TRANSNATIONAL CONNECTIONS AND STRATEGIC CHOICE: VENTURE CAPITAL FIRMS’ ENTRY INTO FOREIGN MARKETS (SUMMARY)

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SUMMARY

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Principal Topic

We examine the extent to which transnational connections based on trade, migration, and previous collaboration affect the specific choice of foreign markets for entry for venture capital firms. The question of what attracts organizations to new markets is an important one in organizational theory (Baum & Korn, 1996; Greve, 1998; Haveman, 1993). American venture capital (VC) industry provides an interesting context to examine the impact of transnational connections on firms’ foreign market choices, as VC firms have stepped up their investments abroad in highly selective ways, investing in some foreign countries though not in others. We examine the impact of three types of transnational connections on VC firms’ foreign market entry: (1) magnitude of trade ties, (2) presence of transnational communities in the new market, and (3) number of domestic collaborators who already operate in the new market.

Method

We compiled VC investment data from the VentureXpert database. We observed the entire population of 1,010 U.S.-domiciled firms between and their foreign market entry decisions between 1990 and 2002. We analyze the likelihood of a VC firm entering a new country with an event history model.

Results and Implications

We argue that, controlling for economic, technological, political, and other institutional factors, firms enter foreign markets that are connected to their home country through transnational channels such as those created by trade, migration, and previous interorganizational collaboration. By shaping information flows and influencing the ways in which firms become aware of opportunities available to them, these connections affect the choice of market to enter. Our results have implications for VCs and entrepreneurs, as well as policymakers. For VCs who aim to expand internationally, our results suggest that their domestic location choices as well as partnering choices may influence their access to information about international opportunities. Similarly, international entrepreneurs who would like to secure U.S. venture capital should focus their efforts on VC firms who are already familiar with their markets through localized migration flows and syndication ties. Policymakers interested in supporting innovation in their home countries can actively tap into such pockets of innovation in order to induce “brain-circulation” instead of a one-way “brain drain”.

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