ATTRACTING CROSS-BORDER VENTURE CAPITAL:
THE ROLE OF A LOCAL INVESTOR

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ABSTRACT

Cross-border venture capital investments and syndication have emerged as important phenomena during the recent years in the venture capital industry. However, there is little prior research addressing the international aspects of venture capital finance, and no papers focusing on the formation of cross-border syndicates. We focus on the role of domestic venture capital investors in the creation of cross-border syndicates. In the emergence of cross-border venture capital syndicates, local venture capitalists often enter the venture first, followed by co-investments from foreign venture capital investors in later rounds.

In this inductive study of nine cross-border venture capital syndicates, we develop a grounded model, which posits that a local venture capitalist has important roles in the syndicates in providing advice for operational management and in contributing contacts and market knowledge in the local environment, increasing the venture’s cross-border investment readiness. The importance of the two roles is mitigated if the entrepreneurial team possesses strong entrepreneurial experience. The latter effect is also mitigated if the home market is not crucial for the growth of the enterprise. The prominence of the local investor has signaling value to the cross-border venture capitalist about to make an investment decision. Finally, international social capital of the local investor facilitates the formation of cross-border syndicates.

Keywords: international venture capital, syndication, social capital
INTRODUCTION

Cross-border venture capital investments are a phenomenon of increasing prevalence (Baygan & Freudenberg, 2000, Gompers & Lerner, 2003). By cross-border venture capital, we refer to venture capital invested in portfolio companies located in foreign countries to the country from which the investment is managed. Cross-border venture capitalists have played an important role in growth-oriented technology companies in several markets with limited domestic supply of venture capital (Bassolino, 2002; Baygan & Freudenberg, 2000; Dossani & Kenney, 2002; Kenney, Han, & Tanaka, 2002a, 2002b; Mayer, Schoors, & Yafeh, 2002; OECD, 2001, 2002).

Although recent research has acknowledged the importance of cross-border venture capital investments, there is little research examining the determinants of cross-border investments. The study by Baygan and Freudenberg (2000) that examines cross-border venture capital investments on macro-level as annual capital flows across national borders is among the only studies that have so far examined the factors influencing cross border venture capital investments. In particular, we find a research gap in micro level analysis considering how ventures can attract cross-border investors and what role do their local venture capital investors play in creating cross-border venture capital syndicates. Therefore, we focus this paper on the question “What is the role of a local venture capital investor in obtaining cross-border venture capital investors?”

In this paper, we contribute to several streams of prior research including venture capitalists investment decision making and syndication. Although venture capitalists’ investment decision-making process and criteria has received abundant attention on general level (see e.g. MacMillan, Siegel, & Subbanarasimha, 1985; MacMillan, Zemann, & Subbanarasimha, 1987; Muzyka, Birley, & Leleux, 1996; Poindexter, 1976; Robinson, 1987; Tyebjee & Bruno, 1984; Wells, 1974; Zacharakis & Shepherd, 2001), prior research has not
examined the factors influencing the decision of venture capital investors to make cross-border investments. Similarly, studies on venture capital syndication (Lerner, 1994; Lockett & Wright, 2001; Manigart et al., 2002b) and value added (MacMillan, Kulow, & Khoylian, 1989; Sapienza, 1992; Sapienza, Manigart, & Vermeir, 1996) have focused on domestic investments and syndicates. In this paper, we attempt to contribute to the literature by examining the role of local venture capital investor in the formation of cross-border syndicates.

Domestic relationships may significantly influence firms’ tie formation with foreign companies, and knowledge of firms’ domestic conditions may be necessary for understanding their formation of these international relationships (Elg, 2000). In this paper, we specifically study how local investors’ presence and actions affect obtaining a cross-border investor. For the purposes of this study, it is appropriate to consider domestic all those investors that manage their investment primarily from the country to which the investment is made. This is because the investment managers of such a firm often represent the same nationality with the key entrepreneurs and are embedded in the business community of that country. Put more generically, they are close in terms of geography and culture. While the term “international” could denote all investors that have any form of international business, such as collaborative agreements with foreign partners, we henceforth use the distinct term “cross-border” in association with investors and investments to denote the international aspect that is relevant for this study.

The empirical context of our study is Finland, a small economy with a rapidly internationalizing community of technology-based new ventures. During recent years in Finland, cross-border venture capital has been a relatively prevalent form of financing for such ventures. In a study of cross-border venture capital in the OECD countries, Baygan and Freudenberg (2000) identified Finland as the third country after Ireland and Denmark in
terms of share of invested venture capital that is contributed by cross-border venture capitalists. Many of the largest rounds of venture capital investments made into Finnish high-technology ventures have involved cross-border venture capitalists. Based on the analysis of Baygan and Freudenberg (2000), the share of foreign investments of all investments made in Finland was 43% in Finland in 1999.

We use the grounded theory approach (Glaser & Strauss, 1967) and follow the procedures suggested by Eisenhardt (1989), Strauss and Corbin (1998), and Yin (1994). Accordingly, we derive our insights from extensive processing of field data. To enable the “replication logic,” (Eisenhardt, 1989; Yin, 1994), we study multiple cases.

Results

Figure 1 presents a model which embodies eight propositions that emerged from our analysis. In our key propositions, we argue that the existence of a high-quality local investor will provide significant endorsement benefits (cf., Podolny, 1993, 1994; Stuart, 2000; Stuart, Hoang, & Hybels, 1999) for the venture, improving the cross-border investment readiness of the venture (its degree of maturity for receiving cross-border venture capital investments; see Baygan, 2003; Mason & Harrison, 2001). In a paper that illustrates the concept of endorsement in the context of entrepreneurial ventures particularly well, Stuart et al. (1999) proposed that faced with great uncertainties about the quality of ventures, third parties rely on the prominence of the affiliates of the ventures. The paper empirically demonstrates that much of the benefit of having prominent affiliates stems from the transfer of status as a byproduct of interorganizational associations.

Our data suggest that a local venture capital investor has two responsibilities particularly important in the division of labor in cross-border venture capital syndicates. First, a cross-border venture capitalist perceives a high-quality local venture capitalist to offer important value-added by giving advice to the entrepreneurial team on a day-to-day basis,
that is, providing help in the numerous decisions of operational management. Being closely located to the venture is essential for taking care of this role. The importance of a local venture capitalist monitoring and investor providing hands-on value added is reduced if the venture’s management readily possesses substantial entrepreneurial experience. Such experience also directly affects the investment readiness of a venture in the eyes of cross-border investors.

Second, a high-quality local investor is expected to possess important knowledge of the local markets and a dense contact network in proximity of the firm. Our results suggest that the importance of a local investor in providing understanding of the local markets is mitigated if the local market is not important for the entrepreneurial firm. This requires not only that the home market is not significant in the venture’s business but that the venture will not need to start its international expansion by first establishing its operations in the “home base” (Kuemmerle, 2002). Moreover, venture team experience also mitigates this effect. Management team experience, investor participation in operational decision-making, and knowledge of local issues are factors that drive cross-border investment readiness. Investment readiness refers in this context to the feasibility of receiving a cross-border investment, increasing the probability of obtaining cross-border venture capital investments.

Venture capitalists are known to invest near and, for instance, take board seats in portfolio companies that are closely located (Lerner, 1995; Sorenson & Stuart, 2001). Prior research on venture capital in India has shown that there, cross-border venture capitalists are more involved on the strategic level and domestic ones on the operational level of steering portfolio firms (Pruthi, Wright, & Lockett, 2003). The authors, however, emphasized that according to their analyses, several of their results may not warrant generalization geographically across venture capital markets. Our evidence, however, contributes the view that similar effects are present in the European and U.S. venture capital markets. Our results
also advance literature by articulating that the hands-on nature of operational management and cultural issues appear to be key reasons for proximate investors having better chances of taking care of this role. In other words, our data suggest that local investors bring significant complementary value-added to a cross-border venture capital syndicate.

As shown in Figure 1, we posit in our model that the relationship between investment readiness and the occurrence of a cross-border investment is moderated by the international social capital of the local investor. We advance the view that such social capital can importantly facilitate the standing out of the venture in the screening conducted by cross-border venture capitalists.

The structure of the paper is as follows. We first discuss the selected methodology. Then, we describe our case data, proceeding to formulating insights in the form of an integrated model of propositions. Finally, we discuss implications for managers and for continued research.

METHODS

Research Setting

Due to the lack of prior research on the formation of cross-border venture capital syndicates and the role of local investors in the process, we chose the grounded theory approach building on case studies (Eisenhardt, 1989). While grounded theory is especially suitable from new topics (Eisenhardt, 1989), it could also provide a new view into a subject that has already been previously studied (Hitt, Harrison, Ireland, & Best, 1998). The grounded theory method allows researchers to benefit from the quality of rich, qualitative data (Birkinshaw, 1997). Furthermore, the use of comparative case studies has been on the increase in recent years (Bergmann Lichtenstein & Brush, 2001). We study multiple cases so as to enable the “replication” logic (Yin, 1994). Using this approach, we first studied the cases as independent “experiments,” advancing subsequently to cross-case analysis.
In an umbrella project involving several studies, data were collected from ten Finland-based new ventures that had received cross-border and other venture capital investments. The appropriate unit of analysis here is the entity formed by an investee firm together with its local venture capital investors. Investment rounds made into nine of these companies are included in this paper. One case was irrelevant for the focus of the paper, because it did not have a cross-border investor. The rounds include nearly thirty investment relationships that we consider relevant for the study.

In the sample, there are two companies – Pollux and Vega – that do not have a local investor at all. These cases present interesting views into how they have managed to obtain cross-border investments without the participation of a local investor and why some firms do not have local investors. For these reasons, it was considered valuable to include them in the analysis of this paper. It is worth to note that when judging the proposed effects from Tables 3 through 6, one should not view these two firms as a part of the sample: because the very fact that these two firms do not have a local investor, they obviously cannot exhibit benefits from such investors. These cases are included because of their interesting status and the possibilities for ‘analytical generalization’ in case studies (Yin, 1994: 30-32).

The cases and interviews made in them are described in Table 1. We interviewed some respondents twice and made several interviews in some of the investor firms. There are fifty-eight interviews in total in the data.

We were not able to interview Vega’s investors at this time due to considerable secrecy surrounding its operations. However, we tried to interview the CEO thoroughly. Because we were not able to triangulate by using multiple informants, the concern remains that answers are biased. It is our understanding, however, that there was no motivation for giving biased
answers. This is because of our promise not to reveal the firm’s identity. There were no other persons in the firm that would have had sufficient knowledge of the firm’s management.

Cases were selected to this study on condition that they had cross-border venture capital financing. There was a share of convenience sampling in our case selection procedure in the sense that all case ventures of the study had begun to run business in a single country, Finland. Such sample, however, allows researchers to make ‘generalizations to theory’ that comprise the essence of the grounded theory method (Eisenhardt, 1989; Strauss and Corbin, 1998; Yin, 1994). We also believe that generalization possibilities in the other, ‘statistical’ sense of generalizing as used in theory-testing research (see a review from Yin, 1994: 30-32) can be suggested into many domains, including that of ventures starting off from geographic positions that have an abundance of prestigious investors nearby. Characteristically for a grounded theory study, our paper leaves it for theory-testing research to more specifically determine the domain to which results can be generalized.

In the course of data collection, it became apparent that there was notable variation among the cases in terms of local investors’ expected contribution to the day-to-day management and local market knowledge of the ventures. There is also some variation in the factors that we propose to moderate the relationship. Identifying this variation was essential for our grounded theory research as pursued from the postpositivistic paradigm (Lincoln & Guba, 2000) of ours.

Table 2 presents key descriptive information of the investment rounds. The dates of investment rounds and locations from where the investment was managed, along with the year of founding of the investee firms illustrate the chronological and geographical structure of the syndicates. It can be seen from the table, that local venture capitalists frequently precede cross-border venture capitalists as investors.
Data Collection

Our data sources included interviews, observations, and documentation, with interviews being the primary source. The interviews were semi-structured in order to get rich data from the respondents and to allow the conversation to explore new issues emerged in the interviews. As documented in Table 1 all entrepreneurial respondents were members of the management team of the venture – often CEOs. Only in two venture capital firms, we were not able to interview the person that was the firm’s representative in an investee firm’s governance.

In the umbrella project involving ten ventures, the first twelve interviews were used as a pilot study, after which revisions were made to the interview questions. In the later stage, the interviews were tailored by including additional questions that were drafted specifically for each interview. These questions dealt with issues raised in the previous interviews concerning the focal case.

One rationale for adding new elements to the interview guide was that we could benefit from triangulation (Eisenhardt, 1989; Miles & Huberman, 1994) by asking about important phenomena from virtually all informants in each case. Possible biases in the data, such as biases caused by potential post hoc rationalization, can be reduced by such triangulation. There were only a few answers in the data altogether in which we had reason to believe that an answer was not reliable. We are rather confident that we were able to reach saturation in our knowledge so that we know the true states of occurrences.

Additional questions resulted from a preliminary data analysis. Such overlap of phases is a key feature of theory building studies using cases, enabling adjustments during the data collection phase of the study (Eisenhardt, 1989). The adjustments allow the researchers to, for instance, probe emergent themes more efficiently. This flexibility allows improvement in the quality of the results, enabling researchers to benefit from the uniqueness of the cases and the
emergence of new themes (Eisenhardt, 1989). In some instances, further viewpoints on the subject matter were obtained. The interviews were tape-recorded and later transcribed, except in one case where the respondent declined taping.

We used field notes as another form of recording interview data. The notes facilitate the execution of data analysis concurrent with data collection (Eisenhardt, 1989). These notes were written during each interview directly on a laptop computer. There are two categories of notes in the documents. First, there are brief remarks of the interviewer’s insights obtained during the interviews that include syntheses. Second, there are notes of the content of virtually every answer of the respondent, with the exception of parts that were irrelevant for the studied phenomenon. Hence, the field notes comprise both observation and analysis (Eisenhardt, 1989). Particular notice was paid to writing down important perceptions, such as questions regarding on the correctness of the obtained data.

The field notes comprise altogether more than 300 pages. We wrote necessary supplements to the field notes in the hours following the interview so that the procedure complied with the “24-hour-rule” (Miles & Huberman, 1994). The average interview lasted for just over an hour, with the shortest taking forty minutes, and some running for two and a half hours. In addition to the actual interviews, a number of informants were called later to supplement the data.

As our secondary sources, we used company websites, press releases, news from the most important outlets, and other relevant material. With some questions, this material provided an effective means for data triangulation and thus may have helped to increase the reliability and validity of the data (Miles & Huberman, 1994). Before the first interview of a case, the interviewer familiarized himself with the secondary data, producing an initial version of the venture’s event timeline. The initial version of the timeline supported the
interview process: refreshers could be given to the informants from the secondary data, and vice versa, the accuracy of the secondary sources could sometimes be checked.

**Data Analysis**

In data analysis, we employed procedures suggested by Eisenhardt (1989), Miles and Huberman (1994), and Yin (1994). We started with within-case analysis, treating the cases as separate “experiments” (Eisenhardt, 1989). We reviewed and when necessary, supplemented the timelines that had been built for the cases, and compared these timelines with other records of data and the analyses and syntheses made by the interviewer in his notes. Concepts were identified by writing notes in our detailed interview memoranda and other review and analysis papers. This process involved numerous discussions and reviews of text and different tables that had been constructed to depict and reduce data as advised by Miles and Huberman (1994). As a result of this process, we had developed a detailed view of each case. Such view may mitigate the difficulty that the phase of cross-case analysis may pose to researchers analyzing a large set of data (Eisenhardt, 1989).

In a cross-case analysis (Eisenhardt, 1989), we tried to find similarities and differences from sets of two or more cases. We also compared cases that appeared as similar to discover patterns that might have gone unnoticed previously. New categories and concepts emerged as a result of cross-case analysis. We often returned to our notes, other material, and literature to refine and verify our classifications. This rotation among literature, data, and emergent insights is an essential ingredient of grounded theory research called for in the guidelines of Eisenhardt (1989), Strauss and Corbin (1998), and Yin (1994). We continuously sought to raise the level of abstraction, using the data and prior literature in our reflection of the emerging findings. Comments from our colleagues were used to test and supplement our thinking. We believe that as an outcome of this iterative process, the constructs and their interlinkages became sharper and their grounding in the data was corroborated.
Once something that prominent authorities suggested avoiding (Glaser & Strauss, 1967), researchers were aware of existing literature. According to the current dominant understanding of the grounded theory process, the possession of such knowledge is essential for the success of the research also in the case of grounded theory (Eisenhardt, 1989), because it allows researchers to focus the research question and define possible a priori constructs and constantly compare the emerging framework with literature and guide the analysis process. Earlier literature of various fields gave us the basis on which to build our model. According to the spirit of grounded theory inquiry (Glaser & Strauss, 1967), no ex ante hypotheses were used. During the process, several versions of the integrative model were discussed. Finally, we ended up with the model introduced the next section and in Figure 1. We illustrate causal relationships of the data and their support for our propositions in the variance-representation display of Table 6 (cf., Miles & Huberman, 1994). Such display provides an overview of the variance in the data that relates to our model’s constructs.

THE ROLE OF LOCAL INVESTORS IN THE FORMATION OF CROSS-BORDER VENTURE CAPITAL SYNDICATES

The contributions and simply the existence of a local investor seem to be of utmost importance to many ventures. A foreign investment manager describes the importance of the local investor’s efforts and the role that day-to-day support given to the entrepreneurial team plays:

*Normal day-to-day support and administrative support should be done by the local investor. But in business development and such things, both investors [local and foreign] will have to participate as much as possible.*

Possibilities of cross-border investors to provide “day-to-day” backing – support for operational decision-making and management – appear to be much lower than those of their local counterparts. A Finnish investment manager’s view illustrates:
In the end, a foreign investor contributes surprisingly lightly to day-to-day operations. Expectations can be high. What do they actually do for a company? Perhaps there is not so much contribution.

Even though venture capitalists are most active in governing early-stage ventures (Gorman & Sahlman, 1989), later-stage ventures need advice as well. The data eloquently indicate that it is not the case that local investors are the typical providers of day-to-day help just because such help is most needed in the early rounds and local investors are typically the first to enter. Local investors clearly have an advantage in providing advice in operational decisions and knowledge of local markets.

Issues of culture and geographical distance appear to have important roles, amplifying the advantage of a local investor in contributing to the development and monitoring of the portfolio company. Knowledge of local law is a specific issue that received a number of mentions in the data. These quotes illustrate:

*The contribution of the local investor is very important. It is very important to be physically close. Geography and culture have an effect. We would not invest without a local investor. Good ventures probably always have a local VC. The local investor also knows a lot about the law. They have important information on the local market. -- We are interested especially of those firms in which our [local] trusted prior acquaintances have invested.*

One local venture capitalist may be enough for providing the needed assistance. Once there is a local investor in place, cross-border investors may be reluctant to take another along:

*A big foreign investor does not usually want more local investors in addition to those that already exist, because the Finnish market is so small. One does not need another local investor.*

The following comment from a domestic investor emphasizes the signaling role that the local often has simply by having made the investment.
A local investor is probably very important as a transmitter of signals. A foreign investor may have doubts that there is something wrong if the firm has not received investments from its home country. A top firm may, however, do this, proceed without local investors, because they can tell that we have the option to choose and thus we will not necessarily have to take a local investor along.

The following vignette illustrates the role of local investors’ social capital and the signaling effect towards cross-border investors.

It is important that there is a helpful and active local investor. -- In early stages of the venture’s life it is very advantageous to have a local VC. [The entrepreneurial team gets] local contacts and advice et cetera. -- [Foreign] VCs from Europe are more comfortable if there is a Finnish investor involved.

The following comment illustrates how the lack of a local investor may have to be compensated by cross-border investors by the laborious effort of trying to provide day-to-day support to the entrepreneurial team from abroad.

Helix was very much involved [in advising management] in Pollux, because the phase was early. It is the case in Pollux, that we were involved also because there was no local investor.

An American investment manager describes the difficulty of contributing to a distant firm as follows.

Yes, it is very difficult. You have to change your lifestyle. [One needs to] spend significant time away from the home office.

Yet, a local investor may not be necessary for all ventures. Two companies in our data set are succinct examples of such firms: Pollux and Vega. In this multiple-case framework of ours, these cases avail themselves for analytical generalization only: their number of two is too small to be reasonably considered in the variance-representation of Table 6.
Pollux received offers from local venture capitalists with valuations that they thought to be too low. In contradiction with the view of some Finnish investors, the entrepreneurs were confident that they could raise cross-border funding without the participation of a local investor. The firm was considered to be promising by cross-border investors, one of which picked the entrepreneurial firm up in their scan of prominent Scandinavian ventures. We call this investor Helix. It is a successful and well-known corporate venture capital arm of a large multinational corporation. At that time, a member of the entrepreneurial team criticized Finnish venture capitalists in a press interview for lack of experience in the markets of the industry and contacts for supporting internationalization. He added that “internationalization-related knowledge is, from the entrepreneur’s point of view, the most important criterion for choosing an investor.” After Helix’ participation, entrepreneurs at Pollux did not want Finnish venture capitalists to be asked to participate investments on later rounds. Afterwards, the company has acquired four other investors, one of which is a well-known U.S. venture capital firm.

Our detailed analysis of Pollux leads to the conclusion that both in the opinion of the entrepreneurs and in reality, the technology of the firm was more valuable than implied by the offers of Finnish venture capitalists. Pollux was able to raise cross-border venture capital with a more attractive valuation, and local investors were left with empty hands in what later could be viewed as a good investment.

Of our cases, Vega was another one with no local investors. They also received an investment from a very well-known venture capital firm that participated already the first round of investment. The firm is developing a ground-breaking technology with potentially great markets and was, as was Pollux, able to choose its investors.

In Vega’s case, there was no specific reason for not including a Finnish investor. The management simply did not feel a special need for taking a Finnish investor along in their
first round of investments. The firm has thereafter decided that a major part of its operations will remain in Finland. The entrepreneurs did not have much prior experience in running a venture. When the second round was planned, both incumbent investors and entrepreneurs would have welcomed Finnish investors because they viewed that domestic investors could have provided help in the day-to-day management of the firm. However, Finnish investors did not participate in this round either. According to our analysis, the ground-breaking technology and its projected substantial markets were the focal factor that made Vega very attractive in the eyes of investors. It was relatively easy for the firm to obtain a very prestigious U.S. investor (one that is practically always considered to be among the top-five U.S. venture capitalists) and the management felt that they can do without a local investor. They seem to have done well without a local investor and in our contention, the reason lies in the fact that the firm was just developing its technology and does not even plan substantial marketing efforts in Finland, where they perceive themselves to virtually have “no market.”

Venture capitalists that are perceived to have low quality can relay a negative signal by their presence. The following quote illustrates:

> Generally, it is a plus if there is a local investor, if they have a good name. But VC circles are so small that there is a blacklist of persons and firms, with which investors do not want to make deals. So, in some cases there can be a disadvantage of having local investors, if they are not professional.

Illustrating the roles of endorsement and negative signaling, investment managers have stated for instance that the willingness of a cross-border investor to invest generally “comes down to the question: who is the local investor.” Moreover, the absence of local investments appears to relay a negative signal to cross-border investors, echoing the finding of the study that local investors can have distinct contributions that are much needed. There is, naturally, the exception of rare ventures that have been in a position to persuade cross-border investors from the beginning on – Pollux and Vega are examples of such firms. For example, even
though Vega was able to obtain cross-border investors without local investors, it appears that is still would have benefited from the operational advice of local investors. However, the venture would not have needed knowledge of local markets. This appears to be due to the facts that the company is just developing technology, its sales are planned to begin directly from the USA, and the Finnish market is of negligible relevance for it.

When asked if the presence of a local investor helps in obtaining a cross-border investor, a venture capitalist commented as follows.

*Pretty often, especially in these days, if a Finn [an entrepreneur] directly approaches international investors, one may wonder that what is wrong in this case – because no money has been found from the home country. Is there something wrong? Only a top person can actually go to London and get money from there without having any locals [venture capitalists] with them. -- if the international investor ends up making the investment, they will want to see a local investor participate as well from the beginning on – because it guarantees that there are no surprises on the background.*

In the following subsections, we detail how the data and its analysis lead to our model. We provide illustrative vignettes in our text and in Tables 3, 4, and 5, which systematically cover the cases providing description of the data. Table 6 then ties the evidence together for showing support for the wholeness of the model: each column in Table 6 represents a construct in the integrated model presented in Figure 1. In Tables 3 to 6, the cases’ attributes are qualitatively summarized by a division into three or four levels along each of the dimensions. Given that Pollux and Vega do not have a local investor, they do not obtain a score in all columns. For firms that have several local investors, the attributes in the table refer to the combined effect of local investors.

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Insert Table 3 About Here
It is worthy of noting that in the tables, we refer to the state of these attributes at the time when the firm and incumbent investors contacted cross-border venture capitalists in the intention of obtaining them as investors, basing our estimates on an in-depth view of the cases. Key data sources were interviews and supplementary calls in which we specifically asked entrepreneurs to provide their opinion concerning these scores.

Table 6 illustrates that the studied ventures typically have a notable amount of at least either management team experience or local VCs’ operational participation, and similarly they either have local VCs knowledgeable of local markets and rich in contacts, or a less relevant home market. Local VCs also have significant international social capital.

We have taken into consideration that home market can be – and, for many of these firms, is – important due to its role as a launching pad of international business, even if it would not be significant in terms of current or future sales.

A further note on the concept of investment readiness as an investment target is in order. This construct embodies a challenge for measurement from our qualitative data: one probably cannot expect to get reliable comments from any key party on it. In fact, we asked from the investors that how did they perceive the attractiveness and suitability for investment of the ventures, and from the entrepreneurs that how did they think their cross-border investors might have perceived these attributes of their enterprises. Indeed, as expected, we received lots of very positive appraisals of such attractiveness and suitability, it being very difficult to differentiate between them. It also makes this issue complicated for qualitative
research that it is hard to find something to compare the ventures’ investment readiness with. For instance, it is difficult to figure out that what is the average quality of the deal-flow, that is, investment proposals a venture capital firm has obtained at that time.

Contacts of local investors to foreign ones appeared to be an important part of locals’ value-added to ventures seeking cross-border investments. Based on our data, we suggest that investment readiness of a venture makes receiving a cross-border investment feasible and thereby works to further increase the likelihood of investment. Local venture capitalists’ international social capital (Yli-Renko, Autio, and Tontti, 2002) moderates this relationship. The effects that we have introduced above are articulated in explicit propositions below. We use the following headings to classify and briefly summarize the propositions.

**Local Venture Capitalists’ Advice to Entrepreneurs**

In each of the cases where there is a local investor, the local investor has participated the management of the venture. A key contribution of a local venture capitalist is advice in the numerous operative decisions of general nature for venture capital financed firms. In one of the abovementioned two ventures that did not have a local investor, the cross-border investors contributed more resources to the day-to-day management of the company than what they would have if there had been a local investor. An investment manager also acknowledged to the interviewer that such participation was more difficult from abroad and would best be done by a local investor, as illustrated by vignettes in the previous section. In the other case, the entrepreneurs thought that they needed to do more by themselves.

If the entrepreneurs have significant prior experience in managing businesses, particularly from top management of independent business, they need less operational advice. This phenomenon is well materialized in the cases of Antares and Rigel, where the need for investors’ advice has often not been low, including in internationalization-related decisions. We advance the following two propositions.
Proposition 1a: Existence of a local VC that positively contributes by advising the entrepreneurial team in operational issues will increase the venture’s cross-border investment readiness.

Proposition 1b: Entrepreneurial experience of the management team will decrease the need for day-to-day management contribution of a local VC.

Local Venture Capitalists’ Knowledge and Social Capital and the Entrepreneurial Experience of the Venture Management Team

The data support the intuitively appealing suggestion that local investors have an important role in increasing the knowledge base and social capital of their investee ventures on issues related to home markets. Knowledge of markets in foreign locations of expansion have been previously termed “foreign organizing knowledge” (cf., Johanson & Vahlne, 1990). Following this logic, we advance the notion of this local market knowledge as local organizing knowledge. Similarly, we participate the young stream of research in the local-international division of social capital (Yli-Renko et al., 2002) and term the social capital discussed in this subsection local social capital as distinct from international social capital.

It should be noted that despite the apparent importance of local investors, there seem to be ventures for which the home market is important neither as a notably large market nor as a launching pad for international or global operations. For such ventures, local investors cannot provide much help with their market knowledge and social capital. Vega is a good example of such case: they have been able to obtain cross-border investors without local investors due to excellent prospects of their business. The significance of the home market is negligible to them. They do not have a local investor, even though a local could have helped in some operational decisions and would have been welcome for the second round.

Also significant prior experience of the management team in managing a business may provide the firm with much of the necessary resources in the local market. Antares and Rigel have had notably experienced managers from the beginning. Home markets are important for
both companies, yet we do not view their key local investors as having very deep knowledge or social capital in the local market.

An important observation, for which we had less but nevertheless intermediate support in our data, and which is notably supported by anecdotal evidence, is that the previous entrepreneurial experience of the managers directly affects the investment readiness of the venture, promoting it. Correspondingly, when there is much of such experience, the operational participation of the local venture capitalists cannot be of so much use for the venture, because the benefit is already gained via entrepreneurial experience effects. The following propositions synthesize the evidence.

**Proposition 2a:** Existence of a local VC providing the required local organizing knowledge and local social capital on the home market of the investee firm will increase the venture’s cross-border investment readiness.

**Proposition 2b:** Low relevance of the local market for investee firm’s business will decrease the importance of a local venture capital investor providing local organizing knowledge and local social capital.

**Proposition 2c:** Significant entrepreneurial experience of the management team will decrease the importance of a local venture capital investor providing local organizing knowledge and local social capital.

**Proposition 2d:** Significant entrepreneurial experience of the management team will directly increase the cross-border investment readiness of the venture.

**Presence of Low Quality Local Investors and the Absence of Local Investors**

“A bad VC can give a bad signal,” argued an informant of ours. By their presence, local investors importantly signal to cross-border investors about the level of investment readiness of ventures. According to our analysis, reviewed and illustrated with quotes above, the signal that local investors send is not always positive, but is determined by the quality that cross-border investors perceive the local investor to possess. It is also notable that the
absence of local investors can relay a similar negative signal. However, as exemplified in the
cases of Pollux and Vega in the above review, some ventures under certain circumstances
may be able to obtain cross-border investments without a local investor.

Taken together, the presence of low-quality local investors and the absence of local
investors worsens how cross-border investors view the venture’s prospects. In our model
depicted in Figure 1, the absence of a local investor is present in the absence of benefits that
generally are derivable from local investors. The following proposition embodies results
summarized in this section.

**Proposition 3:** The presence of low-quality local investors and the absence of
local investors will convey a negative signal of the investment readiness and
prospects of the venture to foreign venture capitalists.

The Effect of Local Venture Capitalists’ International Social Capital

Above, we have discussed several factors that, according to the theoretical framework
advanced in this paper, explain the cross-border investment readiness of a venture. Such
readiness makes an investment feasible. In our model, investment readiness represents the
potential for receiving cross-border investments, thereby improving the likelihood of such
investment. However, we find that the relationship between the readiness and actually
receiving an investment being moderated by international social capital of the local investors.
In other words, investment readiness creates the potential for a cross-border investment and
international social capital helps to realize that potential.

By international social capital (Yli-Renko et al., 2002) we refer in this context to social
capital (Coleman, 1990; Nahapiet & Ghoshal, 1998) that a local investor possesses in relation
to cross-border venture capitalists. Venture capitalists are typically well networked with other
venture investors. When ventures are investment ready, that is, feasible cross-border
investment targets, their local investors can promote them to the international investors in
their syndication networks and thereby facilitate cross-border investments in their portfolio companies.

It is a common practice for certain venture capitalists to promote their portfolio companies to their international colleagues in order to facilitate creation of international syndicates and thereby support the internationalization of the portfolio companies. The higher the international social capital of the local investors, the higher the chances that they will find an international investor to make a syndicated cross-border investment. This facilitative role of local investors increases the visibility of the portfolio companies and lowers the barriers of cross-border investors to make an investment. The following proposition is advanced.

**Proposition 4:** Social capital of a local VC to international investors increases the impact of cross-border investment readiness on the likelihood of receiving a cross-border investment.

**DISCUSSION**

In this study, we set out to examine how ventures are able to attract cross-border venture capitalists to invest. We found that a local venture capital investor often plays an important role in this process – not only through its contacts and knowledge but by taking care of certain responsibilities that are often easier to manage from a proximate location.

Our results indicate that usually, a local investor is crucially important for a rapidly growing venture. Major effects of a local investor on an entrepreneurial venture include that (1) a local investor can provide day-to-day (operational) support and business advice for the entrepreneurial team, which is important particularly for early stage ventures, (2) a local investor can advice the venture in issues related to local market and legal environment, (3) a local investor can provide contacts on local markets and to cross-border investors, (4) through its presence and status, a local investor signals the quality of the venture. Due to these effects, the existence of local venture capitalists increases a venture’s cross-border investment
readiness, that is, their degree of maturity for receiving cross-border investments. The signal of investment readiness produced by the existence of a local investor can also be negative, if the local investor’s quality in providing the above benefits is perceived as low and the need for them as high.

The paper puts forward a conceptual model of the role of a local venture capital investor in the formation of an international syndicate, presented in Figure 1. The model consists of the following relationships. (1) The existence of a professional local investor which can be expected to take care of the operational management and monitoring of early-stage ventures relays a positive signal of the cross-border investment readiness of the venture to cross-border investors. (2) The experience of the entrepreneurial team moderates the relationship making the importance of a professional local venture capitalist more valuable the less experienced the entrepreneurial team is. (3) The existence of a local investor with perceived good knowledge of the domestic markets and contacts therein relays a positive signal of readiness to cross-border investors. (4) The importance of the local market for the venture moderates the relationship making the existence of a knowledgeable local investor less important the less relevant the home market is for the venture. (5) The experience of the entrepreneurial team moderates the relationship making the importance of a professional local venture capitalist more valuable the less experienced the entrepreneurial team is. (6) Management team experience also directly affects readiness, promoting it. (7) Readiness increases the likelihood of cross-border venture capital investment (indicated in the model by the effect to “Cross-border venture capital investment”). (8) The international social capital of a local investor to cross-border investors moderates the relationship between investment readiness and occurrence of the investment with a positive effect.
Above in this work, we have proposed that besides taking care of certain responsibilities in the management of portfolio companies, local venture capitalists may influence the investment selection of cross-border investors. A cross-border venture capitalist may view the existence of a respected local venture capitalist as a positive signal certifying the quality of the venture. This finding is well in line with prior research on interorganizational endorsement (Stuart et al., 1999), where it has been shown that in decisions concerning unknown and uncertain ventures, external parties infer the quality of the venture from the affiliates of the venture.

The finding that the importance of a local investor for attracting cross-border investors is decreased if the entrepreneurial team possesses significant prior entrepreneurial experience is in line with prior research that entrepreneurial experience reduces the value added benefits from venture capital in domestic contexts (Sapienza, 1992). Furthermore, our results support the intuitive notion that if the home market is not very important in terms of sales or as a launching pad of international operations (see Kuemmerle, 2002), local investors’ knowledge of the market is not as essential.

Finally, we found that the contacts of local investors to cross-border investors are also a key resource that they can contribute for the venture. The international social capital of the local venture capital investors is an important facilitator of cross-border venture capital investments.

When interpreting the results, there are some caveats to be recognized. In our research, we focused on investments made in one country, Finland. Although prior comparative research suggests that venture capitalists operate quite similarly in different countries (Manigart et al., 2002a; Manigart et al., 2002b; Sapienza et al., 1996), there may certainly be some country-specific differences in their behavior. Finland is a small open economy with a relatively young venture capital market and small home market for rapidly growing ventures.
An investigation examining cross-border investments in multiple countries could examine how the roles of local investors are influenced by country specific factors.

While this model was developed in a highly focused context, cross-border venture capital syndication, we believe this model could be at least partially applicable also to other contexts of international interorganizational ties and networks. Future research could test the propositions of the model using large-scale testing, helping to thoroughly establish the domain of external validity of the results across geographical areas and likewise across topical boundaries so that broader theoretical implications can be tested. Our current results extend those of prior venture capital studies (e.g. Gorman et al., 1989; MacMillan et al., 1989; Steier & Greenwood, 1995) to the cross-border context.

**CONCLUSIONS**

The conclusions from our analysis of the determinants of cross-border venture capital syndicates are that local venture capital investors usually play an important role in attracting cross-border venture capital investors. However, if the experience of the entrepreneurial team is particularly strong, the role of the local venture capitalist may be less critical. Also if the home market of the venture is insignificant for the future plans, the role of the local investor may be less crucial. Contacts between the local venture capitalist and cross-border venture capitalists increase the likelihood of a cross-border venture capitalist investing in the venture.

More broadly, our model of the role of local investor in the formation of international syndicates may have validity to application in other contexts of international interorganizational ties and networks. Our findings contribute to evolving stream of research on international social capital (Arenius, 2002; Yli-Renko et al., 2002), where our paper is among the few to address the effects of social capital as a facilitator of forming international ties, and to research on contingencies influencing the role of social capital for new ventures (Gulati & Higgins, 2003; Hite & Hesterly, 2001; Shane & Cable, 2002).
Suggestions from the model to a broader domain are that obtaining cross-border interorganizational ties may be facilitated by local affiliate actors that make sure the “home base” (Kuemmerle, 2002) is in proper order and can thus support internationalization efforts. As a key effect, local actors \textit{signal} (Spence, 1973) cross-border ones on the focal actor’s maturity for internationalizing its network, providing endorsement (Podolny, 1993, 1994; Stuart et al., 1999) if their quality is high. Signaling is needed due to information asymmetries (Akerlof, 1970) faced by distant actors.

We hope this research will inspire additional research on cross-border venture capital and on the role of international social capital and endorsements in the formation of interorganizational ties and networks in international settings.
REFERENCES


Table 1

Descriptive Data on the Cases and the Interviews

<table>
<thead>
<tr>
<th>Firm</th>
<th>Industry</th>
<th>Management Team</th>
<th>Investors a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altair</td>
<td>Software</td>
<td>CEO, VP of Business Development (2)</td>
<td>6 of 8</td>
</tr>
<tr>
<td>Antares</td>
<td>Software</td>
<td>CEO, CTO</td>
<td>3 of 3</td>
</tr>
<tr>
<td>Betelgeuse</td>
<td>Software</td>
<td>Deputy CEO (2), CFO</td>
<td>3 of 3</td>
</tr>
<tr>
<td>Capella</td>
<td>Software</td>
<td>CEO, CTO (2)</td>
<td>2 of 2</td>
</tr>
<tr>
<td>Fomalhaut</td>
<td>Communications devices</td>
<td>Former CEO, another former CEO, CTO</td>
<td>3 of 3</td>
</tr>
<tr>
<td>Pollux</td>
<td>Software</td>
<td>CTO, VP of R&amp;D, former VP of Marketing</td>
<td>3 of 3</td>
</tr>
<tr>
<td>Procyon</td>
<td>Software and related services</td>
<td>CEO (3)</td>
<td>3 of 3</td>
</tr>
<tr>
<td>Rigel</td>
<td>Software</td>
<td>CEO, CTO</td>
<td>2 of 4</td>
</tr>
<tr>
<td>Vega</td>
<td>Materials for hardware</td>
<td>CEO (2)</td>
<td>0 of 4</td>
</tr>
</tbody>
</table>

a We have excluded small investors that cannot be considered as venture capitalists or are otherwise negligible for the purposes of the study. One interview was conducted in an investor firm per a venture, except than in nine investor-investee dyads, two investor interviews were performed.
### Table 2

#### Description of Investment Rounds

<table>
<thead>
<tr>
<th>Venture</th>
<th>Founding</th>
<th>Round 1</th>
<th>Round 2</th>
<th>Round 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altair</td>
<td>1997</td>
<td>1998-Q3</td>
<td>2000-Q4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>DVC (co-lead)</td>
<td>DVC</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>DCVC (co-lead)</td>
<td>DCVC</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (lead, Northern Europe)</td>
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<td></td>
<td></td>
<td></td>
<td>CBCVC</td>
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<td>CBCVC</td>
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<td></td>
<td></td>
<td></td>
<td>CBCVC</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Others</td>
<td></td>
</tr>
<tr>
<td>Antares</td>
<td>2000</td>
<td>2000-Q1</td>
<td>2000-Q3</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>DVC (lead)</td>
<td>DVC (lead)</td>
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<td></td>
<td></td>
<td>DVC</td>
<td>DVC</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Others</td>
<td>CBVC (California)</td>
<td>Others</td>
</tr>
<tr>
<td>Betelgeuse</td>
<td>1999</td>
<td>2001-Q1</td>
<td>2001-Q4</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>DVC</td>
<td>DVC (lead)</td>
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<td></td>
<td>DVC</td>
<td>DVC</td>
<td>Others</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (lead, UK)</td>
<td></td>
</tr>
<tr>
<td>Capella</td>
<td>1997</td>
<td>2000-Q3</td>
<td>2001-Q3</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>DVC</td>
<td>DVC</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (lead, UK)</td>
<td></td>
</tr>
<tr>
<td>Formalhaut</td>
<td>1999</td>
<td>2000-Q1</td>
<td>2001-Q4</td>
<td>2001-Q3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DVC</td>
<td>DVC (lead)</td>
<td>DVC</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>DVC</td>
<td>CBVC (lead, UK)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (lead, UK)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (UK)</td>
<td></td>
</tr>
<tr>
<td>Pollux</td>
<td>1997</td>
<td>1999-Q3</td>
<td>2000-Q3</td>
<td>2002-Q1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CBCVC (Central Europe)</td>
<td>CBVC (lead, US East Coast)</td>
<td>CBVC (US East Coast)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CBCVC (Central Europe)</td>
<td>CBCVC (lead, California)</td>
</tr>
<tr>
<td>Procyon</td>
<td>1999</td>
<td>2000-Q2</td>
<td>2001-Q4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>DVC (lead)</td>
<td>DVC (lead)</td>
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<td>DVC</td>
<td>DVC</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (Northern Europe)</td>
<td></td>
</tr>
<tr>
<td>Rigel</td>
<td>1992</td>
<td>1997-Q4</td>
<td>2000-Q4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>DVC (lead)</td>
<td>DVC</td>
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<tr>
<td></td>
<td></td>
<td>DCVC</td>
<td>DVC (co-lead)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (co-lead, California)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CBVC (co-lead, London)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CBCVC (Munich)</td>
<td>Others</td>
</tr>
<tr>
<td>Vega</td>
<td>2000</td>
<td>2001-Q1</td>
<td>2002-Q2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>CBVC (lead, California)</td>
<td>CBVC (lead, California)</td>
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<td></td>
<td>CBVC (California)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CBCVC (California)</td>
<td>Others</td>
</tr>
</tbody>
</table>

Domestic investors: DVC = domestic venture capitalist, DCVC = domestic corporate venture capitalist; cross-border investors: CBVC = cross-border venture capitalist, CBCVC = cross-border corporate venture capitalist
## Table 3

**Local VCs’ Operational Participation and Management Team Entrepreneurial Experience**

<table>
<thead>
<tr>
<th>Firm</th>
<th>Local VCs’ Participation Level to Day-to-Day Management</th>
<th>Summary</th>
<th>Management Team’s Entrepreneurial Experience</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altair</td>
<td>Local investors, especially Aquarius, have provided relevant operational help.</td>
<td>Medium</td>
<td>Several people of management team have significant non-entrepreneurial business experience</td>
<td>Medium</td>
</tr>
<tr>
<td>Antares</td>
<td>Investors would have provided much help, but somewhat less was received due to high management team experience</td>
<td>Medium</td>
<td>An exceptionally experienced entrepreneurial team</td>
<td>High</td>
</tr>
<tr>
<td>Betelgeuse</td>
<td>Local investors have provided important help</td>
<td>High</td>
<td>CEO and Deputy CEO have extensive non-entrepreneurial experience</td>
<td>Medium</td>
</tr>
<tr>
<td>Capella</td>
<td>Capricorn has importantly helped</td>
<td>High</td>
<td>The CEO has good non-entrepreneurial experience, others have limited experience</td>
<td>Low</td>
</tr>
<tr>
<td>Fomalhaut</td>
<td>Some help has been obtained, and much more than what was obtained from CBVCs</td>
<td>Medium</td>
<td>No entrepreneurial experience; one person has had intermediate non-entrepreneurial experience</td>
<td>Low</td>
</tr>
<tr>
<td>Pollux</td>
<td>No local investor</td>
<td></td>
<td>Entrepreneurs had some entrepreneurial experience</td>
<td>Medium</td>
</tr>
<tr>
<td>Procyon</td>
<td>Especially Aquarius provided much help</td>
<td>High</td>
<td>Entrepreneurs had little business and no entrepreneurial experience</td>
<td>Low</td>
</tr>
<tr>
<td>Rigel</td>
<td>Zwicky did not help much; however, due to management team experience, not much help was sought</td>
<td>Low</td>
<td>An exceptionally experienced entrepreneurial team</td>
<td>High</td>
</tr>
<tr>
<td>Vega</td>
<td>No local investor</td>
<td></td>
<td>Entrepreneurs had little business and no entrepreneurial experience</td>
<td>Low</td>
</tr>
</tbody>
</table>

*In “Local VCs’ Participation Level to Day-to-Day Management,” “high” refers to situations where the help was considered important and of being of much use. “Medium” refers to situations where less help was received than what would appeared to have been optimal for the firm. “Low” refers to a situation where very little participation occurred. In “Management Team’s Entrepreneurial Experience,” “high” refers to management teams that have exceptional entrepreneurial experience. “Medium” refers to teams with several people that have significant non-entrepreneurial business experience (which can also be of help in the sense that is relevant for the paper) and a team where the entrepreneurs had intermediate entrepreneurial experience. “Low” refers to instances where a maximum of one person has significant non-entrepreneurial business experience and no one has considerable entrepreneurial experience.*
<table>
<thead>
<tr>
<th>Firm</th>
<th>Local VCs’ Knowledge of Local Market and Contacts</th>
<th>Summary</th>
<th>Importance of Local Markets</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altair</td>
<td>Aquarius provided some good contacts and Carina has other types of helpful contacts</td>
<td>Medium</td>
<td>Very important</td>
<td>High</td>
</tr>
<tr>
<td>Antares</td>
<td>Hydra has been more in the background and is not viewed to have good local market expertise</td>
<td>Low</td>
<td>Condition of operations in “home base” considered important</td>
<td>High</td>
</tr>
<tr>
<td>Betelgeuse</td>
<td>Capricorn suspected to generally have local contacts, but they were not relayed to Betelgeuse apparently due to people issues; little knowledge relayed</td>
<td>Low</td>
<td>Some importance to the home market</td>
<td>Medium</td>
</tr>
<tr>
<td>Capella</td>
<td>Capricorn has excellent contacts, but especially internationally; little knowledge relayed</td>
<td>Low</td>
<td>Very important</td>
<td>High</td>
</tr>
<tr>
<td>Fomalhaut</td>
<td>For Fomalhaut, Fornax has provided good local contacts and knowledge</td>
<td>High</td>
<td>Home market not very important</td>
<td>Low</td>
</tr>
<tr>
<td>Pollux</td>
<td>No local investor</td>
<td>No local investor</td>
<td>Direct financial gains “irrelevant,” but overall, home very important</td>
<td>High</td>
</tr>
<tr>
<td>Procyon</td>
<td>Especially Aquarius has provided good contacts and local knowledge</td>
<td>High</td>
<td>Very important, due to e.g. credibility; financially not important</td>
<td>High</td>
</tr>
<tr>
<td>Rigel</td>
<td>Zwicky has provided some important local contacts</td>
<td>Medium</td>
<td>There is much relevance to “home base”</td>
<td>High</td>
</tr>
<tr>
<td>Vega</td>
<td>No local investor</td>
<td>No local investor</td>
<td>There is virtually no market at home</td>
<td>Low</td>
</tr>
</tbody>
</table>

In “Local VCs’ Knowledge of Local Market and Contacts,” our classification necessarily has to be relatively much based on intuitive logic. “High” refers to market knowledge and social capital that can be significantly beneficial for the portfolio firm. “Medium” refers to a situation in which an investor has contacts of some relevance, but they do not have notably broad contacts. “Low” refers instances where the investor is not viewed to have particularly good contacts or market knowledge. In some cases, an investor was believed to have more contacts but such contacts were not relevant or relayed to portfolio firms. In “Importance of Local Markets,” “high” refers to the home market being particularly important. A majority of the informants viewed the home market to have significant importance; these included informants whose firm had relatively large needs to internationalize to grow to larger markets. “Medium” refers to a case in which the home market has intermediate importance; this importance mainly stems from the company having premises in the ‘home country.’ For two firms, the importance was “low.” In these cases, there was not much dependence of businesses in close vicinity.
### Table 5
Local VCs’ International Social Capital to Venture Capitalists*

<table>
<thead>
<tr>
<th>Firm</th>
<th>Local VCs’ Contacts to CBVCs</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altair</td>
<td>Aquarius and Carina considered to have rather good contacts</td>
<td>High</td>
</tr>
<tr>
<td>Antares</td>
<td>Hydra’s contacts considered very good</td>
<td>High</td>
</tr>
<tr>
<td>Betelgeuse</td>
<td>Especially Capricorn perceived to have excellent contacts, Fornax some</td>
<td>High</td>
</tr>
<tr>
<td>Capella</td>
<td>Capricorn viewed to have excellent contacts</td>
<td>High</td>
</tr>
<tr>
<td>Fomalhaut</td>
<td>Fornax’ viewed to have some good contacts</td>
<td>Medium</td>
</tr>
<tr>
<td>Pollux</td>
<td></td>
<td>No local investor</td>
</tr>
<tr>
<td>Procyon</td>
<td>Aquarius and Hydra’s joint contacts perceived excellent</td>
<td>High</td>
</tr>
<tr>
<td>Rigel</td>
<td>Zwicky viewed to have some helpful contacts</td>
<td>Medium</td>
</tr>
<tr>
<td>Vega</td>
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* The value “high” was assigned to “Local VCs’ Contacts to CBVCs,” if the local investors together had good social capital to cross-border investors that were considered to be prestigious or a notably broad network of close cross-border investors. The value “medium” was assigned in cases where a single local investor had some good contacts.
Table 6
Summaries of the Effect of Day-to-Day Management Participation, Management Team Experience, Knowledge of Local Market, Importance of Local Markets, and Contacts

<table>
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<tr>
<th>Firm</th>
<th>Local VCs’ Participation Level to Day-to-Day Management</th>
<th>Management Team’s Entrepreneurial Experience</th>
<th>Local VCs’ Knowledge of Local Market and Contacts</th>
<th>Importance of Local Markets</th>
<th>Local VCs’ Contacts to CBVCs</th>
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</tr>
</tbody>
</table>
Figure 1
An Integrated Model of the Role of a Local Investor in the Creation of Cross-Border Venture Capital Syndicates

- Management team experience
- Cross-border investment readiness
  - Home market importance
  - Likelihood of cross-border venture capital investment
- International social capital of local VCs

Local VC’s day-to-day management participation
Local VC’s knowledge of local markets and contacts

+ +