DETERMINANTS OF VENTURE CAPITAL FIRMS’ CROSS-BORDER INVESTMENTS (SUMMARY)

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SUMMARY

DETERMINANTS OF VENTURE CAPITAL FIRMS’ CROSS-BORDER INVESTMENTS

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Principal topic

The increasing number of cross-border investments is one of the most remarkable phenomena in the venture capital (VC) industry (Wright et al., 2005). In this paper, we study the drivers of this behaviour. Investing in a foreign country is a major decision. VC firms face severe competition from dominant domestic players. Reducing information asymmetries and exerting monitoring and value adding activities are more difficult as geographical distance increases. Understanding different institutional environments raises additional barriers. However, local competitive pressures, opportunities in foreign regions and the trend towards larger funds stimulate foreign investments.

We focus on financial, human and social capital of VC firms in combination with competitive, institutional and strategic factors to explain their degree of cross-border investments.

Method

The research question is tested for a sample of venture capital firms in four European countries: Belgium, the Netherlands, Germany and Sweden. Data are gathered from different sources. First, we gathered qualitative information through a postal and e-mail survey in 2003, relating to the financial, human and social capital of the VC firms, to their strategy and to their subjective assessment of the competitive and institutional environment. The dependent variables are (i) whether the VC firms invested internationally between 2003 and 2005; (ii) the proportion of international investments and (iii) whether they have been lead investors in deals abroad in the same time period. This information was taken from commercial databases. As a result, potential biases from cross-sectional analysis are avoided.

Results and Implications

A first surprising result is that the financial resources of a VC firm is not a driver of cross-border investing. Human and social capital have a significant impact. Investing abroad is also driven by competitive and strategic motives. Institutional factors are less important. The extent to which VC firms are lead investor in international investments is influenced by similar factors.

Our study shows that VC firms, having a strategic intent to internationalize and feeling competitive pressures in their local environment, should first strengthen their human and social resources. We further highlight the different impact of different types of resources, adding to the resource dependence theory.

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