WHAT DOES IT TAKE TO CROSS A BORDER? THE ANTECEDENTS OF CROSS-BORDER PRIVATE EQUITY INVESTMENTS (INTERACTIVE PAPER)

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WHAT DOES IT TAKE TO CROSS A BORDER? THE ANTECEDENTS OF CROSS-BORDER PRIVATE EQUITY INVESTMENTS

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Principal Topic

International PE activity has grown rapidly since 1990. The amount of funds invested in cross-border PE transactions relative to the total amount of PE funds invested worldwide grew more than 150% from 1990 to 2007 (Aizenman & Kendall, 2008). Therefore, given that PE firms are an important mechanism to facilitate entrepreneurship and innovation (Klein, Chapman, & Mondelli, 2013), understanding the internationalization of PE firms is crucial to comprehend the drivers of entrepreneurial activity across countries. In this study, we seek to improve our understanding of the effects of networks and experience on cross-border PE activity.

We argue that the centrality of a PE firm in both the home-country syndication network and the foreign (international) syndication network can improve its capability to find cross-border investment opportunities. Firms that are more central in their home-country and foreign syndication networks are more likely to choose cross-border investments over domestic investments. Additionally, we propose that the effect of both centralities, in the home country and foreign networks, depends on the cross-border experience of the firm.

Method

We build our data set using information from Thomson ONE. The data set contains the investments of 325 PE firms from the United Kingdom. The total number of observations is 5,368. We analyze the data using a probit model that predicts the likelihood of a PE deal being either domestic or cross-border. The main explanatory variables are network centralities and investment experience.

Results and Implications

Our results show that network centrality in the foreign syndication network—in our case continental Europe—is positively related to the preference for making cross-border investments. We also find evidence that PE firm’s experience not only has a positive effect on the likelihood of a deal being cross-border versus domestic, but also acts as a moderator in the relationship between the syndication network centralities analyzed and the likelihood of choosing cross-border investments. This work has the potential to make an important contribution to international business and global strategy research. Focusing on the interplay between network position and cross-border experience offers a novel way to understand the investment behavior of PE firms making cross-border investments.

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