MAY I COMPLEMENT YOU? ARE CORPORATE VENTURE CAPITAL AND FOREIGN VENTURE CAPITAL COMPLEMENTARY IN THE CONTEXT OF NEW VENTURE INTERNATIONALIZATION? (INTERACTIVE PAPER)

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Principal Topic

Venture capital (VC) providers’ resource stocks relate to new venture internationalization (Fernhaber & McDougall-Covin, 2009; Reuber & Fisher, 1997). The value-add conferred by VC relates to the providers’ social and human capital, suggesting that capital source may impact value-add (Maula & Murray, 2002). Corporate venture capital (CVC) provides value via technical and market knowledge, and may differentially affect the international intensity of new ventures as compared to independent venture capital. Foreign venture capital (FVC) may provide market knowledge and benefits related to providers’ embeddedness in local institutions and networks, eliciting trust for foreign ventures that may reduce liabilities of foreignness. This raises the questions “Do FVC and CVC differentially relate to new venture internationalization and do these differences complement or substitute for each other? Hypotheses examine FVC and CVC relationships to the intensity of international sales.

Method

Data for 907 U.S. young ventures with IPOs between 1993 and 2002 were drawn from VentureXpert and Global New Issues (Thompson Financial’s SDC Platinum database). International sales data were obtained from SEC filings (S-1s and 10-Ks) required prior to IPO. Of these ventures, 336 companies received CVC, 190 received FVC and 132 received both. Foreign sales were reported by 128 companies. Neither the receipt of CVC or FVC directly relates to the international intensity of these ventures. However, the overall percentage of equity provided by foreign or corporate sources may differentially relate to the international activities of new ventures.

Results and Implications

Decomposing VC into its various types permits a more nuanced analysis, adding to our understanding of how VC provides value-add. Venture capitalists syndication communication and coordination costs increase for foreign partners. A better understanding of the value-add for various VC types informs syndicate construction. If CVC provides the same internationalization benefits to ventures, lead investors may choose a domestic CVC provider rather than a FVC provider. Understanding the respective benefits of FVC vs. CVC may permit entrepreneurs to make more informed decisions about their international strategies. Finally, governments may consider that if CVC substitutes for FVC, it may be easier to incentivize CVC investment than to develop a domestic VC industry to support the international growth of their companies.

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