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INTERACTIVE PAPER

SUBSTITUTES OR COMPLEMENTS?: THE EFFECTS OF ALLIANCES AND CORPORATE VENTURE CAPITAL ON INTENSITY OF NEW-VENTURE INTERNATIONALIZATION

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Principal Topic

Inter-firm ties with different partners, such as alliance partners and corporate venture capital (CVC) investors display complex characteristics; at times these relationships act as complements and at other times substitutes (Dushnitsky & Lavie, 2009). Extant literature only considers the impact of these relationships on the investor and not on the venture receiving the capital. This omission is serious because, new ventures, more so than mature companies, have to consider the reinforcing or attenuating nature of these relationships when weighing decisions regarding tie formation with different types of partners. Drawing on the resource-based view, we investigate this reinforcing versus attenuating effect of alliances and CVC on new-venture internationalization because internationalization is important for venture growth and because both types of relationships have been shown to affect internationalization (see, for example, Lu & Beamish, 2006; Al-Laham & Souitaris, 2008; Leiblein & Reuer, Fernhaber & McDougall-Covin, 2009).

Method

The sampling frame comprises approximately 800 U.S.-based, high-technology, VC-backed new ventures founded during the 1990s and executed an IPO from 1995-2002. We compiled the data and verified certain key variables using the following sources: VentureXpert and Global New Issues within Thomson Financial’s SDC Platinum database, Lexis-Nexis, COMPUSTAT, and SEC S-1 and 10-K filings. We use a 2-stage Heckman selection model, with the first stage (selection model) addressing probability of internationalizing and the second stage (effects model) addressing intensity of internationalization (FSTS).

Results and Implications

Approximately 10% of companies had foreign sales in their IPO year. Internationalization requires capital and time investments. Alliance management requires attention to ensure congruency between partners’ and entrepreneurs’ objectives; limiting relationships to those providing value relative to strategic foreign market entry goals is imperative. Entrepreneurs may not need to obtain CVC if alliances substitute value. If alliances complement CVC, entrepreneurs should develop structures and capabilities necessary to optimally manage their use.

The examination of the substitutability or complementarity of resources sheds light on the interaction effects of resources necessary for competitive advantage. The current study seeks to extend this analysis of such resource relationships to the realm of new ventures and their ability to intensify their international activities.

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