
Cross-border Venture Capital

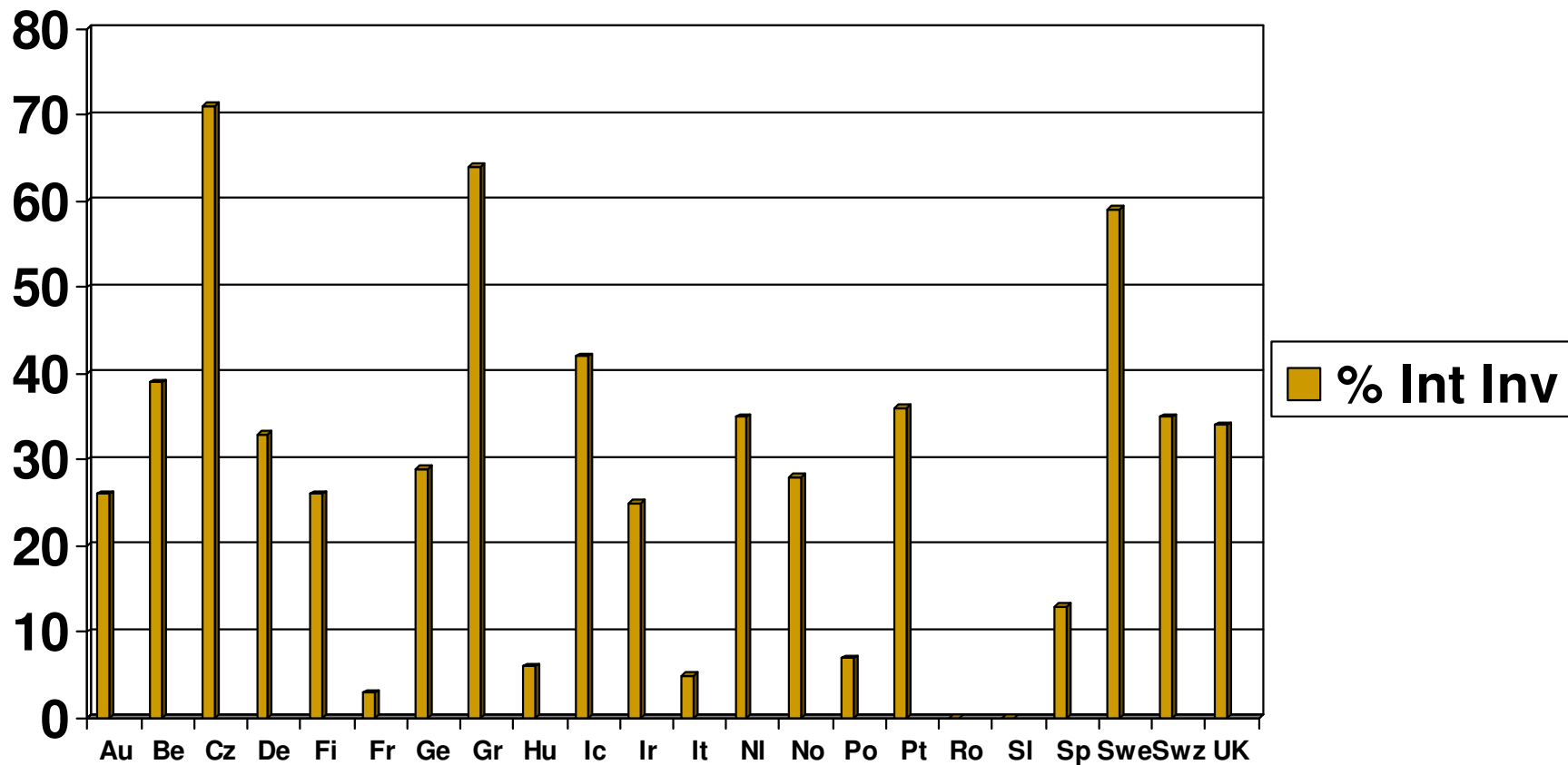
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Centre for Management Buy-out Research

www.cmbor.org

Centre for Management Buy-out Research

- ❑ First centre to study buyouts and private equity
- ❑ Identified emergence of UK buy-out and private equity market early 1980s
 - Organised first European buy-out conference in 1981
- ❑ Centre for Management Buy-out Research (**CMBOR**)
 - Established in 1986 at Nottingham University Business School
 - To examine developments in UK & European buy-out markets in comprehensive and independent manner
- ❑ 27 years of research into MBO/MBIs
 - Established world leading database of buy-outs
 - ❑ Currently >27,000 buy-outs in UK and Europe
- ❑ Number of publications generated from database including:
 - UK Quarterly Review and European MBO Review
 - Academic Articles

International VC investment By European VCs [% of each country total investment]



Internationalisation: Adaptation versus transfer of home approaches

- Monitoring & Value adding services
 - Foreign VCs place similar emphasis to domestic VCs on formal monitoring mechanisms.
 - Foreign VCs less likely to adopt informal monitoring mechanisms than domestic VC
 - Esp. Board meetings and industry experts
 - Foreign VCs place similar emphasis to domestic VCs on strategic level value adding but less on operational level value adding
 - => costs of involvement for 'distant' VCs

Human resources & internationalisation

- Experienced local nationals in foreign market most important followed by head of local office must be a foreign national
- Expatriates used to transfer firm-specific skills learnt from previous investments but may be a short-term strategy
- International VC firms have significantly more VC executives with
 - International work experience [specific human capital]
 - Doctorate degree; Undergraduate degree; Experience in consulting/strategy [generic human capital]
 - Significantly more performance related long-term compensation
 - International VCs have significantly less VC executives with experience in finance and accounting, law, VC industry, engineering

Role of networks

- Different resources may be needed between having a few foreign investments and a large number of foreign investments
- Foreign network range
 - = the number of foreign syndicate partners making at least one investment with a given VC firm
 - Not significantly important influence on whether invest abroad or number of investments abroad
 - VCs, irrespective of foreign network range not keen to invest internationally if doesn't fit with their strategy
 - Foreign network partners only willing to cooperate internationally with a VC if are confident of competence in an international context
- Foreign network intensity
 - = the number of foreign investments with same investor
 - When VCs work more intensively with partners, they show less dynamism in relationship building with new partners, constraining search for new opportunities in new areas
 - Focusing solely on a few intensive relationships may be sub-optimal

Syndication with Foreign partners

■ Institutional Context

- Syndication with local partners reduces with:
 - Higher levels of investor protection in host's legal system.
 - Longer self-regulatory PE associations have been established in local market – established norms
 - More developed local market for investment banking
- Likelihood cross-border deal syndicated with local partners has inverted U-shape relationship with number of local PE firms in host country
 - Too few, not enough with experience to syndicate with
 - Too many, they don't want to syndicate with you

Syndication with Foreign partners

■ Learning by VCs

- Syndication with local partners reduced by:
 - Higher experience by foreign VC with host country
 - The more multinational experience the foreign VC has
 - Higher number of investment managers per portfolio company

Syndication with Foreign partners

- Complementarities in syndication and recruitment strategies when VC firms internationalize.
 - Initially syndicate with local partners as expertise gained in domestic market may not transfer to foreign context.
 - Once built experience, rely more on investing on own.
- VCs not constrained to recruit executives with experience in a particular country they are entering
 - transfer executives with multinational experience
- Cultural barriers less important for later stage private equity investments;
 - VCs could enter foreign markets by investing in later-stage companies to gain local context experience.
 - As VCs gain experience about local context, gradually increase involvement in earlier stage investments.