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A LONGITUDINAL STUDY ON THE IMPACT OF THE TIMING OF CROSS-BORDER VENTURE CAPITAL ENTRY ON PORTFOLIO COMPANY GROWTH (INTERACTIVE PAPER)

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INTERACTIVE PAPER

A LONGITUDINAL STUDY ON THE IMPACT OF THE TIMING OF CROSS-BORDER VENTURE CAPITAL ENTRY ON PORTFOLIO COMPANY GROWTH

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Principal Topic

Cross-border venture capital (CBVC), investments made by VC investors in portfolio companies founded in countries other than the country in which investments are managed, is an increasingly important phenomenon (Wright et al., 2005). Obtaining CBVC provides both advantages and disadvantages compared to domestic VC (Mäkelä & Maula, 2005). Due to the higher transaction costs, cross-border investors devote less time to their portfolio companies (Sapienza et al. 1996). Spatial distance of CBVC investors may hence be especially negative for early stage companies as they continuously need to identify, acquire and integrate resources in their organization (Arthurs & Busenitz 2006; Vohora et al. 2004; Frisch and Schilder, 2008), and develop early routines (Lockett et al., 2008). Once these initial resources have been put into place and organizational routines have been developed, cross-border investors can spur the development of their portfolio companies by providing access to their specific knowledge-based resources, international networks and endorsement benefits (Mäkelä & Maula, 2005; Stuart et al., 1999).

Method

We use longitudinal data on 692 companies in 7 European countries (UK, Belgium, Finland, France, Germany, Spain and Italy) that received initial VC between 1994 and 2004. We track the identity and characteristics of their VCs over time and we collect detailed information on the portfolio companies from three years before the initial VC investment up to ten years after this investment. Random Coefficient Modelling is used as an appropriate longitudinal technique to study sales growth.

Results and Implications

Our findings suggest that companies which raise VC from a syndicate consisting of both domestic and cross-border investors show the highest growth in sales from the initial investment onwards. Moreover, whether the CBVC investor joins the domestic investor in the initial or in a later round has no significant impact on the growth in sales. As such, this study provides further evidence that VCs are not homogenous and that finance decisions may have a significant impact on the subsequent growth of entrepreneurial ventures.

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