Venture capitalist:

Cross Border Investors

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ABSTRACT

The research project aims at understanding what are the drivers that make a new venture attractive for cross-border professional investors -i.e. Venture Capitalists (VC).

Nowadays, always more and more people are willing to create start-ups and their own businesses.

Being an entrepreneur is not easy at all, especially in the very beginning, due to the lack of funds.

The existence of foreign investors and venture capitalists can make the starting of a business easier as it opens up the investment frontiers and opportunities to all over the world, so that start-ups can receive financial contribution globally, instead of being funded by nationals only.

Besides the number of advantages of investing over the borders, it requires a concerned examination of the foreign market, since the diversity of countries' cultures, structures, institutions and policies, which we are going to analyze in a much accurate way, can make the whole selection process more challenging.

Additional questions included in the area of this research paper are for instance, why should a venture capitalist invest in a specific project, idea or business or even investing overseas? What does the business have, in order to attract the investors? Will the business be profitable?

INTRODUCTION

Venture capital investments has been a recent trend which is spreading all over the world thanks to the fast development of high-technological innovations and progress.

VC industry was born in US, then it started to spread to European and Asian countries. The reason of this global spread lies on the beneficial role played by VCs. VCs contribute in helping the portfolio company to reduce moral hazard and agency problems, and more importantly, they provide initial financial support.

In the following chapters and paragraphs, we are going to center our attention to a literature analysis of the VC's investment behavior while investing over the borders.

Starting from a general definition of what are VCs, what do they do, why do they decide to invest overseas, arriving to the study of which characteristics influence their investment decision.

Since the factors influencing the decision behavior over the borders are immense, we are going to analyze some characteristics mainly, which are the international development, institutional, networks, cultural geographical factors.

Being aware of such factors we know what the VCs search and consequently the portfolio companies can work in a more addressed path in order to be financed by VCs and launch their product or service.

1.THEORETICAL CONCEPTS AND HISTORY OF VENTURE CAPITAL

1.1 *Birth*

The birth of VC industry has been quite recently and it can be assigned to professor George Doriot.

Even though venture capital industry has been existing for centuries, it has been Doriot who gave it a modern view, turning it into an actual structured procedure of investment.

In 1946, Doriot was chosen to be the head of the American Research and Development Corporation（ARDC), the first public venture capital firm. Before him, entrepreneurs could only be financed by their families or private investors, Doriot, instead, wanted to help financing every new business idea that he believed would be successful in a future time period.

He was prudent in selecting new ventures, putting the entrepreneur’s personal character as one of the most relevant criteria. Using his own words: ‘a creative man merely has idea, a resourceful man makes them practical.’

After the acceptance of this new way of financing for new businesses, VC investments played a steady increasing role with years passing by, so much that it is still an essential pillar of capitalism until this very moment.

1.2 *Venture capital industry*

During these decades, the phenomenon of start-up business has become very prominent as people are continuously wishing to innovate and to reach a better lifestyle quality through the invention of new services and products.

The role of technological innovation in the sustained growth of a country's economy has been widely accepted and has been of remarkable relevance in the international development of VC industry.

The high rate of growth is attributed to technological innovation, especially to the breakthrough of information technology, and the idea that VC is an innovative factor in helping a more promising technology evolution.

Government also recognized that venture capital investment is important to promote scientific and technological innovation and macroeconomic growth (Barry et al. , 1990; Megginson and Weiss, 1991).

As a matter of fact, according to the data collected by GEM Global Report, there are every year around 100 million businesses launched, in other terms over three business for each second.

Along these enormous number of new businesses born every year, it is understandable that not all the start-ups can have initial capital to invest in their desired project.

Therefore, there are various ways for a start-up to raise money. The most common ones are for instance, angel investors, crowdfunding and venture capitalists.

Angel investors mostly invest in equity with the money made by their own hand and invest during their late ages.

Crowdfunding is a very recent approach of getting funds, as a result of the overspeed of technological progress. It consists on putting your start-up online and just like the word says, raise the money from the crowd. Whoever sees your idea or project have the possibility to invest on you, in exchange for a reward, which is the product selling, or in exchange for equity.

Those mentioned methods of financial support could not provide big amount of cash during a short-term period.

On the other hand, VC investment funds represent a very important source of funding for start-ups that do not have financial instruments and initial access to capital market, being able to offer large amount of money also immediately.

In this paper we are going to concentrate on the VC funds indeed.

Venture capital is a form of financing quite different form the typical investing procedures in public companies. The former requires a higher degree of participation of the VC investor with constant close contact with the venture or in other words there should be a valuable working relationship between the VC firm and the entrepreneur in person.

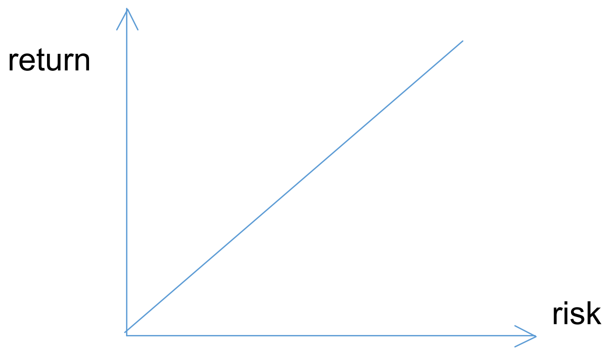
The latter, on the contrary, has a quite indirect and inactive involvement in the decision-making processes.

These two different approaches of ‘taking care’ about a start-up or organization affects the final company’s performance. Companies which are backed by VCs are more likely to build gains thanks to these careful roles played by VCs.

VC investments usually are equity shares that the entrepreneur gives up in exchange for initial capital, and they are provided by professional investors and consisting in helping small, early-stage, emerging firms with strong potential growth.

VC funds carry high risk and expected return opportunities. The risk being the fact that the chosen business could lead to an entire loss of the initial capital invested, in case of failure. On the other hand, the expected return and profit are very high whenever the idea is successful.

This is why every venture capitalist should be very careful in selecting a new venture proposal.



Based on the financial capital asset market concept, we know that return and risk are positively related. VC investments try to increase the return keeping the risk at a minimized degree thanks to the portfolio diversification, positioning in the first triangle of the Cartesian graph.

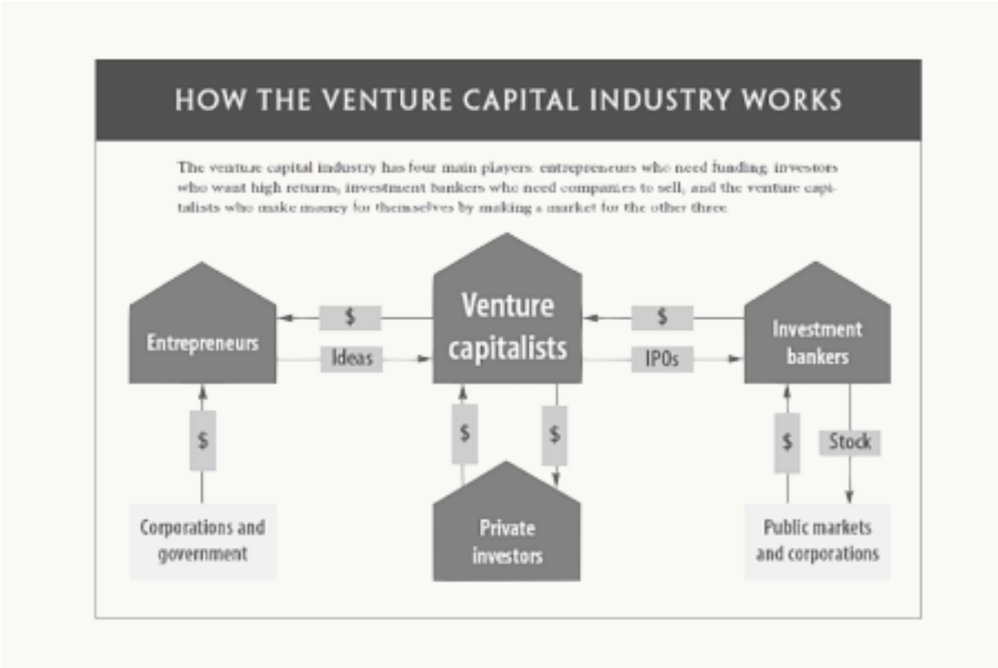


Figure 1, How the venture capital industry works[1]

From figure 1 we can notice that the VC industry includes four main protagonists: entrepreneurs who are looking for investors available to give or release funds; investment bankers who need firms to sell; private investors who want high return; and there are venture capitalists playing the central role in this whole scheme.

Venture capitalists are professional investors with large amount of wealth in their hands and they like to invest their capital in businesses with a long-term growth perspective.

[1] Source: Zider B., How venture capital works

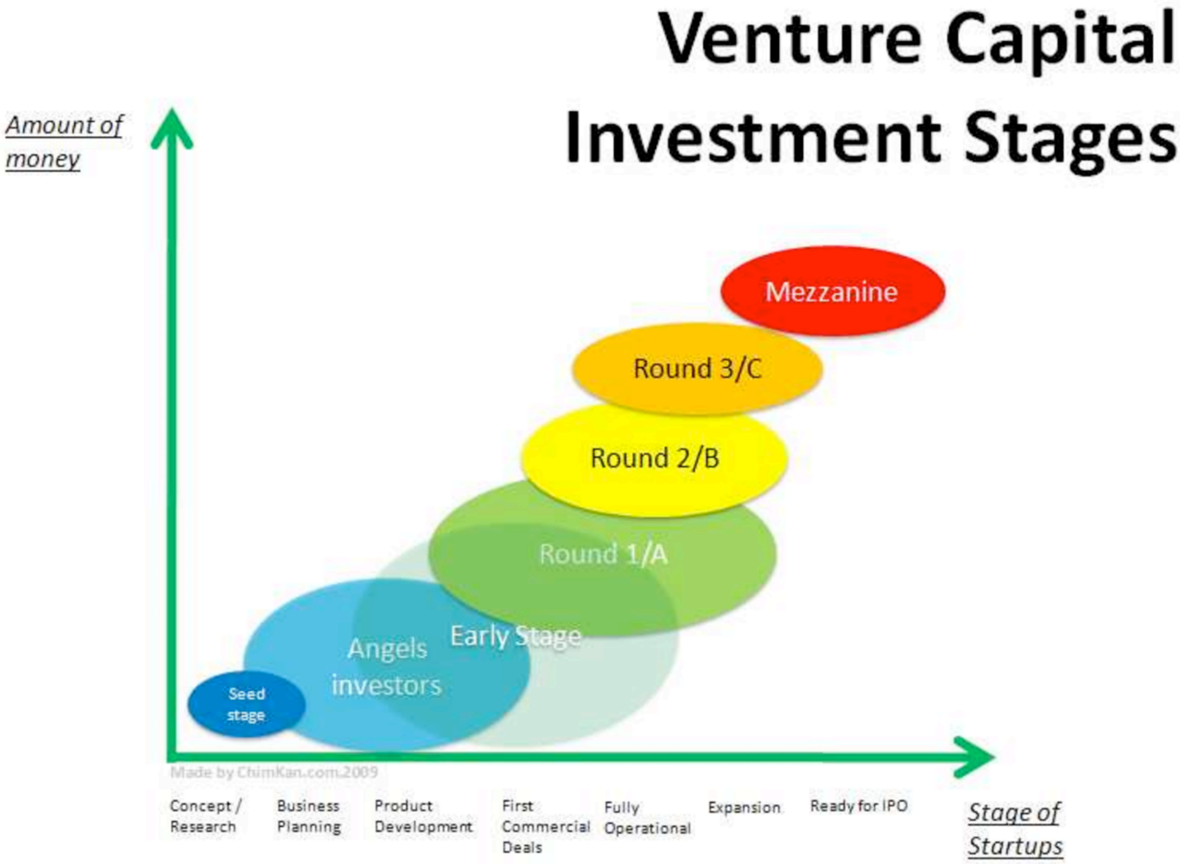


Figure 2, Venture capital investment stages[2]

Investments happen in rounds normally, reducing in such a way the risk of the portfolio company's failure.

Round investments are also beneficial for the start-up founders, because if the venture capitalists decide to give all the required money at an initial time, the founders need to give up a larger pie of their share, thus losing more control over the business.

This happens because, at the starting point of a business, when it still has not produced any sort of visible revenues, the business itself has low value.

With time passing by, and accordingly the rise of gains, the business value goes in a proportional direction, so that the founders can hold a larger pie of the shares without giving up too much of their ownership.

2 Source: Alisha, What does series funding mean in start-ups

In most cases, VCs choose to operate during the early stage, being the time frame when the company is still testing and developing a product or service, and not ready to launch it into the market yet.

From figure 3 we can notice that as the start-up begins to have a determinant position in the market, the the probability of failure are much reduced.

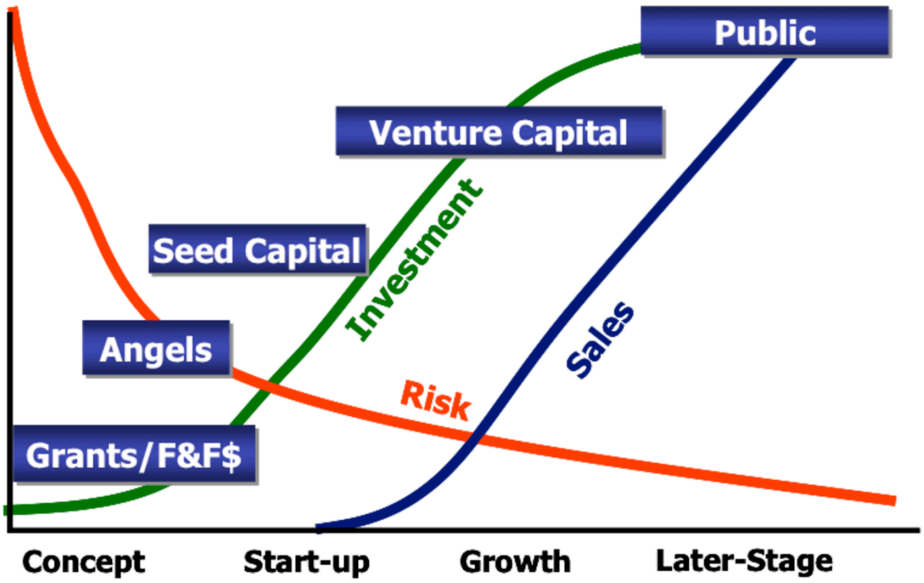


Figure 3, Stages of investments with degree of risks[3]

1.3 *Criteria used by VC firm in investing*

As we mentioned before, VC investment is a high risk-return activity. The valuation of new venture proposals is far from easy due to unpredictable long horizons of market and product development. But venture capitalists can use some criteria in order to minimize the risks while pursuing greater efficiency and effectiveness.

Venture capitalists embrace with a more professional knowledge background, it can make more accurate judgments about the value of a start-up, so as to better solve investors' problems, like information asymmetry between entrepreneurs

[3]Source: Mars library, Stages of company development: angel, seed and venture capital investors

and investors ((Sahlman, 1990), Ueda (2004)).
Start-ups with fast, low collateral, high risk and high margins are less symmetrical and tend to invest in venture capital financing, while a country's better protection of intellectual property will also inspire start-ups to raise funds for venture capital.
On the other hand, how are venture capitalists shifting through so many start-ups?

According to a quite old research carried by Macmillan, Siegel, Narasimha (1985), the most important criteria are related to the entrepreneur’s own personality and experience.
They carried the research creating surveys, collected the received data and finally analyzed them to arrive to such conclusions: five out of ten most important criteria are related to the entrepreneur’s experience and personality, being (1) capability of evaluating and reacting well to risks; (2) attention to details; (3) deep familiarity with the market targeted by the ventures; (4) demonstrated leadership ability in the past; (5) capable of sustained intensive effort.
Moreover, also George Doriot, the father of modern VC was in line with this view as he believed that the entrepreneur’s personal character played a significant role in the valuation process.
At the same time, business plan should be simple and authentic (Hall ad Hofer, 1993), with a straightforward inclusion of all relevant information. The business plan is also able to show that the entrepreneur has staying power, is adaptable and understands the target market, though the business plan content is a necessary but not sufficient criterion to be accepted.
In addition, there are other several factors that can influence the selection criteria, since this work requires the involvement of very several aspects of the characteristics about the market, the product or service and similarly, the amount

of financial supports asked by the start-up.

Another major concern is the stage of development of the portfolio company. More often, VC firms are more willing to invest in early stages, that is when both the return and risk are high. VC are not very much concerned by the high risk ventures as they are able to mitigate the risk until its minimum.

During the early stages, start-ups have low influence in the market, so they are more likely to depend more on VCs and listen to them. In other words, VCs has greater decision power in negotiations.

On the other side, during later stages, when start-ups have settled somehow their marketing value and power, VCs might lose their control power over the selected venture.

A better understanding of the criteria used for the selection of new ventures is important not only for the venture capitalists but also for the prospective entrepreneur who should be aware of the venture capitalists' investment preferences.

Knowing the needs of each other increases the likelihood of establishing a teamwork as each party can match its needs wants with what it can actually find among all the market offers.

1.4 *Investment activities*

Along with the 100 million businesses launched every year, how are venture capitalists shifting through so many start-ups?

The investment activities of venture capitalists are neither simple or easy as their constant direct involvement is necessary in the working environment. These activities can be summarized in a five sequential steps model (Tyebjee and Bruno, 1984; Fried and Hisrich, 1994):

1. *Deal originatio*n: a process during which deals are presented and considered as potential investment activities, consisting on finding new projects and taking

new risks.

At the beginning when the new business has poor operating history in the market, intermediaries are expected to match VC companies with new ventures.

2. *Deal screening:* delineating and focusing on the evaluation of the company, see whether it has a good capacity and perspective in the market.

It can be found an impulse to invest merely in areas with which the VC firm is more familiar.

3. *Deal evaluation:* VC firms use some criteria to assess the business plan in order to estimate the perceived risk and expected return. In checking whether the company is worth to be invested we go back to the several criteria discussed in the previous paragraphs. (e.g. Entrepreneur's qualities, management commitment, networks...)

4. *Deal structuring:* the next step after the VC investor has found profitable opportunity, is the establishment of the investment agreement. This is very important since it includes several purposes, specifically the price deal of determining how much equity is handed over to investors.

5. *Post-investments activities:* regular collaboration between the VC firm and the venture, particularly, the assistance in controlling and protecting the investment along with directing the firm towards an open public market through an successful exit performance, which is one of the main purpose of VCs.

These five steps can be applied to the international investment behavior by venture capitalists (Wright, Pruthi and Lockett, 2005)

Venture capitalists use some criteria in order to evaluate new venture proposals, which valuation is not simple due to long horizons of market and product development.

In general, venture capital contracts depend on the relationship between venture capitalists and entrepreneurs, the degree of information asymmetry, the higher the degree of information asymmetry, the more abundant the compensation for the entrepreneurs and the venture capitalists.

During the *deal origination*, there are several aspects which may be affecting the grasp of the potential new business plans, because cross-border investments implicate higher challenging identification of the deal.
As a result of their study, Hall and Tu (2003) found that the size of the VC firm affects positively the willing of the foreign VC firm.
Foreign VC firm tend to invest more in local VC firm which are quite big in their size since they are considered to have greater information transparency and more reliable.
Further important issue concerning transnational investments are cultural differences and geographical distances which then reflect the institutional environment. For example, it is very likely that each country has different entry modes leading to different deal origination and types of deal.
A good manager should be capable of grasping the competitive advantages deal with and accurate estimation over the expected return of the investment which should be high.
A later step is the *deal screening* activity, which is strong related to geographical distances. Larger distances can have the need to ask for intermediaries, meaning higher information exchange, monitoring and controlling expenses.
The general screening criteria include three aspects: clear perception with continued growth in corporate profits, good managers, and expected returns.
MacMillan et al. (1985) through the study of American venture capitalists, the screening criteria are divided into six categories: (1) entrepreneurs
Personal characteristics; (2) experience of entrepreneurs; (3) features of products or services; (4) market characteristics; (5) financial characteristics; (6) business group teams.

and think that the personal characteristics and experiences of entrepreneurs are more important than other standards.

The venture capital investment memorandum study finds that venture capitalists will consider the market size, corporate strategy and technical water of investment projects in detail level, consumer habits and competitive advantages will also analyze the management team of start-up companies.

Baum and Silverman (2004) considered venture capital when it comes to screening start-ups, investors will be looking for joint networks, patents, human capital, and venture capitalists are more likely to choose companies that have a strong technical advantage, but in the short term there is a big failure risk of such start-ups, so they can be more effective in the management process of the business.

In addition, screening activities are easier to accomplish when there is the presence of partnership with local VC firms. Cooperation provides access to larger local networks of contacts and also more detailed information about the local market.

For the *evaluation and structuring* steps, VC firms tend to use different financing instruments within their home country and overseas (Cumming, 2002). Considering US, when venture capitalists decide to invest domestically, they normally prefer equity capital, whereas they adopt different financial instruments to make cross-border investments. This behavior is probably due to countries institutional differences like taxes, government policies or institutional regimes.

As for the last point of *post-investment activities*, each VC firm may have its own way of monitoring and creating value-adding paths.

A crucial condition included in post-investment activities is the likelihood of successful exit performance. The presence of syndication of venture capitalists increase the information shared among potential investors, thus a clearer recognition of potential exit opportunities, usually via IPOs and acquisitions.

Again, the variety of venture capitalists' behavior is possibly influenced by geographic and cultural disparity.

Through the selection criteria and methods described above, venture capitalists select the most promising companies to invest, but before investing, venture capitalists sign a formal contract with entrepreneurs to constrain their rights and obligations.

2. FACTORS AFFECTING CROSS-BORDER INVESTMENTS

Nowadays, as cross-border venture capital (VC) investments enhance rapid entrepreneurship growth, they are becoming a prominent trend and experiencing a rapid expansion throughout the world.

The reasons of this trend are due to a larger number of advantages brought by transnational investments, for instance more opportunities and risk diversification, but at the same moment these types of investments bear higher level of risk and challenges.

Investing overseas requires examination of all kind of potential deals as prudent as possible which can lead to a long decision process sometime, caused by lack of knowledge or contacts in the local business market.

As a consequence a venture capitalist or a VC firm should analyze in a very detailed manner all the possible variables that are going to determine the selection process in order to bring the success rate at its highest probability.

Plentiful studies have shown that there exist several factors influencing cross-border VC flows and the behavior of the VC investors while they have the intention of expanding over their country-borders. (Hall, J., and Tu, C., 2003)

Studies are mostly based on questionnaire surveys, which by collecting and analyzing the data, are able to show some relevant features characterizing the decision of investing abroad and overseas.

To have a clearer overview, we are going to divide the topics into paragraphs.

2.1 *International development*

One of the first reasons which led to the globalization of VC investments has been the international development of VC firms: starting initially in US then spreading to UK and Western Europe until to Japan (Ooghe 1991).

International development of VC industries means attracting foreign VC, and the literature research about this topic has been a quite recent phenomenon.

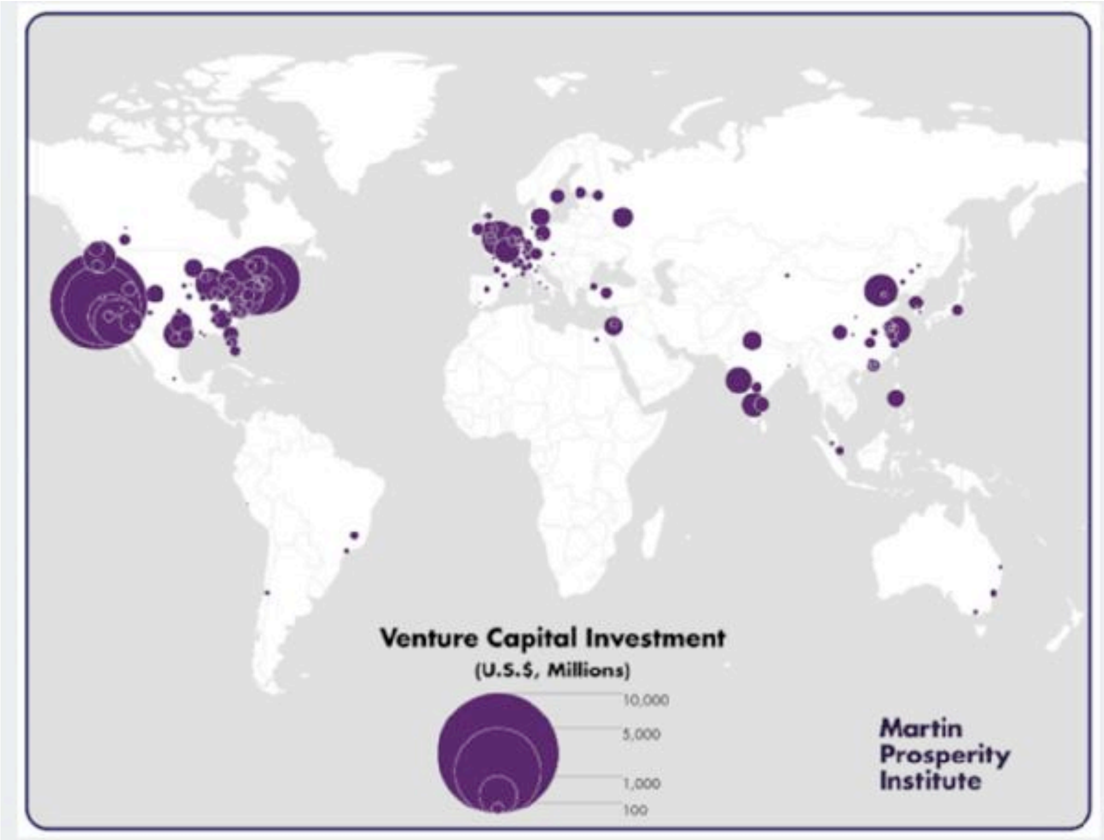


Figure 4, Venture capital distribution over the world[4]

The role of technological innovation, thanks to the high-speed technological innovation, has played and essential role in the sustained growth of a country's economy. Governments have recognized that VC industry, promoted by the fast technologic progress, represent a truly important factor for each country's economic performance and so far as for the global economy as a whole.

Starting from US, the VC industry was born just after the World War II. Back at that time, syndication was usual practice of VC companies in order to minimize the risk and maximize return.

Firms which receive VC financing, are able to provide larger number of jobs, such that the unemployment can be reduced.

However, VC industries are more intensive in the US rather than in all the other

[4] Source: Global venture capital distribution

countries put together. *'It is estimated that VC-funded firms contribute $1.1 trillion annually to the US economy. This represent 11% of the country's gross domestic product'* (GDP [DRI-WEFA, 2002]).

The spread to Europe started during the late 1970s, particularly in the UK and then in the 1980s to Europe. Most European VC companies were set up as associates of US firms.

The expansion continued in Asia around the 1980s. Plentiful of Asian VC firms are heavily connected to US firms.

According to Baygan and Freudenberg (2000), VC tend to allocate their capital and finance into countries with high entrepreneurship, innovation, growth and returns. Also government policies, such as radical regulatory reforms by developing countries made foreign CV firms perceive increasing demand for investment opportunities.

Nevertheless, each country has diversities in its institutions, policies, and the VC industry entry mode in a specific market can be influenced by such factors.

It must not be ignored the fact that the VC industry in regions different from US, for example Europe and Asia, carries distinctive organizational structures, institutional and policy rules, regulatory norms and a very large number of factors which are distinguishing each country's VC industries from one another.

We will analyse only some major characteristics influencing the cross-border investment activity: institutional practices; economic variables; network connection; cultural and geographical discrepancies; and financial market.

2.2 *Institutional factor*

Purely economic relationship based on human behavior are not enough to explain the difference of the international environment.

Another important factor is the institutional influence which can heavily impact

VC firm’s behavior and organization around the world.

Institution practices have a determinant impact on VC activities, such as deal selection, level of interaction between the CEO and the VC firm after an investment has been made, size and composition of the board of directors, value added to portfolio company (Bruton, 2005).

To better understand the influence of legal practices on the venture capitalists behavior we first start from a more in depth analysis of US VC firms and consequently we deal with the evolution of the spread all over the world.

Taking into examination the US environment, it is seen that the US VC firms’ efforts in investing in early-stage deals are a key determinant of the economic growth (Gompers & Lerner, 2001).

In countries where individuals are more likely to undertake an entrepreneurial career, VC firms are also more willing to fund in early-stage investments because in this way VCs have increased expected financial returns and even acquire better reputation useful for future funds.

The early-stage investments are larger whenever we are considering a capital market. This is by the cause that stock markets allow the VC company to obtain higher expected returns through an initial public offering (IPO) and consequently a clearer exit performance.

On the other hand, in the banking system, many VC companies are owned fully or partially by banks which tend to invest more in later-stage investments so that the individual or corporate VC is less likely to select early-stage ventures.

Finally, early-stage investments are lower in regions where there is high reliance on network connections. Network favors low risk ventures and as it is considered very important, it might be disadvantageous to go against it.

A further activity is the amount of post-investment contact, that is how much time should VC firms spend with the CEO of portfolio companies after the selection of a deal. Sahlman 1990 affirms that VC’s goal is to maximize portfolio returns,

minimize any possible agency risk and maximize the operational efficiency. This is a win-win situation as when the CEO maximize his time also the VC firm's financial performance is maximized.
Time is affected principally by experience, more experience of the VC firm less need for interaction; by the length of time of collaboration between VC and CEO, somehow including the level of trust if they worked together for longer period; and finally by the distance, interaction decreases as the distance gets larger due to increasing costs and time zone.

The composition and size of the Board of Directors is larger in areas with weak legal system and strong social network because the board has to include investors and also members useful in helping the company to progress. Moreover the board has to be like a bridge connecting all the networks proved to be essential for the company.
For this reason, Asian boards, where connections are highly valuated are larger than the US boards, which are larger than the Europe ones.

Being that VC firms had their birth in US, there were always been a tendency to imitate and take inspiration from the US industry systems.
Just after the US, VC activities emerged in the UK during the late 1970s and a decade later in continental Europe (Ooghe et al., 1991).
During the mid-to-late 1980s VC firms started to occur in Asia, beginning with around 300 VC firms and arriving to a tripled number by 2000.
Many Asian VC firms are heavily attached to US VC firms in order to have business training and construct personal connections.
After the 2000s VC industry has been started to reach Latin America, Africa and Middle East, except for Israel where there is a developed VC industry already.

However each country is subject to its own institutions, therefore the VC industry method varies from country to country. For instance, it may happen that the domestic VC mode of operation is not coherent with the foreign institutional conditions such as ownership structure, family control and codes of corporate governance (Bruton, 2005);
Commercial codes may vary if they are ruling in a common or civil law country.
or the fundamental difference regarding the ownership structure between the European and US VC firms. Most US firms are usually set as independent partnership or capital based market principally with dispersed stock ownership whereas the financial market of Europe is mostly dominated by financial institutions like banks and family ownership.

The use of institutional theory represents a crucial position in addressing management activities from an international perspective.
As stated by Scott's theory (Scott, 1995) institutional forces can be divided into three categories: normative, regulatory, and cognitive.

Normative institutions are useful to define the expected behavior of either individuals or companies, specifically their perceived value and norms about the area of profession.
Those institutional practices are basically based on the replication of what the others have done before, in other words, normative forces are born form the cooperation among the industry and its members over a quite long period of time.
That is why, European VC industries have somehow imitated the US industry value and norms. US industries, being the first settled in this area, demonstrated an influential power to other regions, like Europe, Asia and so on.
Albeit, most VC firms have taken enlightenment from US VC norms and values,

US VCs must attend the local environment rules and regulations. For example, US VC firms, when entering into the Indian market, had to adjust to the Indian market frameworks, with its local regulations and institutional forces.

Regulatory institutions cover the supervision of the legislative branch, including legal philosophy, legal enforcement, legal protections about the capital market system.

From a legal perspective there are several differences across the world. First of all, the difference of business law between common law and civil law countries.

Common law rules in countries like England and US, while countries under civil law are much more widespread.

This difference also influences the legal protection (La Porta, Lopez-de Silanes, Shleifer, and Vishny. 1998) for investors and shareholders. For example, in civil law countries the protection for shareholders is much weaker than in common law countries.

Finally, the allowance of having stocks in public or private companies is another important feature. Civil law countries like Germany and Japan (Black and Gilson, 1198), are bank centered, in a sense that most stocks are owned by banks, whereas, in US and UK, the ownership control is widespread among several companies.

The widespread of stocks enhance the stock market, which can attract a higher number of VCs and therefore foster the VC industry and the world economy.

Cognitive institutions come from the culture of the society, in specific the value given to entrepreneurs and the role of social networks.

There exists a profound discrepancy within the social status assumed by entrepreneurs in US or in European countries (Reynolds et al., 2000). A portion of European minds perceive that the entrepreneurial activity is some sort of opportunistic behavior. Therefore, in Europe the risk of failure is much higher than in capitalistic countries.

On the contrary, in the US, entrepreneurs place a high social status. We recall that opportunity is not considered in a derogatory sense, instead, it is something rare that is not found by every single common person. The ability of discovering the presence of an opportunity or several opportunities is not easy at all, and the capacity of exploiting it, is even harder.

Entrepreneurship is actually viewed as a profession just like every other profession, without any prejudice over it.

Thus, in US the risk of failure declines, encouraging more people to undertake this carrier, fostering business start-ups and venture capitalists' activities sharply.

The second element defined by cognitive institutions is the power of networks.

Networks speak for the business' position. The level of interconnections is very important to determine whether a VC firm or a portfolio company is willing to work with you. Networks presence are much more of relevant status in Asian countries than in Europe and US. Borrowing the words of Biggart and Hamilton, (1992) 'Asian economies espouse different institutional logics from Western economies, ones rooted in connectedness and relationships'.

As the VC industry is more well developed, connections lose their strength due to better organization and management norms and values.

The existence of such interconnections with their important position as born in response to the state of lacking legal structures.

The Institutionalization of Venture Capital

	Normative	Regulatory	Cognitive
U.S. and U.K.	*Strong normative values in industry	*Mature *Common law provides high shareholder protection *Strong public equity markets	*Status of entrepreneurs is high *Reliance on social networks relatively weak
Continental Europe	*Industry developed from U.S. Strong normative values from U.S. due to its origin, training and interconnections in the industry	*Mature *Civil law provides lower shareholder protection *Bank-centered financial markets	*Status of entrepreneurs is lower than in the U.S. but higher than in Asia *Reliance on social networks stronger than in U.S. but weaker than in Asia
Asia	*Industry developed from U.S. Strong normative values from U.S. due to training and interconnections in the industry	*Generally poorly developed *Often do not enforce laws/regulations	*Status of entrepreneurs is low *Reliance on social networks stronger than in U.S. or Europe

Table 1, The institutionalization of venture capital[5]

VC represents a relevant component of economic progress, it functions better in countries where the entrepreneurship is considered to belong to a high status profession. Nevertheless in such countries the rewards from success is high and the punishment for failure is low, in contrast with countries where entrepreneur activities are seen as being opportunistic.

Radical regulatory reforms by developing countries made CV firms perceive increasing demand for investment opportunities (Gompers and Lerner 1998).
When, instead, both countries have similar legal traditions, VC investors are much more willing to invest in such countries (Bruton, 2005).
As in the case of China (Zhang, 2002) foreign investors need to adapt to local market conditions. VC industry in China is still a developing sector along with its peculiar combination of political, economic and social institutions.
In these very last years, VC is also beginning to develop in Latin America in

[5] Bruton, G.D., Fried, V.H., and Manigart, S., 2005. Institutional influences on the worldwide expansion of venture capital. *Entrepreneurship Theory and Practice*, 29, 743, Table 1.

Africa and in the Middle East, as a confirmation of how this industry is becoming always more influential around the world.

2.3 *Economic factors*

Economic factors are critical in determining the gross and net cross-border inflows. Gross inflows are computed as the increase in foreign holdings of domestic assets in the balance of payments over a period of time. Net inflow is calculated as the gross inflows minus the gross outflows.

Tykvova' and Schertler (2012) in their paper 'What lures cross-border venture capital inflows' discussed about how economic factors affect the result of gross and net inflows, whether in an equal direction or an opposite one.

Results prove that most economic factors constitute gross and net outflows in a analogous way.

They considered the simple demand-supply cases and argued that an increase of an economic factor which affects the supply side more than the demand side is going to decrease net inflows. In addition, an increase of this factor is going to increase gross inflows, since the country contribute in offering new opportunities of syndication to foreign VC firms.

The next table represents results of OLS estimation a regression on how economic factors in a given country affect the number and volume of gross inflows, gross outflows and net inflows respectively. The sample includes 272 countries during the period 2000-2008.[6]

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[6] Table 4, Tykvova', T., and Schertler, A., 2012. What lures cross-border venture capital inflows?. *Journal of International Money and Finance*, 31, 1791.

Economic factors and cross-border flows.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Gross inflows			Gross outflows			Net inflows		
Panel a – Investment number									
Capitalization	0.221 (0.028)***	0.190 (0.030)***	0.210 (0.029)***	0.572 (0.032)***	0.502 (0.034)***	0.520 (0.033)***	−0.351 (0.036)***	−0.312 (0.039)***	−0.309 (0.037)***
Patents	0.048 (0.007)***	0.041 (0.007)***	0.038 (0.007)***	0.039 (0.007)***	0.035 (0.007)***	0.030 (0.007)***	0.009 (0.007)	0.006 (0.007)	0.008 (0.007)
Expected growth	0.553 (1.733)	−1.003 (1.785)	−0.247 (1.833)	−6.130 (1.845)***	−9.018 (1.927)***	−8.505 (1.988)***	6.683 (1.889)***	8.014 (1.955)***	8.258 (1.997)***
Returns	−0.023 (0.087)	−0.040 (0.087)	−0.052 (0.086)	−0.264 (0.092)***	−0.213 (0.092)**	−0.213 (0.090)**	0.241 (0.084)***	0.173 (0.083)**	0.161 (0.082)**
Lack funds	−0.127 (0.036)***	−0.094 (0.036)***	−0.086 (0.036)**	−0.072 (0.042)*	−0.028 (0.041)	−0.006 (0.042)	−0.055 (0.042)	−0.067 (0.042)	−0.080 (0.042)*
Excess funds	−0.160 (0.046)***	−0.089 (0.041)**	−0.083 (0.041)**	−0.310 (0.048)***	−0.277 (0.043)***	−0.269 (0.044)***	0.150 (0.047)***	0.188 (0.043)***	0.187 (0.043)***
VC indicator	0.224 (0.043)***			0.120 (0.045)***			0.104 (0.044)**		
VC-supply indicator		0.201 (0.037)***			0.281 (0.037)***			−0.080 (0.040)**	
Good VC-supply			0.100 (0.036)***			0.173 (0.039)***			−0.073 (0.038)*
Bad VC-supply			−0.186 (0.048)***			−0.301 (0.043)***			0.115 (0.048)**
No. of observations	2448	2448	2448	2448	2448	2448	2448	2448	2448
F-test	61.1***	56.4***	55.1***	31.0***	32.2***	33.3***	16.3***	16.4***	16.1***
Adjusted R^2	0.35	0.35	0.35	0.24	0.26	0.26	0.20	0.20	0.20
Panel b – Investment volume									
Capitalization	0.348 (0.053)***	0.360 (0.060)***	0.378 (0.057)***	1.013 (0.064)***	0.918 (0.069)***	0.942 (0.066)***	−0.665 (0.073)***	−0.557 (0.080)***	−0.564 (0.075)***
Patents	0.114 (0.012)***	0.094 (0.012)***	0.089 (0.012)***	0.135 (0.014)***	0.120 (0.014)***	0.108 (0.014)***	−0.021 (0.015)	−0.025 (0.014)*	−0.019 (0.014)
Expected growth	−6.966 (3.575)*	−7.595 (3.788)**	−6.964 (3.830)*	−20.73 (3.914)***	−25.25 (4.123)***	−24.45 (4.219)***	13.766 (4.251)***	17.654 (4.482)***	17.489 (4.519)***
Returns	−0.078 (0.152)	−0.253 (0.153)*	−0.256 (0.152)*	−0.590 (0.179)***	−0.609 (0.180)***	−0.597 (0.177)***	0.512 (0.170)***	0.355 (0.168)**	0.341 (0.166)**
Lack funds	−0.017 (0.083)	0.030 (0.083)	0.050 (0.082)	−0.032 (0.090)	0.057 (0.087)	0.110 (0.087)	0.015 (0.104)	−0.028 (0.103)	−0.061 (0.103)
Excess funds	−0.302 (0.085)***	−0.071 (0.077)	−0.063 (0.077)	−0.435 (0.096)***	−0.267 (0.087)***	−0.251 (0.088)***	0.133 (0.095)	0.196 (0.089)**	0.188 (0.090)**
VC indicator	0.693 (0.080)***			0.538 (0.092)***			0.155 (0.094)*		
VC-supply indicator		0.266 (0.078)***			0.547 (0.074)***			−0.281 (0.088)***	
Good VC-supply			0.155 (0.070)**			0.350 (0.079)***			−0.195 (0.083)**
Bad VC-supply			−0.289 (0.112)***			−0.649 (0.091)***			0.360 (0.117)***
No. of observations	2448	2448	2448	2448	2448	2448	2448	2448	2448
F-test	79.6***	70.0***	68.3***	37.7***	37.8***	40.1***	15.4***	15.9***	15.7***
Adjusted R^2	0.40	0.39	0.39	0.25	0.25	0.26	0.19	0.19	0.19

OLS estimation results for gross inflows, gross outflows, and net inflows between 272 country pairs for the period 2000–2008. The model in Columns (1), (4), and (7) is given as: $y_{ikt} = \gamma_0 + \gamma_1 \text{Capitalization}_{(it-1)} + \gamma_2 \text{Patents}_{(it-1)} + \gamma_3 \text{Expected growth}_{it} + \gamma_4 \text{Returns}_{(it-1)} + \gamma_5 \text{Lack funds}_{(it-1)} + \gamma_6 \text{Excess funds}_{(it-1)} + \gamma_7 \text{VC indicator}_{(it-1)} + a_{itk}$, where y denotes gross inflows (the portfolio company is located in country i, while the venture capitalist is located in k), or gross outflows (the venture capitalist is located in country i, while the portfolio company is located in k), or net inflows defined as gross inflows minus gross outflows. By definition, the coefficients on economic factors for net outflows (not depicted) are equal to minus the coefficients for net inflows. All variables are defined in Table 2. Dummy variables for years and the venture capitalists' countries (Columns (1)–(3) and (7)–(9)) or the portfolio companies' countries (Columns (4)–(6)) are included. White (1980)-heteroscedasticity-consistent standard errors are given in parentheses. ***, **, and * denote significance at the 1, 5, and 10 percent level, respectively.

Table 2: Economic factors and cross-border flows[7]

For each of these factors there are three columns because each one adopted a different indicator, but the overall result does not change much.

The first variable, capitalization affect the three factors in a quite remarkable manner. Capitalization is related to demand and supply of the VC. A higher market capitalization implies a rise of gross inflows, that is the capacity of attracting large capital amount from abroad, but on the contrary, a decrease of net inflows because higher capitalization increases also the supply side, making a lot of deals going abroad. In the end, the result of deals going abroad, defined as gross outflows, exceed gross inflows, thus reducing net inflows (gross inflows minus gross outflows).

[7] Source: Tykvova', T., and Schertler, A., 2011. Cross-border venture capital flows and local ties: evidence from developed countries.

On the contrary, a bad developed framework for venture capitalists reduces gross inflow but increases net inflows. For instance, if the capitalization environment is underdeveloped, supply will go down at a faster rate than demand, reducing gross inflows less than outflows, thus increasing net inflows.
Taking into account proper figures, It is possible to see that when the variable capitalization increases by one standard deviation (here equal to 0.609), the number of gross inflows in column 1 rise by 0.221, at the same time gross outflows rise by 0.572, whereas net inflows is reduced by -0.351. Such numbers indicate that when the financial market capitalization of a country rises, the net inflows is reduced.
At the second position we find that patents do not have a relevant impact on net inflows. In fact we can observe that as the variable patent increases, both gross inflows and outflows increase as well, going to a identical direction, while net inflows are almost always constant, with +0.009.
Proceeding downward we see that expected growth affects positively on gross and net inflows but negatively on gross outflows.
Stock market return then, is negatively related to gross inflows and outflows, but positively related to net inflows.
Higher potential growth and market returns mean that VC companies are more willing to invest at home rather than overseas.
As a result of this general analysis Tykvova' and Schertler reached to the conclusion that most economic factors affect gross and net outflows in an equal order. As a matter of fact, higher stock market capitalization implies higher gross and net outflows, whereas higher expected potential growth reduces gross and net outflows.

2.4 *Networks*

Another relevant factor influencing the process of globalization is the impressive development of networks and connections thanks to the high technology progression.

Ideal situation is when the entrepreneur knows the VC firm (Hall and Hofer,1993), however other contacts are appreciated: lawyers, bankers, business school faculty or consultants and intermediaries.

Networks are an essential tool to have outsourcing partners and it can come from interpersonal connections or from VC companies.

The latter plays a fundamental role as being a bridge between founders and start-ups. VC firms that gained good reputation in the market with their knowledge and experience definitely create a positive influence on the start-up itself. They can help the the start-up to have future round investments, they can provide useful experience about the industry and the market, they can suggest reliable partners and employees, they can help the founders to solve possible problems in their business path. All this in the VC best interests as well.

Network influence the VC functioning because in regions where there is high dependence on network, the role of VC decreases since network favors venture with low risk, but on the contrary VC like more ventures able to generate high potential return even for high risk.

Social connections represent a very important factor in almost all the continents but in Asian countries especially. All the connections provided by social network creates advantages not only for the company members but also generates obligations to follow, (Tsang and Wall, 1998) thus enforcing contracts with punishments for possible breaches.

Albeit, networks and connections are truly important, they should not represent an essential element in decision procedure. For example, if we only look at the level of interconnection of a VC or portfolio company, there might be the chance that we neglect other characteristic of the firm, like its physical resources, management administration, organizational structure, marketing strategies and performances, team efficiency and so on and so forth. Each of these characteristics constitute the entire value of the company, and they should be taken into consideration before the relation chains.

Speaking of connections, they absolutely represent a significant factor when deciding to invest abroad or building cross-border joint investments. Interconnections make companies perceive each other more trustworthy and thus more willing to build syndication.

Connections are like a unique chain, whenever one chain is damaged, all the others are affected negatively.

Stronger ties imply that the firm has good reputation in the field, otherwise other firms will not willing to maintain any relationship with it, because such relationship will cause harm to their own reputations too.

Tykvova' and Schertler (2010) discussed the fact about how local ties may represent a significant aspect that can impact the VC flows within developed countries.

The paper uses a singular global database called Bureau van Dijk's ZEPHYR, and deals with mainly three different hypothesises regarding the relationship among local VC investors ties and the size and style of the flows.

A first hypothesis known as *market protection hypothesis* and developed by Hochberg, Ljungqvist and Ku (2010) suggest that the stronger the ties among local investors, the less are going to be the cross-border inflows because this would discourage foreign investors to entry.

However, concrete reality cases show that cooperation between foreign and local investors is actually more advisable, making a more advantageous position for both parties. Cross-border syndication can contribute to the increase of the deal flow and the information shared, to better diversify the portfolio, thus to reduce overall risk. This is called *collusion hypothesis* and it argues that strong local ties will discourage only stand-alone cross-border inflows but at the same moment it encourages foreign investors to cooperate with local investors (Tykvova', 2017).

The third and the last hypothesis, called *value-adding hypothesis*, consists on demonstrating that strong local ties will encourage cross-border inflows since cross-border VC search for complementary skills which they might not have and the acquisition of them can constitute strong value to its own company planning to expand globally.

Evaluating cross border opportunities is not that simple. Each country has its own regulations concerning the entry mode, evaluation and screening of the different types of deal. In these circumstances, it is very useful to have local networks and contacts, especially in accessing early stage deals.

As a result, the joint ventures, partnership with local investors has been born.

Besides, cross-border syndication is beneficial for a profitable exit, as a measure of the investor's good performance (Gompers and Lerner, 1999, 2000).

The overall result show that cross-border syndications are considered more profitable and convenient as total cross-border inflows increases as the local ties get stronger.

One of the first explanations to this phenomenon consist on the fact that foreign VCs often come from countries with strong local ties and as a consequence they choose to invest in countries with strong local ties.

Second, the size of the deal matters. As the size of the deal gets larger, cross-border syndication is more likely to occur.

Last, the industry in which the company operates is a subject of concern. As for special portfolio companies, being biotechnology, science companies, studies show that having both foreign and local VCs on board is more helpful. Foreign VCs can establish their position at a transnational level, while local VCs can offer their knowledge about the local institutions and market requirements.

Foreign VCs with branch department in the local zone encounter less information problems and are less willing to partner with local VCs.

In conclusion, the bigger the local tie intensity, the larger the deals number and therefore the higher the probability of transnational joint investments.

Firms invested by local and foreign VCs simultaneously beat the performances of those invested only by foreign or local VC alone.

2.5 *Cultural geographical*

Problems related to cultural diversities and geographical distance in cross border VC investments should not be neglected at all (Meyer and Shao, 1995).

The decision to invest in an unfamiliar territory requires a much more accurate research and analysis about the market requirements and legal frameworks.

Meyer and Shao concluded in their studies that even though investing in countries with larger cultural disparities affect the behavioral decision, it leads to several benefits for the VC firm.

Greater cultural differences increase the probability of success via better access to deal streams, improved diversification and larger expected growth.

An unexplored environment intensifies the problem of shared information and agency control, but at the same time, it is precisely this lack of awareness about the local cultural and social differences that enhance a much more careful job. Activities like deal origination, screening, evaluation, structuring and post investment activities, are examined and chosen after detailed analysis, in order to reduce the potential risk as much as possible.

However, when deciding of investing abroad, we have to anticipate the new challenges, such as the collusion of different social and cultural habits. In order to better fit into the local business environment it is advisable to form partnership with local investors, who are able to offer a more in depth knowledge about the chosen country's customs.

Such concerns can be leveraged by establishing partnerships with local VC firms, who can offer advice about the local institutions and habits of the VC industry practices. Although, when the cultural distances between the origin country of the foreign VC and the local VC get larger, the formation of transnational joint investments are discouraged due to less knowledge about the local business environment.

Larger geographical distances definitely can affect the degree of success of the investment, since there will be higher information, contracting, control and coordination costs. Different time zones represent a hinder to the exchange of emergent news.

As the physical space becomes larger, also the cultural gap gets bigger. As communication gets harder, factors like languages, customs play a critical role.

For instance, it may happen that the domestic VC mode of operation is not coherent with the foreign institutional conditions/features such as ownership structure, family control and codes of corporate governance (Bruton, 2005).

A crucial difference exists between civil law and common law countries.

Different countries and origins can affect the VCs' behavior in the process of selecting the deal.

Therefore, VC companies prefer to invest in information opaque local portfolio companies when they are investing alone.

The risk of going through issues such as information asymmetry and agency problems can affect the overall venture performance in a negative way.

One of the very most significant reasons why VCs decided to invest overseas are the enormous advantages brought by the partnership with foreign VCs and portfolio companies.

As the industry started to emerge in the Asian market, at the very beginning, it was underdeveloped and there were lack of knowledge and experience.

US VCs firms could in this way, enter in the fresh market, offering their knowledge and experience with high potential return at the same time.

This spread of VC activity during the last decades has triggered the birth of an increasing number of start-up companies, because there were more funds available and also people who offered to sustain an idea or a start-up have gained quite a high amount of return. Therefore, this kind of activity has been and it is still being beneficial for both parties, fostering the economic growth indeed.

Countries such as China and India have lower cost structures and new opportunities, with risk diversification.

Besides all the differences across nations, which should be taken into consideration certainly, studies have shown that there exist a lot of benefits and advantages in cooperating with local firms, whether VC firms or portfolio firms.

If a foreign VC decides to invest in a local market alone, it may encounter much more problems and bottlenecks, due to geographic distances and cultural disparities, due to lack of knowledge in the local business environment. On the other hand, partnership with local VCs is able to decrease the information asymmetry.

VC's investment behavior while investing cross-borders become much more prudent, analyzing the venture in a much more detailed manner. They should be very careful in selecting the deal, minimizing their risk and maximizing the potential return.

Investing in places with large distances requires higher costs in principal, so the selection process must be crucial and cannot be done too quickly.

VC firms' ultimate purpose along with realizing returns is performing the exit strategies.

Under the VC active role of tutoring, advising, monitoring the entrepreneurs, opening new connections, they contribute in helping the portfolio company.

2.6 *Financial market*

A well-developed capital market is essential for attracting larger amount of investments, no matter from local or foreign investors, via a more efficient allocation of capital.

Stock market decreases transaction and information costs and permits entrepreneurs of new businesses to receive more financing channels, reducing external financing costs and enhancing the overall economic prosperity (Rajan and Zingales, 1998).

In addition, an active capital market which functions properly, fosters a successful exit performance.

Successful exits happen through IPOs and acquisition merely.

Through IPOs activity VCs exploit higher returns, entrepreneurs and company members have greater motivation to work harder, as the company's value is about to turn into public material (Black and Gilson, 1998)

The second profitable exit channel is the adoption of the acquisition instrument, that is drawing gains from selling the firm to bigger acquirers.

Acquisition can happen via the arise of cash or the issuance of liquid stock as a currency for it.

We will focus on the exit through IPOs in the following lines.

As mentioned earlier, IPOs offer several ways of profitable exit achievements.

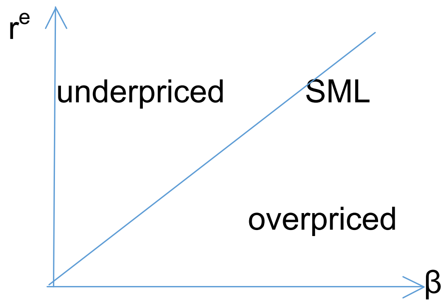
First of all, an active stock market has a high cumulative abnormal rate of return. Companies invested by VCs that decide to go public are better recognized by the market than those which are not backed by VCs (Davila and Foster, 2005), with lower IPO underpricing and higher stock market returns.

IPO underpricing and overpricing are ever-present phenomena in the world of stock markets. It is defined as the relative difference between the actual company's price and its stock price in a given day.

In corporate finance, we know that the security market line (SML) includes all the points where expected return and systematic risk of individual security is in equilibrium.

$$r^e = r_f + \beta(r_m - r_f)$$

Expected return is equal to risk-free asset return plus β(=sensitivity of stock's return to return on market portfolio), times the difference between market portfolio return and the risk-free asset return.



Expected return for stocks ($r^e - r_f$) move in direct proportion to β.

In an IPO evaluation, the main key determinants of the price are the company's earning and potential growth.

Underpriced IPO is when the company's stock price is under its market value and overpricing is exactly the opposite.

Underpricing happens in circumstances when outside investors in the primary market are not sure about the true value and liquidity of the company. When such uncertainty is high, the company's IPO are therefore underpriced.

The support of venture capital can indeed reduce the external uncertainty of the company's value, reduce the IPO underpricing, and the risk investment from different backgrounds.

A careful investment strategy will make more reasonable arrangement about the corporate governance structure after investment, and the company will have a better profit ability at the end.

3. ADVANTAGES OF SYNDICATION

Ultimately VC investments are pursuing expansion over the countries' border, with increasing deals and capital involved, concentrating in emerging countries with an important growth in economic power, like China and India in particular. Surveys show that more than half of US VCs are planning to expand internationally (Deloitte, 2006).

These countries are going through an increasing decisive economic power, although still quite new with lack of deep knowledge and experience in the VC industry sector, thus drawing high attention and enthusiasm form international VCs.

Investing abroad raises new challenges also requiring a much more accurate examination about the market and all the factors which can affect the venture itself. Such investments have higher returns but also higher risks, so venture capitalists should be concerned about complications like information asymmetry, moral hazard, cultural disparity and geographical distances which can impact VCs investment behavior. (Hochberg, Y., Ljungqvist, A., and Lu, Y., 2007)

We are going to examine the advantages of the partnership between Asian and foreign VCs markets, each with its own conveniences and drawbacks.

Venture capitalists decide to invest overseas because by jointly investing in deals, they can spread their limited funds over a bigger number of deals, generating value-adding activities through combination of various complementary skills and through portfolio diversification.

As mentioned earlier, foreign VCs have greater size and experience in the field whereas local VCs have superior information collection. Foreign VCs like more to invest in information-transparent ventures and syndication reduce information asymmetry and moral hazard significantly, with further positive conclusion in the exit performance.

Usually exit performances happen through IPO, initial public offering, or through acquisition.

So, why do entrepreneurs decide to exit though IPO and why joint investments make it more successful? Exit through IPO is convenient because the market tells you every day how much is the value of your shares. In the meantime, it also has downsides like trading windows and lock-up period that make the exit not immediate: the former sells slices of your shares while the latter prohibits you from selling your shares for one to two years due to the reason that if you start to sell your shares just after IPO, it is a bad signal for your company, bringing your shares' price down.

Whereas pursuing acquisition as an exit strategy is beneficial because it makes the company's value go up with an increase in the sale price.

A good cooperation between foreign and local VCs can produce a win-win situation, each can benefit exploiting their point of strength. Foreign VCs specialize in offering their expertise, together with domestic VCs' contribution in reducing agency and information issues, as a consequence generating greater efficiency and effectiveness.

According to the data reported by VentureXpert, (one of the few databases collecting venture capital data in the Asian market) foreign VCs play an influential role in the Asian market. More than 70% of the $35 billion venture capital investments in Asia from 1996 to 2006 are founded by foreign VCs.

The following table shows figures about the amount of capital invested in some main Asian countries, by foreign and domestic venture capitalists.

$B 26.4 over the total capital $B 35.4 are from foreign VCs, representing almost 75% of the whole total capital invested. We can see that foreign VCs always invest much more capital than each local VC, being the majority source of capital.

As for the number of rounds, we find that 1160 over 4254 are funded by foreign VCs along with 17% (711/4254) of joint investments.

While, taking the number of ventures, foreign ventures occupy 25% over the total amount.

Considering the case of China, it is easy to observe that in each of the three cases, being capital investment, number of rounds and number of ventures, there is a remarkable role played by foreign investors. Respectively, 90% (8.1/9.1), 66% (384/581), 60% (249/418), all the time occupying more than a half of the total amount.

In a similar manner, these data apply to Hong Kong, Taiwan and Singapore, where foreign VCs always invest more than local VCs.

Venture capital investments in Asia, 1996–2006.

In this table, we summarize the amount of capital invested by foreign and local VCs in six Asian economies, including China, Hong Kong, Taiwan, India, Singapore, and South Korea. We also present the number of rounds and the number of ventures that are financed by foreign VCs alone, local VCs alone, and jointly by foreign and local VCs. The mean and median round sizes are also reported.

	China	Hong Kong	Taiwan	India	Singapore	South Korea	Total
Total capital (in $B)	9.1	3.1	1.7	7.1	4.6	9.8	35.4
Foreign (in $B)	8.1	2.2	1.5	5.4	3	6.2	26.4
Local (in $B)	1	0.9	0.2	1.7	1.6	3.6	9
Number of rounds	581	202	173	928	266	2104	4254
Foreign	384	116	87	265	163	145	1160
Local	68	49	47	534	56	1629	2383
Joint	129	37	39	129	47	330	711
Number of ventures	418	135	134	640	169	1364	2860
Foreign	249	68	63	180	86	69	715
Local	60	36	35	332	42	1013	1518
Joint	109	31	36	128	41	282	627
Mean round size ($M)	15.5	15.1	9.8	7.6	17.3	4.6	8.3
Median round size ($M)	5.5	5	2.6	1.5	2.9	0.6	1.1

Table 3, Venture capital investments in Asia, 1996-2006[8]

Why syndication with local VCs are so important? Because it alleviates frictions affecting the venture with a negative impact and at the same time showing a positive impact in the exit performance as Dai, Jo, Kassicieh devoleped in their paper. In addition joint investments attract more early stage investment funds as it is seemed to be more reliable, more trustworthy allowing higher information transparency.

Using results from their paper, we find that foreign VC's are more likely to invest in later financing round, later stage ventures, avoiding early stages which might carry possible information asymmetry due to superficial understanding about the

[8] Source: Hall, J., and Tu, C., 2003. Venture capitalists and the decision to invest overseas.

VC firm and also the venture characteristics itself.

Cooperation with local VCs is able to reduce these frictions effectively, although higher cultural disparity and physical distances between foreign and domestic VCs raise information disadvantages and monitoring costs, consequently lowering the probability of syndication and successful exit selection.

Concerning the exit performance, syndication increases the probability of success, 5% more likely to exit successfully with also further better impact on the venture's achievement.

We are about to examine two different situations influencing the exit behavior. (Dai, Jo, Kassicieh)

First, *local VCs alone vs. Foreign VC participation*.

Considering that partnerships foster favorable exit performance, how can domestic VCs attract foreign VCs participation?

There are some features able to intrigue the foreign VCs investment such as higher level of legality, well developed stock market (Hazarika et al., 2010), well developed financial institutions. Studies show that ventures with foreign VC participation at the round level are significantly more likely to exit successfully through either IPO or acquisitions, while on the other hand, seed and early stage ventures are less likely to perform a profitable exit. Moreover, cultural disparities have a negative effect on the exit performance as dealt before.

Secondly, *syndication of foreign and domestic VCs vs. Foreign VCs alone*.

Results show that foreign VCs are more likely to invest in early stages when investing with domestic VCs rather than investing alone, always because domestic VCs represent a tool to reduce information asymmetry issues.

Additionally, foreign VCs are more likely to invest in ventures that they have dealt or with local firms that they have collaborated before, due to previous experience and reliance.

The dataset for this study used by Dai, Jo, Kassicieh is totally complete and reliable as it comes from VentureXpert, but two potential biases should not be neglected: first, the over-represented US VCs in the sample; second, entrepreneurial firms funded by small domestic VCs are easily missing in the sample selected.

CONCLUSION

We noticed that VCs are a very relevant factor enhancing the global economy. They contribute with their financial support, in funding in new start-ups, their early-stage investments represent a key determinant of the economic growth.

However, some start-ups and portfolio companies are more likely to be invested than others.

First of all, VCs prefer to invest in information transparent firms as moral hazard and agency problems are much reduced.

Second, they prefer to invest in early stages, when although the risks are high, they can minimize the risks and simultaneously get much higher return than investing in later rounds.

Third, VCs choose based on the entrepreneurs' or team's working abilities and skills.

From the literature analysis of our paper, we found that there are several factors characterizing the investment decision of VCs while investing outside their home locations.

Investing overseas is a fresh phenomenon appeared during these last decades, and it bears high risk and return at the same time. Therefore, cross-border investment requires a detailed examination of all the possible variable that are going to determine the selection process in order to bring the success rate at its highest probability.

Some relevant features characterizing the decision process overseas are:

(1) The international development, which means attracting foreign VCs, started from US and spreading to Europe and Asia. which means attracting foreign VCs.

(2) Institutional factors, since each country is subject to its own institutions, VC industry method has to adapt accordingly.

Commercial codes may vary if they are ruling in a common or civil law country, further affecting the fundamental difference of the ownership structure.

Using Scott's theory, there are three main institutional forces, being normative, regulatory and cognitive. Each of them is capable of influencing a country's legal system.

(3) Economic factors are crucial in determining the gross and net cross-border inflows. Tykvova' and Schertler reached to the conclusion that most economic factors affect gross and net outflows in an equal order. Better developed stock markets imply higher gross and net outflows, whereas higher expected potential growth reduces gross and net outflows.

(4) Networks represent an essential tool to have outsourcing partners and it can come from interpersonal connections or from VC companies. Interconnections make companies perceive each other more trustworthy and more willing to build syndication, which are very profitable and convenient for a successful exit. The, VC, instead, plays a fundamental role as being a bridge between founders and start-ups.

(5) Cultural geographical diversities bring higher information asymmetry and more expensive management and control costs. However, these issues can be leveraged by establishing partnerships with local VC firms, who can offer advice about the local institutions and habits about the VC industry practices, thus enhancing larger growth via better access to deal streams and improved diversification.

(6) A well-developed financial market is fundamental to attract larger amount of investments through a more efficient allocation of capital. Stock market decreases transaction and information costs and permits entrepreneurs of new businesses to receive more financing channels, reducing external financing costs and enhancing the overall economic prosperity.

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