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GOING ABROAD TO WIN AT HOME: NEW VENTURE INTERNATIONALIZATION AS A LEGITIMATION STRATEGY (SUMMARY)

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≈ SUMMARY ≈

**GOING ABROAD TO WIN AT HOME:
NEW VENTURE INTERNATIONALIZATION
AS A LEGITIMATION STRATEGY**

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Principal Topics

Recent research has established the importance of ventures' domestic circumstances for their internationalization (e.g., Milanov & Fernhaber, 2014). For example, Guler and Guillen (2010) showed that domestic network advantage helps in overcoming the lack of legitimacy in foreign markets. Surprisingly, fewer studies have explored the reverse effects – why and how an early international presence may support new ventures' domestic market positions. Scant extant work in this area focused mostly on learning arguments (e.g., Jones & Coviello, 2005). We seek to understand whether early internationalization may also act as a signal that improves ventures' legitimacy with domestic audiences.

Method

We study US-based venture capital firms (VCFs). Young VCFs face the same liabilities of newness as startups: they are known to pursue legitimation strategies (Gompers, 1996) and prior work explored the importance of early signals for newcomer VCFs (Milanov & Shepherd, 2013). Since VCFs predominantly invest locally and typically only more established VCFs invest in distant markets (Sorenson & Stuart, 2001), early internationalization could be an important legitimacy signal.

We use propensity score matching to construct a matched sample consisting of (1) 120 VCFs in the year of their first internationalization activity and (2) 120 nearest neighbor VC-firm-years that have never internationalized but are highly similar across several important observable characteristics. We employ three dependent variables to reflect the change in legitimacy with each of the key domestic audiences: institutional investors, syndication partners, and portfolio companies. Operationalization of all variables follows prior research in legitimation and venture capital literature.

Results and Implications

Our results confirm the legitimacy effects of early internationalization across three audiences. Specifically, VCFs that internationalized early were able to receive follow-on funding faster, build a stronger network position, and attain higher levels of portfolio company quality compared to a matched sample of VCFs that did not internationalize. Our study makes several contributions to the literatures on international entrepreneurship and strategic legitimation. In particular, we contribute to the research on the transferability of benefits in internationalization to a domestic market and add to the understanding of different types of legitimation strategies.

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