requirements and then see if you can do the job. If you cannot, you have to be honest or realistic about the time required to develop it. If you are planning to subcontract it to someone else, you should inform the client. These are some basic stuff. They are young and open to learn and understand different cultures. [Case 8]
Homogeneous industry/market-specific network of directors		
Case 5	Host market and industry-specific network social ties	Developing a personal-level trust-based relationship with the partner is also important to address the specific business and more micro-level issues we face once we are in the market. Communication is crucial. We are communicating only through Skype and other social media. It is always a big risk. We trust them, but we cannot do anything if they do not pay after the product is delivered. Therefore, sometimes we ask for advance payments but it affects the relationship. [Director – India]
Case 7	Direct personal interactions with partners/clients	The customer only wants well-presented and straightforward data. However, we [Indian executives] would want to use the latest software and make it very technical. We think that is the way to impress the clients but foreign clients are not bothered about the tools. This was an issue at the beginning for us but they now learned it through their experience. We allowed them to interact with the clients directly. They made mistakes but learned from that. Some of them [Indian executives] even came here [UK] and worked with the clients. They learned mainly by doing, which is more effective than providing training. [CEO – UK] My legal expert is a close friend. He deals with GDPR, corporate tax and other bureaucratic issues. He also runs workshops about GDPR to everyone, including directors, in our company to create general awareness. [CEO – UK]

facilitates experiential learning and is important to bridge post-entry PD challenges.

As previously indicated, the Indian Fintech industry is in its embryonic stage and faces challenges of 'liability of newness' and 'liability of smallness'. The interviews with directors indicated that direct personal interactions with partners or clients were imperative for young Indian Fintech executives, since many lacked the prior international business experience needed to navigate internationalization challenges. For instance, this was highlighted by the UK-based CEO of Case 7. Responses also indicated that trust-based personal relationships and/or social networks in host markets facilitated experiential learning and helped firms mitigate potential institutional impacts on business.

Discussion and conclusion

What constitutes effective corporate governance continues to be an important yet divisive question. Extant research suggests that a one-size-fits-all approach is unlikely to be effective, given the substantial heterogeneity that exists between, for example, industries, countries and even firms operating in the same institutional environments (La Porta *et al*., 1998). However, and irrespective of institutional setting, an important aspect of corporate governance relates to the role of boards of directors. Boards of directors are widely thought to contribute to firm governance and performance through 'monitoring' and 'advising' (of management) (Adams and Ferreira, 2007; Linck, Netter and Yang, 2008). In this way, the composition and backgrounds of boards matters.

In this paper, we consider the role of boards of directors in overcoming key challenges associated with internationalization, particularly in mitigating PD. Our empirical setting, the Indian Fintech sector, which is characterized by innovative startups, is experiencing dramatic and rapid growth – even when benchmarked against worldwide trends. Thus, our novel study setting allows us to explore how boards contribute to SMEs' internationalization efforts under conditions of extreme home-country institutional environment and in a dynamic and competitive industry. More specifically, how board-level human and social capital combine to address multilevel PD challenges associated with the different stages of the internationalization process (e.g. Safari and Chetty, 2019). Until now, this aspect has been little explored and not well understood (cf. Gonzalez, 2019a).

We contribute firm-level evidence regarding how board of directors' human and social capital helps mitigate multilevel PD during pre- and post-internationalization stages of Indian Fintech SMEs (Pratt, 2009). Only a handful of prior studies have examined how internationalizing SMEs from emerging markets mitigate the impact of PD (e.g. Puthusserry, Child and Rodrigues, 2014; Yan, Hu and Liu, 2020). Existing studies mainly focus on understanding managers' perceptions towards individual-level PD and/or how interactions with home-country formal and informal institutions mitigate PD and facilitate international market selection (cf. Yan, Hu and Liu, 2020). Moreover, the aforementioned studies have largely ignored the vital role of boards in mitigating PD during pre- and post-internationalization stages. Thus, the current study contributes valuable and timely insights on the role of boards in mitigating PD. For example, we add to the corporate governance and board of directors literature with regard to the specific mechanisms through which SME boards can contribute positively to firm outcomes. Moreover, by connecting these different streams of literature with the research stream on PD, we establish an important role for boards and directors in mitigating PD for internationalizing small firms, originating from weaker and inefficient institutional settings typical of emerging markets. Figure 1 provides an overview of the theoretical model we developed through this study.

Our main findings reveal that boards provide important network-level resources and knowledge about foreign markets, which assist internationalizing emerging market SMEs in mitigating PD. Furthermore, the findings demonstrate that directors' human and social capital dimensions are instrumental in coping with PD at both pre- and post-entry stages, but their relative importance varies by stage. Specifically, at the pre-entry phase, breadth of human and social capital, and particularly the extent of directors' prior international and industry experience, board interlocks and prior connections, were found to be most valuable (Haynes and Hillman, 2010). With breadth of human capital facilitating experiential and congenital learning and heterogeneity in social capital supporting vicarious learning (Huber, 1991; Puthusserry, Khan, Knight and Miller, 2020;

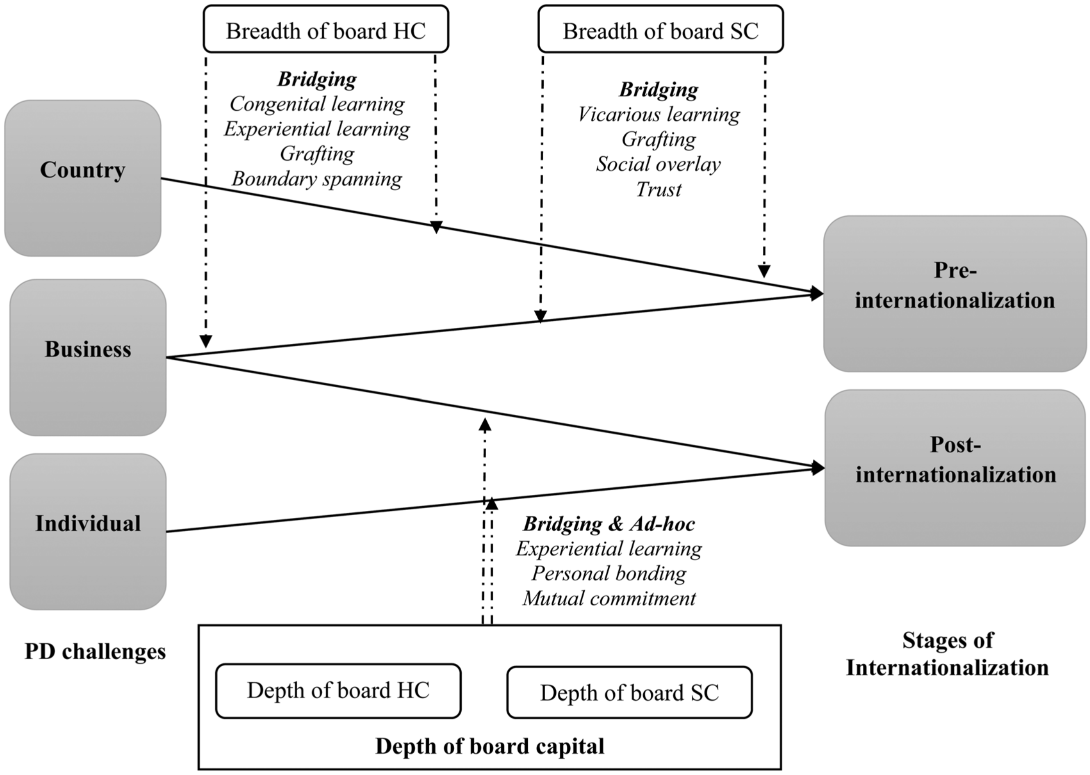

Figure 1. Psychic distance challenges and mitigation approaches of Fintech SMEs

Tuschke, Sanders and Hernandez, 2014). Moreover, directors' human and social capital heterogeneity was identified as helping facilitate knowledge acquisition that was not formerly obtainable within firms by grafting on (Huber, 1991) or coopting new members. However, during the post-entry phase, transnational directors, with in-depth industry and host market experience (human capital) and stronger trust-based host market-specific personal relationships (i.e. those with greater social capital depth) (Haynes and Hillman, 2010), were found to facilitate faster experiential learning.[6] These findings provide important insights to the extant incremental stepwise approach to internationalization, where firms initially enter into close proximate markets as a risk and uncertainty reduction strategy (cf. Johanson and Vahlne, 1977). Hence, we propose:

H1: While breadth of board capital at the pre-entry phase facilitates congenital learning, vicarious learning, experiential learning and grafting approaches to cope with PD, depth of board capital at the post-entry phase enhances experiential learning to mitigate PD.

Our findings also identified that the key PD challenges during the pre-internationalization phase were broader country and business-level issues. This is consistent with the widely employed macro-level operationalization of PD at country (Ambos, Leicht-Deobald and Leinemann, 2019) and business levels (Child, Ng and Wong, 2002; Safari and Chetty, 2019). Our analyses suggest that directors' diverse network relationships and backgrounds help address such challenges. This supports the notion that social capital and, more specifically, the extent of directors' industry and international experience (human capital) are particularly valuable for internationalizing emerging market SMEs, in terms of reducing transaction costs and uncertainties associated with foreign markets (Hillman and Dalziel, 2003). Moreover, it infers that breadth of board capital is important in

[6]See Table 6 for a summary of the PD challenges and an overview of the impact of boards' human and social capital dimensions during pre- and post-internationalization stages.

Table 6. Psychic distance challenges and stages of internationalization

	Stages of internationalization	
	Pre-entry	Post-entry
PD challenges	Country level: culture, language, infrastructure, legal and regulatory differences Business level: business practices, customer requirements, bureaucracies	Business level: business practice, industry norms, ethical practices Individual level: partner/customer background, attitude, behaviour
Board capital (Haynes and Hillman, 2010)(coping approaches)	Breadth of board capital – achieved through prior international experience, network and co-optation • Social capital heterogeneity of BoDs – board interlock ○ Vicarious learning & grafting • Human capital heterogeneity of BoDs – occupational heterogeneity ○ Congenital and experiential learning & grafting	Depth of board capital – mainly achieved through experiential knowledge (e.g. transnational board or trust-based relationships) • Homogeneity of BoDs' human capital (industry experience, educational background, prior industry/host market experience) ○ Experiential learning • Homogeneity of BoDs' social capital (industry or host market interlocks – trust/personal ties) ○ Experiential learning

bridging PD challenges at the pre-internationalization phase. These findings are also consistent with Yan, Hu and Liu (2020) who, although they do not focus on boards, demonstrate that formal (government support) and informal institutional (e.g. guanxi and political) ties play key roles in overcoming PD during the initial international market selection of Chinese SMEs. Hence:

H2: Breadth of board capital mitigates the effects of business and country-level PD through bridging mechanisms in the pre-internationalization stage.

In contrast, business and individual micro-level issues were found to dominate at the post-internationalization phase (O'Grady and Lane, 1996; Safari and Chetty, 2019). Micro-level issues are especially relevant in the case of rapidly internationalizing SMEs, who increasingly require additional resources and who proactively seek out new opportunities (Nordman and Tolstoy, 2014). The international success of our case firms seemed mainly driven by decision-makers' ability to perceive and react to the impact of distance, and subsequently by their firms' ability to adapt approaches and strategies to address business-related challenges in host markets (Dinner, Kushwaha and Steenkamp, 2019). The SMEs adopted an idiosyncratic learning approach (Nordman and Tolstoy, 2014), mainly facilitated by directors' human and social capital relevant to host-country operations and by avoiding 'liabilities of outsidership' (Johanson and Vahlne, 2009). Our findings also inferred that executive directors with direct involvement in internationalization activities tended to exert stronger influence, and that their depth of board capital was especially important for coping with post-entry PD challenges. Thus:

H3: Depth of board capital mitigates business and individual-level PD through ad-hoc and bridging mechanisms in the post-internationalization stage.

We observed that the coping strategies adopted by Fintechs also varied between pre- and post-internationalization phases. Breadth of directors' human and social capital at the pre-entry phase acted as the prominent PD bridging mechanism since it allowed firms to access tacit knowledge related to host markets and reduce transaction costs (Child, Rodrigues and Frynas, 2009). As identified in the boundary-spanning literature, directors with prior international experience and exposure (human capital) assume a boundary-spanning role and facilitate learning and the development of bridging ties in host markets (Kane and Levina, 2017; Roberts and Beamish, 2017). At the post-entry phase, depth of board capital and experiential learning not only helped bridge the potential impact of PD, but also gave directors confidence to adopt ad-hoc and practical ways to alleviate transaction costs when they struggled to cope using bridging mechanisms (Child, Rodrigues and Frynas, 2009; Puthusserry, Child and Rodrigues, 2014). Therefore, we posit:

H4: While breadth of board capital and various learning approaches facilitate PD bridging mechanisms, depth of board capital and experiential learning allows directors to choose between bridging and ad-hoc coping mechanisms.

Practical and policy implications

The findings of this study have several managerial implications. First, they demonstrate the value of boards to managers of internationalizing emerging market SMEs (i.e. by contributing tacit and experiential knowledge about foreign markets, which facilitates market entry). Second, they suggest that managers may benefit from exploring opportunities to join boards of other firms in order to obtain valuable knowledge and develop social ties. Third, they imply that SME managers should utilize wider industry knowledge and experience to mitigate PD while expanding into foreign markets (cf. Blomkvist and Drogendijk, 2013). Finally, since we demonstrate the importance of boards in facilitating SMEs' internationalization efforts, our findings suggest policymakers should encourage the formation of boards with diverse experience to help SMEs navigate external PD challenges.

Limitations and future research

Despite the implications and contributions of this study, it has several limitations that future studies should pay greater attention to. First, since the theories proposed in this study are based on multiple case studies (nine Fintech firms from the emerging market – India), using a survey, longitudinal or archival data, future research could extend and broaden the scholarly insights of this study by formally testing the extent to which the breadth and depth of board human capital and social capital moderate the country, business and individual-level effects of PD at pre- and post-internationalization phases. These studies could either focus on emerging market contexts or compare the Fintech firms in emerging and developed market contexts. Second, our study focused on a relatively smaller number of cases drawn from one key emerging sector operating in an extreme institutional environment. Hence, future studies may wish to expand our focus to other sectors such as energy, biotech, legal and professional services in fast-growing emerging markets. Third, our focus was on the role of boards in mitigating PD, yet other aspects of distance – such as institutional distance – likely matter. Future studies could explore the diverse roles of boards in mitigating external challenges. Fourth, it may be interesting for research to examine the impact of dual board structures, potential 'bright' and 'dark' sides, on internationalization and performance. Fifth, there are other challenges and risks besides PD – such as the global risk and crisis caused by the COVID-19 pandemic – therefore, it would be interesting to examine the role of boards to aid the navigation and implementation of strategic responses to such crises. Finally, we recommend that future research devotes greater attention to the role of boards in affecting post-entry performance, speed and degree of internationalization, and diversification strategies adopted by rapidly internationalizing emerging market SMEs.

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