

CROSS-BORDER VENTURE CAPITAL AND NEW VENTURE INTERNATIONALIZATION: AN ISOMORPHISM PERSPECTIVE

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ABSTRACT

Some of the fastest growing born global ventures are backed by cross-border venture capitalists. However, the role of foreign investors in internationalization has not been examined. To address this gap, we carried out a multiple-case study to produce a grounded theory of the effects of foreign investors in new venture internationalization. Our findings suggest that foreign venture capitalists located in the target markets of internationalization can be valuable for the venture by legitimizing the unknown new venture in the new market. However, foreign investors tend to drive portfolio companies towards their home markets, and the benefits may turn to disadvantages if the target market differs from the home markets of the foreign investors.

Keywords: cross-border venture capital, internationalization, isomorphism, legitimacy, liability of foreignness

INTRODUCTION

Some of the fastest growing born global ventures in small open economies such as Finland, Sweden and Israel have attracted cross-border venture capitalists to support their internationalization. Foreign venture capital investors have been suggested to provide valuable internationalization support for their portfolio companies. However, practitioners have also acknowledged that these potential benefits do not always materialize. Despite of the increasing practical importance for rapidly internationalizing new ventures, the role of foreign venture capitalists in supporting the internationalization process of their portfolio companies have received little scholarly attention. To address this gap, this paper explores the roles that *cross-border venture capitalists* play in internationalization of new ventures that have their primary markets in a foreign country. By cross-border venture capitalists, we refer to venture capital investors that are foreign to the investee venture. More specifically, we study venture capitalists that manage their investment from another country than in which the venture started its operations.

Our research question is, “What roles do cross-border venture capitalists play regarding the internationalization of new ventures that have their primary markets in a foreign country?”. The benefits that cross-border venture capitalists can bring regarding investee ventures’ internationalization have not received attention in prior venture capital literature (cf., Gorman & Sahlman, 1989; MacMillan et al., 1989; Rosenstein et al., 1993; Sapienza, 1992; Sapienza et al., 1996).

In our study, we adopt a focus on ventures with primary markets in foreign locations because we feel that the phenomenon there may be significantly different from other companies. Internationalization support may be notably less crucial for companies with large domestic markets. Moreover, while the countries with the most notable venture capital

markets also have large markets for technology firms' products and services (e.g. the USA and the UK), companies starting from these countries may have venture capitalists in their close vicinity that have a strong global presence and network, and thus, the effects of cross-border venture capitalists on internationalization may remain different and less significant.

We have divided the investigated effects of venture capitalists into advantages and disadvantages, and we examine circumstances under which they are likely to occur. The paper investigates syndicates in which there is at least one investor managing its investments from a country that is foreign to the investee firm. For the purposes of the present study, only these investments are labeled as 'international.' For clarity, the term 'cross-border investments' is used in order to emphasize the geographical separation of the firms. In accordance with the above definition of a cross-border venture capitalist, investments by multinational investors that are managed from the domestic country to the investee firm are not considered cross-border investments. Thus, the study has been carefully focused to allow revealing important mechanisms of interaction in venture capital syndication.

Constructs and interconnections that are relevant for this phenomenon have not been explored to date, and existing literature does not seem to provide an adequate framework for answering the research question. In this kind of situation, the grounded theory approach is more likely to yield accurate and novel insights than reliance on past research or theoretical studies without data (Glaser & Strauss, 1967). Following the procedures suggested by Eisenhardt (1989), Strauss and Corbin (1998), and Yin (1994), grounded theory building is selected as the methodological approach. Accordingly, insights are derived from extensive processing of case-based field data. An in-depth view of the factors involved and finally, a model with three explicit propositions is outlined to describe what drives the commitment of venture capitalists' in the context of cross-border syndication. The data originate from investor-investee relationships around nine case ventures in Finland. These data are collected

primarily by means of interviews of entrepreneurs and venture capitalists and secondarily from the firms' www pages, press releases, www news services, newspapers, and other documents.

The main finding of the paper is that the existence of cross-border investors is likely to lead to an *isomorphic* transformation process (DiMaggio & Powell, 1983) of a portfolio company towards a form that occupies an institutionalized position in the geographical area from where the cross-border investor operates. It appears that the effect of investors is typically *coercive isomorphism* in the context of the paper. Coercive isomorphism occurs when the choice made by one organization results from the more or less explicit pressures exerted by another organization from which its resources depend (DiMaggio & Powell, 1983). We find that when the cross-border venture capitalists are located on the internationalization target markets (cf., Johanson & Vahlne, 1990; Kwok & Reeb, 2000) of their portfolio companies, these investors are beneficial for the investee firm, since they will then drive ventures to conform to a market that is among the ventures' internationalization target markets. In this case, the cross-border investors' presence and actions will lead in decreased liabilities of foreignness of the investee firms.

By location, we refer to the place from where the focal investment is managed. Liabilities of foreignness (cf., Lu & Beamish, 2001; Mezias, 2002; Zaheer, 1995; Zaheer and Mosakowski, 1997) refer to a variety of costs that international business scholars have long hypothesized multinational companies face in conducting business abroad (Hymer, 1976 [1960]). These include costs can stem from unfamiliarity of the environment, and from political, cultural, and economic differences (Zaheer, 1995).

Our findings suggest that venture capitalists can and do help ventures in several ways. The most notable forms are help in recruiting, bringing customers, opening doors to business partners, knowledge of the legal environment, and providing contacts to financiers. Much of

these effects are about providing “foreign organizing knowledge” (Johanson & Vahlne, 1990). From the part of venture capitalists’ effects, these results support the account of McDougall et al. (1994) that direct personal contacts of a venture’s key individuals in foreign markets can be used to identify new opportunities, obtain business advice, obtain assistance in negotiations, and open doors in foreign markets. Backing this, Yli-Renko et al. (2002) showed that a venture can achieve benefits for its international growth by fostering social capital within its relationships. As noted below, the important role of knowledge is already an established ingredient in dominant theories on the internationalization of businesses. This study illuminates ways through which internationalizing ventures may acquire knowledge from venture capitalists. At the least, cross-border investors bring endorsement by their existence, especially in markets proximate to the investors. Endorsement refers to positive reputational effects that stem from the association of an actor with a prominent party, such as the association of a venture with more established business network partners (Stuart et al., 1999).

The paper also examines negative effects of isomorphism for the internationalization of the new ventures. In the propositions, it is argued that when there are cross-border venture capitalists that actively participate the management of portfolio firms and that do not operate from a geographic area that is central to the internationalization of the portfolio companies, the portfolio firms are likely to encounter costs that may outweigh the benefits. As a standard effect, cross-border venture capitalists bring about costs from communication, management participation, and other interaction across large distances and cultural boundaries – this effect is clearly present in all cases. In other words, interacting with foreign venture capitalists brings about relatively high transaction costs (Williamson, 1975, 1979). Moreover, cross-border venture capital investors tend to drive their portfolio companies towards their home markets, and the benefits may turn to disadvantages if the internationalization target market

differs from the home markets of the cross-border investors. At the least, cross-border investors can bring endorsement by their existence and relatively high costs from transacting with them.

Next, we briefly review the most relevant literatures. Then, following a typical sequence in reporting inductive research, this paper first discusses the selected methodology, which is theory building using multiple case studies. A description of data follows, after which the presentation proceeds to extracting insights and tying the view into an integrated model of propositions. Finally, pointers for further research are presented.

PRIOR LITERATURE

Internationalization

The network perspective on new venture internationalization represents the study of the effects of companies' network affiliations on the selection of internationalization location (cf., Andersen & Buvik, 2002; Johanson & Mattsson, 1988). The basis of this approach is in the resource dependence view (Pfeffer & Salancik, 1978), which assumes that firms are dependent on externally controlled resources for their survival. To gain access to resources and to, for instance, sell good, firms need to establish relationships. According to the network model of internationalization, the force driving internationalization is the desire to use and develop resources so as to serve the long-term economic objectives of firms, including ensuring survival. This model describes industrial markets as networks of relationships that span firms. Internationalization is taken to mean the building of new relationships and restructuring or exiting old ones so that the firm can associate with partners located in foreign markets (Johanson & Mattsson, 1988).

Networks can help internationalizing firms in exposing them to opportunities, learning, and benefit from pooling of resources (Chetty & Holm, 2000). For instance, Chen

and Chen (1998) showed that network linkages are important in determining the choice of location of foreign direct investment and Banerji and Sambharya's (1996) results showed that keiretsu affiliation affects internationalization patterns of Japanese automobile ancillary manufacturers. The network approach has relevance for this work because we are studying the effects of ventures' investors on internationalization.

Research on social capital, discussing network-related issues (Coleman, 1990), is relevant. Researchers have found that the personal contact networks of founders and employees are the basis for a young firm developing its exchange relationships (Aldrich & Zimmer, 1986; Birley, 1985; Steier & Greenwood, 1995). Managers' external ties promote conformity between firms (Geletkanycz & Hambrick, 1997) and can thus be used to obtain information about what behavior is acceptable in foreign markets.

Research has showed that growing ventures exploit their managers' social capital (cf., Coleman, 1990; Nahapiet & Ghoshal, 1998) in forming alliances (Eisenhardt & Schoonhoven, 1996). This pattern may be considered in the realm of internationalization as well. McDougall et al. (1994) argued that direct personal contacts in foreign markets could be used to obtain advice, identify new business opportunities, obtain assistance in foreign negotiations, and open doors in new markets. Yli-Renko et al. (2002) hypothesized that social capital promotes the acquisition and creation of knowledge, and that knowledge is a key resource that drives the international growth of technology-based new firms. Knowledge has been identified as a key component in the internationalization of businesses by several scholars (cf., Eriksson et al., 1997; Hadjikhani, 1997; Johanson & Vahlne, 1977; McDougall et al., 1994; Oviatt & McDougall, 1997; knowledge can be *experiential knowledge* which can only be acquired through personal experience or *objective knowledge* which can be taught, see Penrose, 1959). Knowledge on how to operate in foreign markets has been sometimes discussed as "foreign organizing knowledge" (cf., Johanson & Vahlne, 1990). Moreover, the

studies imply that social capital is an important attribute to be considered when explaining the internationalization behavior of firms.

Venture capitalists provide important value-added to their portfolio ventures (cf., MacMillan et al., 1989; Sapienza et al., 1996). One can presume that they may also provide valuable internationalization support. Still, the stream of internationalization that focuses on firms that are international right or nearly from inception – the stream that might be called, for instance, a stream on ‘international new ventures’ (cf., McDougall & Oviatt, 1996; McDougall et al., 1994; Oviatt & McDougall, 1994; Oviatt & McDougall, 1997; Reuber & Fischer, 1997; Shrader et al., 2000; Zahra et al., 2000) – does not notably touch the question of venture capitalists’ influence on internationalization.

Institutional Theory

According to the institutional theory, an actor transforms to be similar to its counterparts in the corresponding context – that is, companies become *isomorphic* to their peer companies. In the case of this study, the effect refers to becoming similar with firms that operate in the same geographical market. This homogenization is an institutionalizing process called isomorphic change (Nohria & Gulati, 1994). Institutional theorists have viewed *legitimacy* as a fundamental part of the explanation for why some organizational forms are more prevalent than others (Suchman, 1995). A common definition for legitimacy is a “generalized perception or assumption” that certain forms or practices are suitable or appropriate (Strang & Sine, 2002).

DiMaggio and Powell (1983) delineated but the coercive type of isomorphism that was introduced above, also two other isomorphic processes: *mimetic* and *normative* isomorphism. Mimetic isomorphism refers to a response that the focal actor takes on its own behalf and driven by no pressure by an external authority. The company mimics actors of a

similar reference group to lower its risks when faced with uncertainties. Normative isomorphism refers to a phenomenon that is largely driven by professionalization. DiMaggio and Powell wrote, “we interpret professionalization as the collective struggle of members of an occupation to define the conditions and methods of their work” (p. 152). It needs to be noted that the existence of these two types of isomorphism may account for some of the institutionalization that was present in the data, even though coercive isomorphism seems to account for the majority of the total effect.

Institutional theory has been a key lens for studies exploring conformational processes of organizations (Pfeffer, 1997; Scott, 1995). In the institutional view, firms operate embedded in a social framework of norms, values, and assumptions about what is appropriate economic behavior. Economic choices are constrained, among others, by the socially constructed limits stemming from a human origin (Granovetter, 1985). A central thesis of the institutional view is that the motivations for human behavior include not only economic optimization but also social obligation and justification.

Conformity to social expectations affects the success of organizations (Scott, 1987). In the domain of the institutional theory, legitimacy refers to the extent of approval for an actor from other actors. At the interorganizational level of analysis, conformational pressures emerging from industry alliances and similar configurations define what is socially appropriate conduct for a firm (DiMaggio & Powell, 1983; cf., Baum & Oliver, 1991; Meyer & Rowan, 1977; Oliver, 1997; Scott, 1987; Zucker, 1977, 1987).

In a paper that also lies in the intersection of internationalization and institutional theory, Davis et al. (2000) addressed the pressures exerted on a strategic business unit regarding its choice of entry mode. The paper argued that the institutional environment of the host country and the internal institutional environment of the parent organization affect the entry mode of a strategic business unit through an isomorphic process.

One type of cost faced by internationalizing firms is the relatively low legitimacy stemming from obstacles for operations in foreign countries. As iterated above, these obstacles that multinational companies face at the beginning of conducting business abroad are called liabilities of foreignness (cf., Zaheer, 1995). The label of ‘liability’ stems from Stinchcombe’s (1965) apt term ‘liability of newness’ used for problems of new firms. Since his work, several tracks of liabilities literature have emerged, including one on foreignness. In our results, we discuss decreased liabilities of foreignness brought about by cross-border venture capitalists.

METHODS

Research Setting

The grounded theory approach is a feasible selection as a research method in cases where little is known about the studied subject (Eisenhardt, 1989). The method could also bring a new perspective to a topic that has already received attention in empirical work (Hitt, Harrison, Ireland, & Best 1998). It also allows researchers to benefit from the quality of rich, qualitative data (Birkinshaw, 1997). To enable the ‘replication’ logic and thus better chances for generalizations (Yin, 1994), this study is based on multiple cases (Eisenhardt, 1989). According to this approach, cases are first studied as independent ‘experiments’ and then compared across cases.

Data was collected regarding the financings and other events of such ventures that had received cross-border or other venture capital investments. We had data from ten ventures and their financings, but one of them is not included here because it is out of the scope of the paper, having no cross-border venture capitalists. Convenience sampling was a part of our case selection algorithm in that all case ventures of the study had begun to run business in a single country, Finland. The sample, however, still enables us to ‘generalize to theory,’ which

act comprises an essential quality in the grounded theory method (Eisenhardt, 1989; Strauss & Corbin, 1998; Yin, 1994). We also believe that generalization possibilities in the other, 'statistical' sense of generalizing as used in theory-testing research (see Yin, 1994: 30-32) can be suggested into many areas. As typical in case research, we leave it for theory-testing studies to more specifically determine the domain to which results can be generalized.

Because the effects of the presence and actions of cross-border venture capitalists are the focus of the study, the relevant unit of analysis is that of the internationalization process of a portfolio company. Table 1 describes the cases and corresponding interviews.

Insert Table 1 here

Advantageous for this study, it turned out during data collection that there was variation in the cases in the existence of a cross-border venture capitalist on the target market of internationalization and the way investors affected the internationalization of their investee firms. The effects and influence of each venture capitalist was considered in the analysis.

Vega's investors could not be interviewed at this time due to considerable secrecy surrounding Vega's operations. However, an effort was made to interview the CEO thoroughly. While triangulation by using multiple informants was not possible, a concern remains that the answers are biased. It is our understanding, however, that there was no motivation for giving biased answers, for instance due to promising that the firm's identity will be safeguarded. There are no other persons than the CEO in the firm that would have sufficient knowledge of the firm's management.

To support the purposes of the study, the internationalization patterns and the most important business regions of the case companies are illuminated in Table 2. To connect these data with venture capital investments, the table also describes rounds of venture capital

investments, including their dates and an important detail on the investors – the geographic area from which they have managed their investment. Considering the purposes of the paper, it is not straightforward to determine which investors are foreign and which proportion of sales is foreign sales in the case of companies that have moved their headquarters abroad. Because these companies have started off in Finland and with an essentially Finnish entrepreneurial team, all countries other than Finland are considered as foreign countries.

Insert Table 2 here

Data Collection

Several sources of data were used. This helps to improve the construct validity of the study (Yin, 1994). Interviews, observations, and several secondary sources were used as data collection methods, interviews being the primary source. The interviews were semistructured so that the conversation could take directions according to the answers of the informants, and to allow an in-depth inquiry into the nature of the subject issues. As documented by Table 1, all entrepreneurial respondents were members of the management team of the venture, often CEOs. Nearly all venture capitalist informants were the representatives of their employers in the ventures' governance. In some cases, several venture capitalists from the same firm were interviewed regarding a same portfolio firm.

Fifty-eight interviews were made in June–August 2002, of which the first twelve were used as a pilot study, after which revisions were made to the interview template. After that, however, the interviews took a partly distinct shape due to additional questions that were drafted specifically for each interview after the eighteenth interview. These questions dealt

with issues raised in the previous interviews concerning the case at hand. With one exception, the interviews were tape recorded and transcribed.

Triangulation (Eisenhardt, 1989; Jick, 1979; Miles & Huberman, 1994) was the rationale for adding elements to the template. The objectivity of the data could be verified by discussing a particular phenomenon with virtually every respondent in each case. Thus, potential biases in the data, such as those caused by potential post hoc rationalization, could be reduced. There were only a few answers with misaligned responses, and we are rather confident that the depth of knowledge is sufficient to reveal the true states of things in this research.

Additional questions were a result of preliminary analysis of data. This overlap of phases is a key feature of theory building studies using cases, enabling that adjustments are made during the data collection phase of the study. Adjustments allow the researchers, among others, to more efficiently probe emergent themes (Eisenhardt, 1989). According to Eisenhardt, this flexibility allows improving the quality of the results, being “controlled opportunism in which researchers take advantage of the uniqueness of a specific case and the emergence of new themes” (1989: 539). In some instances, further viewpoints on the subject matter were obtained.

Field notes were used as another form of recording interview data. Field notes facilitate conducting data analysis simultaneously with data collection (Eisenhardt, 1989). These notes were written during each interview directly on a laptop computer. These documents include notes of two categories. First, there are brief remarks of the interviewer’s insights obtained during the interviews, followed by syntheses. Second, there are notes of the content of virtually every answer of the respondent, except with the parts that were irrelevant for the studied phenomenon. Thus, the field notes comprise both observation and analysis (Eisenhardt, 1989). To these field notes, comprising altogether more than 300 pages for the

fifty-eight interviews, necessary supplements were written 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. The shortest took forty minutes, and some ran for two and a half hours. In addition to the actual interviews, about twenty informants were called later to supplement the data.

The secondary sources included company websites, press releases, news from the most important newspapers, magazines, web services, and the Venture Xpert database produced by Securities Data Company. In some cases, this material provided an effective means for data triangulation and thus helped to increase the reliability and validity of data (Miles & Huberman, 1994). Before the first interview concerning a specific case, the interviewer familiarized himself with the secondary data by drawing an initial version of the venture's timeline of events based on secondary sources. This initial version supported the interviewing process: when asking about the history of the company, refreshers could be given from the secondary data, and vice versa, the accuracy of the secondary sources could sometimes be checked.

Data Analysis

In analyzing the data, several powerful procedures suggested by Eisenhardt (1989), Miles and Huberman (1994), and Yin (1994) were used. A within-case analysis (Eisenhardt, 1989) was conducted first. This phase was started by reviewing and supplementing the timelines that had been built for the cases, and by comparing them with other data records and the analyses and syntheses made by the interviewer in his notes. Concepts were identified by handwriting notes in our detailed interview memoranda and other review and analysis papers. This process involved several discussions with other researchers and reviewing of text and various forms of tabular material, giving a detailed view of each case and potentially

mitigating the difficulty posed in the following cross-case analysis by the large volume of data (Eisenhardt, 1989).

As the next step, a cross-case comparison was made. This included the search of similarities and differences in two or more cases. Also cases that appeared as similar were compared to discover patterns that might have gone unnoted previously. As noted by Eisenhardt, “the juxtaposition of seemingly similar cases by a researcher looking for differences can break simplistic frames” (1989: 541). Among others, contradictions with earlier results of syntheses were sought.

The analysis involved continuous rotating among data, literature, and emergent themes that is, in essence, called for by Eisenhardt (1989), Strauss and Corbin (1998), and Yin (1994). Comments were obtained from colleagues to supplement and test the insights. We used various displays (Miles & Huberman, 1994) for reducing data. Existing literature was consulted often, particularly in the phase following data collection and we generally made use of our knowledge of earlier literature, following the current understanding of grounded theory (Eisenhardt, 1989) that runs against the traditional understanding (Glaser & Strauss, 1967) in this respect. The iterative process of comparing materials and findings is important in improving the internal validity of the study (Yin, 1994). Earlier literature of various fields provided a basis on which to build a model and with which to compare. However, no a priori hypotheses were formed at any stage. The analysis finally led to the model that is introduced in Figures 1 and 2 below.

CROSS-BORDER INVESTORS AND NEW VENTURE INTERNATIONALIZATION

In this section, we discuss the data and prepare for our presentation of the propositions that takes place in the discussion section below. A key thesis that emerged from

the data was that the existence of cross-border investors is likely to lead to a conforming process in which the investee firm changes to some extent to be more alike similar companies in the geographic areas from which the investor manages the investment or in which the investor has other physical presence. This corresponds to an isomorphic process. Investors can exert pressure to conform to an isomorphic form, and cross-border investors have much power in exerting pressure to ventures.

Several of the cross-border venture capitalists in the data have exercised some form of persuasion or coercion. Often, this occurred in decisions pertaining to where the company should internationalize its operations. In cases that internationalized to locations that were planned target markets for the venture, significant benefits were obtained from cross-border investors. Significant conformational pressure was present in Antares, Betelgeuse, Fomalhaut, Pollux, and Vega, while Altair, Capella, Rigel, and Procyon were left with less pressure. The subsections below detail how the effect were divided into positive and negative effects for the ventures.

Positive Effects of Isomorphism

At least for ventures that start off in other locations than on their most important market, there can be notable benefits stemming from the participation of cross-border venture capitalists that local venture capitalists typically cannot provide. According to our findings, cross-border investors bring, at a minimum, enhanced endorsement for the prospects of the venture. The results imply that this endorsement is most significant in the vicinity of the investor. At best, cross-border investors can significantly lower the liabilities of foreignness experienced by the venture in the new market by providing contacts and market and other knowledge, that is, 'foreign organizing knowledge.' The positive effects are likely to occur when the investor firm has a close match with the internationalization target market of the

venture, either operating on that market or originating from there. An instance of the latter case is a U.S. venture capital firm that manages a European investment from a European office and can help the internationalization of the portfolio firm to the U.S. markets.

A comment from a Finnish entrepreneur illustrates the need for cross-border investors that is often present in firms that are about to start internationalizing on their most important markets.

Finnish venture capitalists should consider what value-added they can bring to an internationalizing company – especially to one whose markets are abroad and there is a multicultural personnel with language proficiency -- if a Finnish investor lacks competence related to internationalization, a foreign investor will be a respectable option.

To sum, it appears that all cross-border venture capitalists provide some form of endorsement for a venture (unless potentially some investors with a generally adverse reputation – such investors are not present in our data). In our data, all cross-border investors induced both increased costs of transacting and enhanced endorsement. Endorsement was not global and our data imply that often concentrates in markets that are in the vicinity of the investor. The investors' fit with the target market was associated with the outcome of which one – endorsement or transaction costs – appeared to have a dominant effect over the other.

An investor stationed in the correct market can also induce the abovementioned benefits that have a greater effect than those stemming from endorsement. That is, the investor can drive an institutionalizing process in which the venture achieves a yet greater level of legitimacy in the focal market. Later, Table 3 illustrates that the help of cross-border venture capitalists was typically viewed as being very beneficial in the cases and that this help appears to be pivotal in decreasing the liabilities of foreignness experienced internationalizing ventures.

The case firms of this study were from Finland, and they all need to conduct a broad internationalization program to achieve their growth objectives. According to the paper's scope, ventures that grow from the beginning on the most important market areas are not studied. It is our contention, however, that also such ventures can crucially benefit from the contributions of cross-border venture capitalists in their internationalization, even though international operations may be less important for the growth of the business, and investors that are local to these ventures may be have high prestige in the global business environment.

Our data support the intuitive notion that cross-border investors are likely to possess far better information on the business environment in their location than the venture that is about to start internationalization there. Venture capitalists' knowledge of legal issues is a special domain that several informants raised as an important contribution, and we thus integrate legal knowledge into our proposition on 'foreign organizing knowledge' provided by cross-border venture capitalists.

Contacts on the foreign market – a form of international social capital (Yli-Renko et al., 2002) – represent an important resource that was often present in the informants' accounts: it appears that the existence of a cross-border venture capitalist in the selected market of internationalization is associated with investee firm having better social capital, including social capital connecting them to potential new investors. Here, our results support prior literature in the observation that obtaining more financiers is one of the key activities of venture capitalists (Gorman & Sahlman, 1989; MacMillan et al., 1989). The appearance of a venture as more attractive from the viewpoint of investors operating in a certain location is also a phenomenon that may result from the conformity resulting from the isomorphic processes. To sum, venture capitalists may have several positive influences for ventures' internationalization: they can increase the venture's legitimacy by providing endorsement,

knowledge of the business and legal environment, and international social capital. These effects will decrease the liabilities of foreignness faced by the venture in the new market.

Events in the cases illustrate how cross-border investors have provided benefits to portfolio companies when they have been operating on the correct markets or originating from there. For instance, in the case of Antares, an American investor that was not expected to provide as much active contribution than the Finnish investors actively influenced and helped the firm's planning for the American office, providing market knowledge and important contacts. Much help was not needed, though, because the entrepreneurial team possesses substantial prior experience in international business. Still, Antares gained significant benefits. In Fomalhaut, the U.S. investor Spindle exhibited "clear aspiration" to bring the company into U.S. markets. Investors have been able to important help especially in recruiting and providing customer contacts. These benefits were realized even though the management of Fomalhaut viewed the contact persons assigned by the two cross-border investors to have a less than desirable background for managing the investment.

In the cases of Capella and Rigel, the cross-border investors could have exerted strong influence, but have nevertheless not done so regarding internationalization. This, however, may be only due to the fact that the cross-border investors have been inactive towards the investee firms in all decisions during key internationalization decisions. In Capella, the U.S. investor's presence has brought about major endorsement benefits, and endorsement has been enjoyed by Rigel as well. In Rigel, a part of the cross-border investors' inactivity may be due to the fact that the venture has a very experienced management and may thus need less advice. But, the management is slightly on the view that their venture capitalists do not have the best possible expertise on internationalization. This could potentially be a factor that makes investors less willing to exert conformational pressure.

It appears that the good fit of the cross-border investor with a market that has been recognized as a target market is important in enabling the realization of best benefits of endorsement. This, supposedly, is due to the fact that while these investors may have international, including also global prestige, they still are best know and most conversed among industry actors in their geographical vicinity. Future research is important in more detailed studies of the generalizability of this finding from our data.

In the cases of Betelgeuse and Pollux, a U.S. investor provided much helped in internationalization to the USA, but the USA was not the target market of internationalization at the time of first entry, and according to our analysis, going in the U.S. markets did not appear to be useful for the firm at the time. These firms are thus situated in both Quadrants 1 and 3 of the model in Figure 1. A more detailed review on them is presented in the next subsection.

To sum, investors significantly supported internationalization and its planning in many investee firms. The most common business contributions relate to bringing customer contacts and knowledge of the legal environment, opening doors to other parties such as business partners, and helping in recruiting managers from the foreign location. Other important benefits are investor contacts. Table 3 presents a summary and illustrations from our data of the contributions of cross-border venture capitalists.

Insert Table 3 here

Negative Effects of Isomorphism

Further to benefits, our data indicates that there are costs stemming from the participation of a cross-border venture capitalist and that the costs arise because

communication and travel from distant location require more time and because some venture capitalists drive portfolio companies to wrong directions as detailed in this section. Costs induced by cross-border venture capitalists can be expected to outweigh the above-reviewed benefits in cases where the venture is pushed to internationalize to ‘incorrect’ markets, that is, in areas that are not optimal for its growth. The more minor cost stemming from cross-border transacting may also outweigh the associated benefit from the existence of a cross-border investor – endorsement.

Regarding the target area of internationalization, the data holds that investors are likely to exert pressure to internationalize to the geographical location from where the venture capitalists manage the investment or in which they have presence. If this location does not host a market that is optimal as a target market of internationalization for the venture, it is naturally likely that significant disadvantages to the development of the venture are induced.

Negative effects are dominant in Vega, Altair, and Procyon. In addition, Betelgeuse and Pollux have both negative and positive effects and a high degree of conformational pressure. In Pollux, a cross-border investor first exerted pressure to the choice of internationalization target market: Pollux founded an office in Munich “because [the key investor] was from there.” Later on, a well-known venture capital investor from the USA joined Pollux’ financiers and was the lead investor on the round. The German investor lost its interest and became passive. The new investor, on its turn, wanted Pollux to shift its headquarters to the USA. An informant from Pollux stated that “[the new lead investor] required that the new CEO would be stationed in the USA -- the [U.S.] office was established [at that time] due to their demands.” Multinational management was then hired and an American person was recruited as the CEO. According to the founding entrepreneurs’ view,

this move to the USA was too quick, and the data back the notion that the firm's maturity for this significant an expansion was not fully developed.

In the discussion section, we introduce Figure 1 that locates the cases to our model. It is, however, beneficial to briefly discuss Pollux' position in the figure now. Pollux has received investor pressure and negative effects of going to the U.S. market too early, but simultaneously the USA has been a reasonable objective market at some stage and the U.S. investor has significantly helped Pollux there. Thus, Pollux has been positioned in both Quadrant 1 and Quadrant 3 in the model. To sum, Pollux' location choices were twice significantly affected by investors, and some of that influence was damaging. However, the cross-border investor also significantly supported the U.S. expansion by decreasing the firm's liabilities of foreignness. The investor provided, for example, social capital for obtaining customers. The case also provides a good example of the significant power that investors can exert.

In Betelgeuse, an American investor wanted the firm to establish offices in several locations, and special emphasis was placed on internationalizing to the USA, even though the USA had not yet been identified as a target market for internationalization. However, while the investor exerted pressure to internationalization that appear to have been too early, it also provided legitimization in the U.S. market by helping market access and providing contacts. The cases of Pollux and Betelgeuse exemplify how their key cross-border investor did not have a fit with the portfolio firms' target internationalization market at first, but the benefits from decreased liabilities of foreignness became to be perceived as useful in time, when the firms felt that presence in the USA was beneficial for the firm. Thus, these firms' discovered that the market, where their cross-border investors had driven them, had become a target market.

Vega, Altair, and Procyon are firms that do not stand on the borderline of negative and positive effects in Figure 1. Negative effects dominate. Vega had a secondary office in the Silicon Valley from start. The investors then exerted pressure to move everything to the United States. The entrepreneurs felt that it would probably not be wise to move research and development functions or headquarters there. Later on, a more formal decision was made to keep at least research and development operations in Finland, but investors have still occasionally put on “sporadic pressure” to move functions to the USA. A vignette from the CEO is illustrative:

In the beginning, there was quite a lot of pressure to move everything to the States. When we decided to continue here, there has still been sporadic pressure: ‘Have you considered this and what is the situation and so on, if you should focus more on the U.S.’

Some of Vega’s investors are very prestigious and have provided significant help in opening doors in the USA. However, at this stage, the help does not concern internationalization of business in terms of sales but contacts regarding product development work. The USA is not a target market of internationalization as we refer to the term in this paper. Accordingly, Vega is positioned in Quadrant 1 in the model.

Vega crucially differs from the other case firms. During the time of the research, they were not yet selling any products, and they only have offices in Finland and in the USA, and they have had both of the offices prior to obtaining venture capital investors. Due to schedule and the operating logic of the industry, there have not been needs to plan further internationalization and it is not evident that which markets will be key targets. The U.S. market is an important candidate for the future, however, and the investors would have fit there. In that case, Vega, with its history, could become a firm laying in both Quadrants 1 and 3 of the model. Finally, it needs to be stressed that Vega has one very prestigious investor.

Correspondingly, Vega has enjoyed endorsement in some interactions, and when it has, the benefit has been large. However, the maximum amount of endorsement from the investor cannot be enjoyed, because the firm runs its operations on a very low profile due to its development of a new technology and quest for not attracting competitors to its market.

In Altair, investors did not exert much pressure, but many of them were generally of some trouble, because some of them were mutual competitors and board work became troublesome due to this. Additionally, Altair illustrates the increased transaction costs that cross-border investors bring along them due to requirements of communicating to distant locations and potentially culturally distant people. In Procyon, investors have not exerted strong pressures for guiding the internationalization in certain directions. This is not surprising, however, due to the fact that there are only Finnish and Swedish investors in Procyon. Similarly to Altair, the major effect of cross-border investors appears to lie in the increased costs of communication, meeting, and decision-making. The cross-border investor cannot significantly help internationalization via endorsement or providing ‘foreign organizing knowledge’ in markets that are key internationalization target markets of the company.

Table 4 presents a summary and illustrations of the potential disadvantages that cross-border investors may bring along them. Note that in the table, we do not detail the negative effect of transaction costs. This effect is homogenous across cases, and as intuition would suggest, present in all of them.

Insert Table 4 here

Finally, we introduce a closely related phenomenon that also concerns the effects of cross-border venture capitalists is that of investors’ abandoning of active participation in

management and steering. Most managers and venture capitalists believed that investors may act according to the interest of their portfolio as a whole, “playing for their portfolio,” also when it conflicts the interests of individual portfolio firms. Some informants deemed this sort of acts as unethical, and some merely considered it business reasoning. A comment from a venture CEO illustrates the potential problems:

A merger that is not optimal [for the investee firm is possible] – investors can do some non-optimal deals [for the investee firm] by themselves. They may have their own interests. Moral and reputations keep [some of] them from playing for the portfolio [instead of objectively pursuing the interests of each portfolio company separately]. [The key investor of the CEO’s firm] is a guardian of morality. Their reputation is extremely good and they may fear that their deal-flow will diminish [otherwise].

Cross-border venture capitalists may often be less dependent on the investee firm and foreign investors have been found to be especially susceptible to significantly lower their active participation in investee firms’ management. Due to this independence, they may also be more likely to “play for their portfolio,” as the CEO succinctly put it, instead of playing for the benefit each investee firm separately.

To sum, the key thesis of the section is that when there are cross-border venture capitalists that actively participate the management of the portfolio firms and that do not operate from a geographic area that is central to the internationalization target market of the portfolio company, the portfolio company will encounter significant costs from cross-border investors that outweigh benefits. These costs arise from cross-border venture capitalists driving the firms to internationalization to ‘incorrect’ markets, that is, markets that are not included in the optimal set of internationalization target markets. At the least, cross-border

investors bring about relatively high costs from transacting. These costs are markedly present in each case of this study.

DISCUSSION

Based on the findings presented above, we have formed three explicit propositions from our findings. Their content is also described in Figures 1 and 2. Figure 1 also presents the distribution of the cases in the four key categories, into which the cases rather evenly fall, providing also replication for the division into categories. The categories emerged from the identification of the two focal dimensions presented in the figure.

Proposition 1: By their existence, cross-border venture capitalists

- (a) exert costs for ventures via transaction costs (it is more difficult and time-consuming to keep contact to a distant location and person) and*
- (b) provide benefits in the form of endorsement for the venture (high quality ventures can attract cross-border venture capital), decreasing the venture's liabilities of foreignness and increasing its legitimacy in a new market.*

Below, 'target market' refers to a market into which the venture should optimally be able to internationalize its operations.

Proposition 2:

- (a) Cross-border venture capitalists can use much power if they exert isomorphic pressures to an investee venture.*
- (b) If they exert isomorphic pressure, they can*
 - (i) convey increased legitimacy and decreased liabilities of foreignness by providing international social capital and relaying business and legal knowledge in the target market or*

(ii) drive the venture to internationalize to an “incorrect”, non-target-market,
depending on their fit with the internationalization target market of the investee.

Below, by an *investor’s fit with the selected target market of internationalization of the venture*, we refer to its degree of establishment and recognition in a market; in the cases of this study, investors have been mostly fit in markets that are geographically close to the offices of the firm. For instance, U.S. investors appear to have good fit in the USA even if they manage the investment from Europe. Thus, an additional indication of the research is that investors would in general appear to be most evidently fit in locations where they operate. However, only little trouble could be caused by this selection at most, because nearly all cases have a single cross-border venture investor only.

Proposition 3:

(a) If a cross-border venture capitalist has good market fit, it can

(i) provide general endorsement and, in some cases,

(ii) convey increased legitimacy and decreased liabilities of foreignness by providing international social capital and relaying business and legal knowledge in the target market, depending on if it exerts isomorphic pressures to the investee.

(b) If a cross-border venture capitalist does not have good market fit,

(i) its presence may just show as increased costs or

(ii) it can drive the venture to internationalize to an “incorrect,” non-target-market,

the selection between (i) and (ii) depending on if it exerts isomorphic pressures to the investee.

Insert Figure 1 here

First, the model holds that all cross-border investors introduce relatively high transaction costs because it is more expensive to communicate, make decisions, and travel between distant locations and people. In Quadrant 2, this is the only effect that cross-border investors bring. In Quadrant 4, investors have a good fit with the *target market of internationalization* of the venture. In this scenario, they bring about not just transaction costs but also introduce endorsement benefits from just being present with their name or by providing minor help. According to the simplified presentation inherent and sought in models, the benefit outweighs the trouble stemming from high transaction costs.

In Quadrant 2 and Quadrant 4, investors do not actively exert pressure to ventures for conforming to an isomorphic format. Once they do, cases fall into Quadrants 1 and 3. Investors may have significant power in exerting conformational pressures. For Quadrant 1, the key investor's fit with the target market is not good, and the model proposes that the cross-border venture capitalist exerts isomorphic pressure driving the portfolio firm to internationalize to 'incorrect' markets. In Quadrant 3, the investor both exerts institutionalizing pressure and has good fit. Under these circumstances, it can well provide international social capital and business and legal knowledge in the market (cf., Johanson & Vahlne, 1990), effectively decreasing the venture's liabilities of foreignness and legitimating it in the new market. More coincidental-like observations of ours hold a larger number of ways in which venture capitalists' can support portfolio firm internationalization, such as providing help in recruiting, scanning potential customers, and opening doors to technology partners and potential new financiers.

Figure 2 introduces the model in a standard box representation. The moderating effect of target market fit is presented for the two separate cases of high and low fit. The upsides and downsides of the existence of a cross-border venture capitalist are depicted as two primary effects of the model. Target market fit swings the pendulum of the main effects to either the domination of internationalization support or the domination of internationalization disadvantages. Conformational pressure exerted by investors then increases internationalization support or internationalization disadvantages. Descriptions in the section “Cross-border Investors and New Venture Internationalization” and in Tables 2, 3, and 4 provide a detailed account of the distribution of the cases in the Quadrants of Figure 1 and of the associated effects that are illustrated in Figures 1 and 2.

Insert Figure 2 here

The model, as all models, is a simplified presentation. One assumption that is embedded in the discussion in this paper is that the cross-border investor stays. Furthermore, we refer by internationalization target market to a market that currently has been identified by the venture as an objective. Even if the investor was on the correct market and actively participates the management of the portfolio firm, steering towards starting internationalization may be felt by the entrepreneurs as a step taken too early, as our case descriptions illustrate.

The paper points several directions for further inquiry. One obvious avenue to for future research is conducting a large-scale survey study to examine the domain of external validity of the model by means of statistical testing. In the present study, all case ventures started their operations in Finland, and this may induce a bias in the results. Despite the fact that preceding comparative research suggests that venture investors operate rather similarly in

different locations (Manigart et al., 2002a; Manigart et al., 2002b; Sapienza et al., 1996), country-specific differences in their behavior certainly cannot be ruled out altogether.

Now that our analysis has lead us to view these findings as isomorphism, an interesting question that arises regarding institutional theory is that which of the three types of isomorphism delineated by DiMaggio and Powell (1983) does the discussed institutionalization represent. Certainly, there seems to be coercive isomorphism, but other forms can still account for a part of the findings. In fact, as DiMaggio and Powell implied, the three types of isomorphism introduced by them may not lie along a single dimension, so several types can be significantly present at the same time.

CONCLUSIONS

In this paper, we have examined the internationalization of such investee firms that have their primary markets in foreign locations. The data came from nine ventures that have started in Finland and that have been financed by at least one cross-border investor, and are obtained primarily by conducting fifty-eight interviews. The grounded theory method, resulting in three propositions and a two-dimensional model to depict key findings, was used.

Our main findings are that a cross-border investor's projection of conformational pressure and its fit with the venture's selected internationalization target market are important drivers of the outcome of the investors general effect on internationalization. At best, the investor may powerfully legitimize the investee, and at worst, it can pull the investee to an "incorrect" market.

An important practical insight that results from the paper is that prior to agreeing on cross-border investment rounds, entrepreneurial teams and local investors should carefully examine the internationalization objectives of the company, especially in terms of the target locations of internationalization and whether their new candidates for investors are both

willing and able to help them there. In addition to financial capital, new investors should be able to provide endorsement, international social capital, and knowledge. Investors, for their part, should search for portfolio companies whose business objectives can be reconciled to be reasonable by both the investor and the investee.

Perhaps the most notable implication for further research of this paper is the support for using institutional theory in explaining the internationalization behavior of new ventures. In line with Davis et al. (2000) who found support for the institutional arguments in the context of the choice of international entry modes, we believe that the approach is a fertile one for future research efforts. Generally, studies in the field of cross-border venture capital should examine questions of tie formation in building cross-border syndicates and the management of these collaborative relationships. Regarding internationalization, future research should also attempt to build models that provide a more detailed account of the characteristics of software firm internationalization. Our cases are mostly software industry firms, and such firms' business networks may be unusually complex (Messerschmitt & Szyperski, 2003). This may induce special behaviors to their internationalization. However, academic discussion on such specialities is scarce and while we have data from the companies on their internationalization target markets and patterns, including the investors' views on the matter, we believe that the potential special behaviors do not create any significant bias to this study.

As noted above, there is not much prior research in the field of internationalization that would explore the roles of venture capitalists in regard to the internationalization of their portfolio firms. On an abstract level, insights from our paper hold that ties to cross-border actors may offer important help or disadvantage for the expansion efforts of the focal actor to new geographic locations. Ties to cross-border – or, put more abstractly, distant – actors may endorse the quality of the focal actor and produce high costs from transacting across

geographical and cultural boundaries. Strong cross-border network partners may induce conformational pressure, leading to increased legitimacy in their vicinity when this location is optimal for internationalization, and to costs if not. Theory-testing research should also examine the domains of external validity of these suggestions across topical boundaries.

The results of this paper provide support for the use of network-based approaches to internationalization (Andersen & Buvik, 2002; Johanson & Mattsson, 1988), especially in regard to questions related to the selection of internationalization target markets. However, the research is differentiated from most of the ‘network theory of internationalization’ research in that we focus on the support and disadvantages for internationalization produced by the cross-border network and do not begin with the starting point that companies would need to build a cross-border network to secure resources needed for survival (Pfeffer & Salancik, 1978).

Finally, our results support the use of institutional theory to complement current theorizing in internationalization behavior. It is our contention that the above approaches will be prevalent in the future.

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Table 1
Descriptive Data on the Cases and the Interviews

Case Venture	Industry	Management Team	Investors ^a
Altair	Software	CEO, VP Business Development (2)	6 of 8
Antares	Software	CEO, CTO	3 of 3
Betelgeuse	Software	Deputy CEO (2), CFO	3 of 3
Capella	Software	CEO, CTO (2)	2 of 2
Fomalhaut	Communications devices	Ex-CEO, another ex-CEO, CTO	3 of 3
Pollux	Software	CTO, VP R&D, ex-VP Mktg	3 of 3
Procyon	Software and related services	CEO (3)	3 of 3
Rigel	Software	CEO, CTO	2 of 4
Vega	Materials for Hardware	CEO (2)	0 of 4
Total Number of Interviews:			58

^a Small investors that cannot be considered as venture capitalists or are otherwise negligible for the purposes of the study have been excluded. One interview was conducted in an investor firm per a venture; however, in nine investor-investee dyads, two investor interviews were performed.

Table 2
Description of Investment Rounds and Internationalization Patterns of Investee Firms

Name of Firm	Year of Founding	Rounds ^a			Internationalization		Level of Foreign Sales ^c and Key Countries Currently
		#1	#2	#3	Most Important Geographical Markets ^b	Entry Modes	
Altair	1997	Summer 1999 Finland, Finland	Fall 2000 Northern Europe, Finland, Finland, Central Europe, four other firms		Initially Europe most important. Then, Asia, Eastern Europe, and Scandinavia.	Export sales from Helsinki headquarters. Collaborative agreements with major partners that operate globally. In 2001, there was a sales function in the UK, operating in another firm's premises. Technical training is given to foreign firms.	About 20%. Developed countries in Asia, Eastern Europe, and Scandinavia.
Antares	2000	Winter 2000 Finland, Finland, about ten very minor investors	Summer 2000 Finland, California, Finland, about twenty minor investors		Initially Finland and Scandinavia, then Europe, then North America. In 2001, North America became less important.	Export sales. Foreign sales without office. Collaborative agreements. Offices: Germany (2000); US East Coast (2000; has been running a low profile since 2001); Quebec (2000; closed down in 2001).	50-75%. UK, Germany, Italy.
Betelgeuse	1999	Winter 2001 Finland	Fall 2001 Finland, Finland, Northern Europe		Germany, Sweden, UK, and to some extent also the Netherlands.	Export sales. Foreign sales without offices. Offices: Netherlands (2000); Germany (2000); UK (2001); Sweden (2002).	About 50%. Germany, Sweden, UK.
Capella	1997	Summer 2000 Finland	Summer 2001 Finland, UK		Initially Finland. Then Europe, especially the UK. Asia and Middle East are gaining importance.	Export sales. Foreign sales personnel without office. Collaborative agreements in Spain, Portugal, and Germany, and with multinational corporations. Sales offices: Singapore (2001); UK (2001).	50-75%. UK, Hong Kong, Singapore.
Fomalhaut	1999	Winter 2000 Finland	Winter 2001 UK, Finland	Summer 2001 UK, Finland, UK	Initially USA. From late 2001, UK.	Export sales. Collaborative agreements in Asia (2000) and the Middle East (2000). Sales offices: Denmark (2000; closed down in 2002); Southeast Asia (2000; closed down in 2001); US Midwest (2000; closed down in 2002).	50-75% Norway, UK, Arab Emirates.

Pollux [HQ on US East Coast since Winter 2001]	1997	Summer 1999 Central Europe	Summer 2000 Central Europe, US East Coast	Winter 2002 US East Coast, US West Coast	Initially Finland, then Germany, then Norway, then southeast Asia.	Export sales. Collaborative agreements. Offices abroad: sales office in the UK (1999); European marketing operations office in Germany (1999; this office does not have any regular personnel anymore, but exists); office and headquarters in US East Coast (2000); sales office in Sweden (2002).	Over 90%. USA, Southeast Asia, Denmark.
Procyon	1999	Spring 2000 Finland, Finland, additionally an angel from Finland	September 2001 Finland, Finland, Northern Europe		Up to 2001, Finland, then Europe. The focus may shift to Asia in the near future.	Export sales from the headquarters. Collaboration with large partners. Recent collaborative agreements in Spain (2002) and Austria (2002).	About 100%. UK, Switzerland, Italy.
Rigel [HQ on US West Coast since 1999]	1992	Fall 1997 Finland, Finland	Fall 2000 California, London, Munich, Finland, seven other investors		Key customers are global, but the home base is considered important for establishing operations.	Export sales. Foreign sales without offices. Distribution agreement to China (2001); 17 offices, the most important being Netherlands (1995); US West Coast (1998); US East Coast (2000); France (2000); Japan (2000).	About 80%. Key customers are global.
Vega	2000	Winter 2001 California, a few others.	Spring 2002 California, California, a few others.		The expected customers are global.	No sales to date. A foreign office in US West Coast from the start of operations (2000).	No sales to date. The expected customers are global.

^a Of the investors, only those relevant for this study are included. The columns present the dates and the locations from where the investors managed their investments. All names are pseudonyms. The firms' headquarters (HQ) are located in Finland – two exceptions are marked in the Firms-column. To avoid confusion, 'winter' refers only to the first months of a year. In parentheses, we present the location from where the investment is controlled for cross-border investors.

^b Estimated. "Initially" refers to the time when the company initiated sales and current accounts refer to the time of our primary data collection in June–August 2002.

^c Estimated. Foreign sales refers here to sales outside the country of *founding* of the firm.

Table 3
Summary and Illustrations of Contributions of Cross-Border Venture Capitalists on the Internationalization of the Start-Ups (“+“ and “++“ in Figure 1)

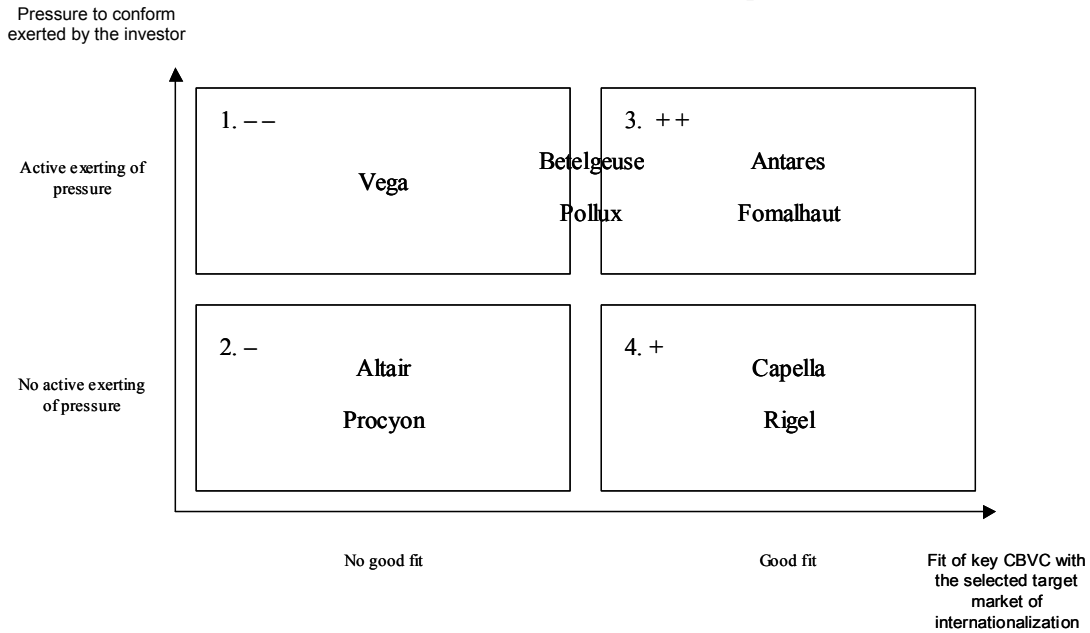
Firm	Summary	Illustrations
Altair	Several of the investors took an active role in devising the internationalization plan of the firm in Summer 2001, when the firm underwent a major reorganization.	”Naturally it helps a lot to have local contacts. -- especially in recruiting [they are valuable] -- naturally the expertise of VCs could be better utilized if we decided to internationalize to a place where they have expertise.”
Antares	The investors have helped in internationalization. However, because the management team is uncommonly experienced for a Finnish start-up, not very much help has been needed. The American investor has given substantial help in the USA in the form of market knowledge and social capital.	“[The U.S. investor] have provided information from the financial markets – and of customers and the state [of markets]. [They have given] information on competitors and financial situation. [They have also given] information on potential partners and customers.”
Betelgeuse	Support to internationalization has been focused in creating business cases and contacts. The support has been of help.	“We [an investor] have introduced Betelgeuse to partner candidates, and we have searched people [contacts]. We have brought in [name; a board member], who has build a European-wide retail chain --“
Capella	The cross-border investor has provided significant endorsement benefits.	“The most important benefit [that the existence of the cross-border investor has given] by far is their name. -- We are taken seriously, people are writing about us, and they are interested in meeting us.”
Fomalhaut	The expertise of cross-border investors has been used especially in recruiting. They have also provided contacts to potential customers and business partners.	“When the U.S. office was being founded, we used [the managing director of a cross-border investor] to interview the candidates.” “ They keep commercialization and marketing aspects on the foreground. They follow the market very carefully, spot competitors and so forth.”
Pollux	Investors provided their expertise in internationalization, helping for instance to obtain customers.	“With [the fund], we got contacts to [the CVC investor firm managing the fund].” “ They may have helped us with [a customer] and [another customer], but they were not critical. To [a customer], we got with their help.”
Procyon	The cross-border investor actively participates the planning of establishing offices abroad. This investor has also given contacts, and with those contacts, Procyon has discussed matters relating to internationalization and common technology area. However, the foreign investor cannot provide significantly added endorsement, contacts to a large market, or proprietary-like business knowledge therein.	“The contacts [that the cross-border investor has provided] are useful. We have met many of them [other firms].” “ It was positive to get [the cross-border investor] involved. They provide contacts to Scandinavian [businesses relevant to Procyon] and some other contacts as well. And, they give us new insights.”
Rigel	The Finnish investor had contacts to international venture capitalists, some of which then participated as investors. Investors have knowledge on financial matters that has benefited the firm, and they have provided a fair amount of endorsement.	“ [The local investor] had a lot of contacts] to second round investors.” “ [An investor] has brought us on the surface of the Earth in some things.”
Vega	The investors have opened many important doors and are interested in further financing. Due to the phase of operations of the company (no sales yet), they have not been able to help internationalization much.	“ They monitor our competitors.” “ They have a very good knowledge of business.” “ The most important one [benefit from investors] is that we can talk to nearly anyone.”

Table 4

Summary and Illustrations of Potential Disadvantages Arising from the Participation of a Cross-Border Venture Capitalist (“– “ and “– –“ in Figure 1)

Firm	Summary	Illustrations
Altair	Most cross-border investors have been active in absorbing information but not in contributing to the management as they were expected, creating transaction costs. Among the interest groups of the firm, there are companies that are competitors to each other, and this often makes board work troublesome.	“They have different sort of interests.” “The relationship between [an investor] and [another interest group firm] cannot be very natural.”
Antares Betelgeuse	No visible problems except transaction costs. The cross-border investor has announced that it will give up venture capital investing. There is some uncertainty on what will be done to the investments. There was also pressure to expand to the USA prior to the USA becoming identified in the firm as a key expansion target market.	“That [an investor] will quit [investing], will surely have an effect on some companies.”
Capella	After a key person at an investor firm left his employer, this firm has remained rather passive and seemingly uninterested.	“We don’t know, what they want. We and [another investor] think that they might want to withdraw.”
Fomalhaut	Even though significant help has been received, the contribution of cross-border investors to the management of the companies has been lower than what was expected. At Fomalhaut, it is believed that the representatives of the investors should be more experienced.	“[A representative] came straight from school. [Representative of another venture capital firm] has a banker background. Fomalhaut was a bit unlucky. Our hopes for better managerial help could have come true [with the predecessor]. When we negotiated with investors, we did not discuss the matter that who would represent them.”
Pollux	The location for an office was chosen due to the location of offices of a cross-border investor. The investor later chose to support a competitor’s technology and abandoned Pollux. Another cross-border investor took a very powerful role in steering the company, and demanded that the headquarters was quickly moved near its own offices. Some felt that after this the contribution of this investor declined sharply. Generally, the entrepreneurs were rather dissatisfied with the investors.	“The Munich office was founded because [an investor] was from there.” “[The investor] chose to no longer use Pollux’ [technology] platform in their portfolio.” “[The other investor] took a strong role. -- The office [near to this investor’s offices, to which the headquarters was moved] was established [already at that time] due to their demands. Pollux would have needed a more mature organization – [the investor] was in a terrible hurry.” “After the beginning, their guidance has remained at a rather low level.”
Procyon Rigel	No visible problems except transaction costs. The contribution of the key cross-border investors has remained clearly lower than what was expected.	“The benefit to us is not as great as one could have hoped for.”
Vega	Investors have tried hard to influence the location of facilities by trying to get the firm to move near themselves. This far, there have been advantages in keeping to the location in Finland, which has been increasingly recognized by the investors as well.	”In the beginning, there was quite a lot of pressure to move everything to the States. When we decided to continue here, there has still been occasional pressure: ‘have you considered this and what is the situation and so on, if you should focus more on the U.S.’”

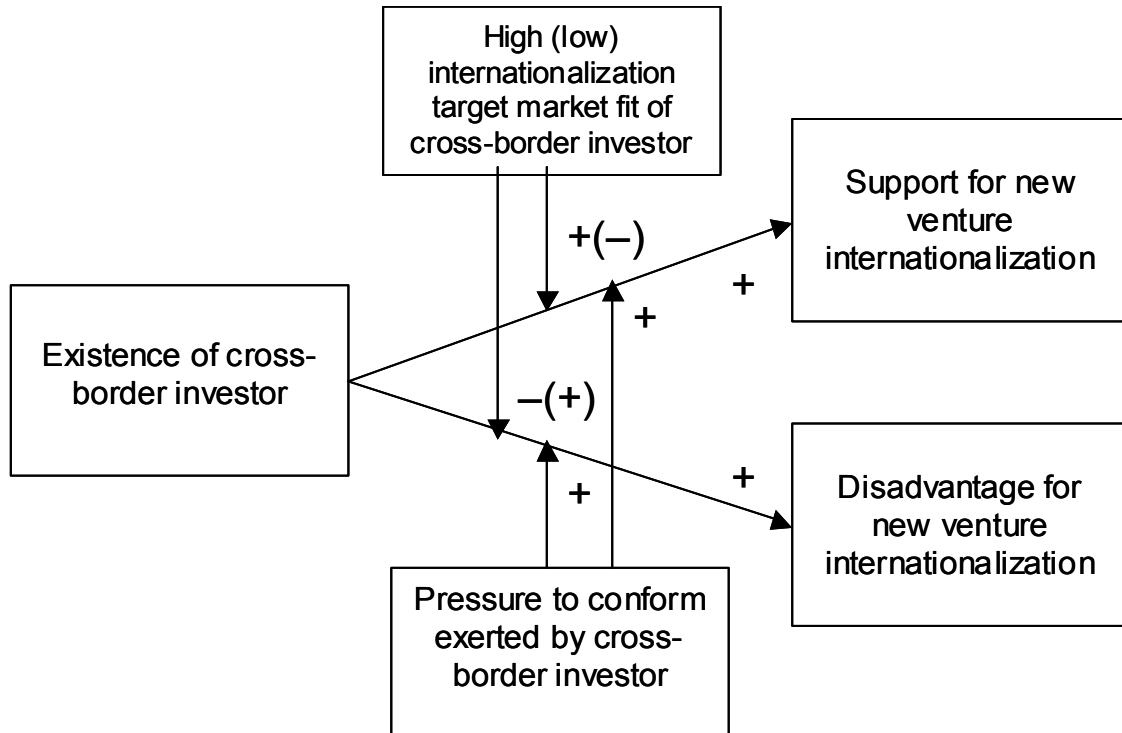
Figure 1
A Model of Factors Influencing the Effect of a Cross-Border Venture Capitalist (CBVC) on the Internationalization of a Start-up



For Quadrant 1, the model proposes an effect in which the cross-border venture capitalist exerts isomorphic pressure driving the portfolio firm to internationalize to “incorrect” markets. In Quadrant 2, the presence of the cross-border investor merely brings about additional transaction costs (an effect present in all quadrants to some degree). In Quadrant 3, the investor provides international social capital and business and legal knowledge in the local market. In Quadrant 4, the investor merely brings endorsement benefits via association to its name (an effect present in all quadrants to some degree). The position of Betelgeuse and Pollux denotes them having attributes from both Quadrant 1 and Quadrant 3. The pluses and minuses illustrate the magnitude of the negative or positive effect.

Figure 2

A Model of the Effects of Cross-Border Venture Capitalist New Venture Internationalization



In the model, the relation of the effects to the paper's propositions is as follows. The primary effect of *disadvantage* relates to Proposition 1a (P1a), and the primary effect of *support* to P1b. Via the moderators, the primary effects also relate to P2b and P3. P2 discusses *pressure to conform*. Pressure increases the effects of the two primary relationships. P3 discusses the effects of *target market fit of the cross-border investor*. If the fit is good, the primary effect of *support* is enhanced and that of *disadvantage* mitigated. If the fit is not good, the primary effect of *support* is mitigated and that of *disadvantage* enhanced.