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LEADERS OR LEMMINGS? THE IMPACT OF FIRM KNOWLEDGE DIVERSIFICATION ON THE INTERNATIONALIZATION DESTINATION CHOICE OF US VC FIRMS (SUMMARY)

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≈ SUMMARY ≈

**LEADERS OR LEMMINGS? THE IMPACT OF FIRM KNOWLEDGE
DIVERSIFICATION ON THE INTERNATIONALIZATION
DESTINATION CHOICE OF US VC FIRMS**

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Principal Topic

The US VC industry has globalized over the past two decades (Alhorr et al., 2008), with more firms choosing to invest abroad, and in a growing array of destination countries. In this paper, we assess how the diversity of a VC firm's knowledge stocks impacts its *internationalization destination choice*-that is the country where it makes its first foreign investment.

Method

We used the *VenturExpert* database for a panel of investments by US VCs from 1990-2010. In particular, we identified: a) US VCs that did/did not internationalize b) The destination choice of internationalization c) The year of internationalization.

Our independent variable (*knowledge diversification*) is a time-varying measure of the scope of industries invested in by a focal VC (Matusik & Fitza, 2012). For our dependent variable, we used time-varying country-level indicators (World Bank WGI) and conducted a sub-group analysis on the likelihood of internationalization into destination countries. For each focal year, we categorized destination countries using median splits along two dimensions; novelty (high/low) and entrepreneurial capacity (high/low) and estimated the likelihood of internationalization using binary logit models. Novelty, which captures the "popularity" of a destination country at a given time, was measured by the % share of prior international investments by US VCs into the destination. Entrepreneurial capacity was measured using GDP per capita, the number of patent applicants, and the number of IPO exits. We averaged all measures across a 5 year temporally lagged window to account for yearly fluctuations in the data.

Results and Implications

VCS with either very low or very high diversification scores are likely to internationalize into relatively novel destinations such as Italy or Argentina (i.e. market leaders), while VCs with average diversification scores are likely to internationalize into more traditionally favored destinations such as Canada or the UK (i.e. lemmings). We are in the process of analyzing the entrepreneurial capacity models. While preliminary, these results suggest that the diversity of knowledge stocks possessed by a US VC does influence its internationalization destination choice. Our findings potentially have important theoretical and public policy implications in destination countries that seek to attract US VCs.

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