6-10-2006

THE IMPACT OF ALTERNATE SOURCES OF VENTURE CAPITAL ON INTERNATIONALIZATION INTENSITY (INTERACTIVE PAPERS)

Joseph A. LiPuma
Boston University, jalipuma@bu.edu

Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol26/iss3/14

This Interactive Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
INTERACTIVE PAPER SESSION

THE IMPACT OF ALTERNATE SOURCES OF VENTURE CAPITAL ON INTERNATIONALIZATION INTENSITY

Joseph A. LiPuma, Boston University

Principal Topic

Recognition that some firms internationalize intensively early in their lives suggests limitations of extant internationalization theories vis-à-vis young firms with foreign revenues. The use of U.S. venture capital (VC) surged simultaneous to the recognized emergence of such international new ventures (INVs). Ventures backed by early round VC are young, in industries characterized by risk and uncertainty, and are more likely to have high growth goals, fostering internationalization. Portfolio firms (PFs) receiving VC have options presented from sources with differing characteristics which shape preferences, such as geographic diversity. Such characteristics are related to differences in the organizations providing capital (e.g., corporate or independent VC firms). Differences due to VC sources on international intensity suggest the question “How do independent and corporate venture capital differentially impact the international intensity of portfolio firms?”

Method

The embeddedness of corporate venture capital (CVC) units within multinational enterprises provides an international network of suppliers, customers and partners from whom local knowledge may be gained. This knowledge may facilitate international sales of their PFs, and while such resources enhance the intensity with which firms internationalize, and thus we would expect both independent venture capital (IVC) and CVC to be positively associated with higher international intensity, the preceding suggests a stronger relationship for the latter. IVC and CVC provide complementary value to PFs in staff and customer acquisition, thus greater international intensity should be evident in firms with VC from both sources.

Data for 1045 U.S. private high-technology firms with sales reported in 2003 included source of initial capital (IVC, CVC, Private) and international intensity (percentage of sales from foreign sources). Data were analyzed using ordinal logistic regression, with controls for firm age, size and industry.

Results and Implications

Obtaining early capital only from private sources is associated with increased chances of greater international intensity. Neither CVC nor IVC sources is significant in its relation to degree of international intensity, however the interaction between these sources is positive.

This examination of factors underlying INV international intensity extends the work of Maula into the differential value of CVC and IVC. For entrepreneurs, an implication is that in choosing sources of venture capital, awareness of their relationships to the internationalization goals of the venture must be carefully considered.

CONTACT: Joseph A. LiPuma, 595 Commonwealth Ave, Boston, MA 02215; (T): 617-407-7248; jalipuma@bu.edu