

# Antecedents and Outcomes of Partnering Abroad with Local Firms: Evidence from Cross-border Venture Capital

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Yu Liu

# Antecedents and Outcomes of Partnering Abroad with Local Firms: Evidence from Cross-border Venture Capital

**Yu Liu**

A doctoral dissertation completed for the degree of Doctor of Science (Technology) to be defended, with the permission of the Aalto University School of Science, at a public examination held at the lecture hall TU1 of the school on 5 May 2017 at 12 noon.

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**Abstract**

Partnering with local firms in foreign markets has been a central strategy for firms to survive and thrive in international markets, and understanding the ways in which firms benefit from the status derived from their prior ties is a central issue in organizational and management studies. However, little is known about specific factors influencing a firm's local partnering decisions in foreign markets and particularly whether status, as a form of network resource, may assist firms in identifying and obtaining valuable local partners and thereafter reaching a high level of performance in foreign markets. In this dissertation, I address this gap through three separate studies.

In the first essay, I empirically examine how uncertainty and experience influence a firm's choice to partner with local firms using a global sample of venture capital (VC) investments made during 1984-2011. I find that while venture-level uncertainty increases the need for partnering with local VC firms, experience in managing venture-level uncertainty reduces this need. By contrast, country-level uncertainty reduces the feasibility of partnering with local firms and decreases the need for it, whereas prior experience in the host country facilitates such partnering as a result of greater local knowledge, networks, and legitimacy. In the second essay, I study the transferability of a firm's home country status to foreign markets by focusing on the status of that firm's first local partners. Using a global sample of cross-border VC investments during 1994-2011, I find that status transfers to new markets through the mediating role of high status common partners. In the third essay, I examine how status at global and local levels affect firm performance in foreign markets differently and the contingencies of these performance effects related to a firm's position in the value chain and its focus on high technology ventures. Using an event history analysis of exit performance in cross-border VC investments in a global sample during 1996-2016, I find that global status lacks a significant performance effect but that local status has a positive performance effect in foreign markets, which is amplified in the upstream position of a value chain and weakened in high technology investments.

This dissertation contributes to the literature on tie formation in interorganizational networks from the strategic needs perspective and from the social structural perspective. Moreover, it contributes to the international business literature on partnering with local firms and to the organizational status literature on both the transferability of status across social settings and the various advantages of status derived from embeddedness in different contexts. This dissertation also contributes to the extant literature on cross-border VC by investigating foreign VC firms' syndication behavior, interfirm networks, and performance in cross-border investments.

**Keywords** Cross-border venture capital, partnering, status, common partners, global and local

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*“Diligence is the path up the mountain of knowledge. Hard-working is the boat across the endless sea of learning.”*

Han Yu (768-824), Poet from Tang Dynasty

It was never an easy journey.

I remember clearly the defeated feeling I had while taking my first doctoral course on Organizational Philosophy. I remember the self-doubt when I sent out my first application for an international doctoral seminar. I remember the frustration of compiling data from over 30000 companies in Stata and the many sleepless nights of editing my essays. I remember my feet trembling with anxiety just before taking the stage of my first academic presentation at an international conference.

For all that, I also remember the joy when receiving the first Revise & Resubmit invitation from AMJ. I also remember the pleasure of solving a difficult problem after several days of searching and reading related books and papers. I also remember the proud I had when seeing my essay finally shown up on the journal website as “In-Press”. All these vivid moments of struggle and happiness are integral parts of my doctoral studies, which I deeply cherish.

And I’m not alone in this journey. I would never have accomplished so much without the guidance and support from my dearest teachers, colleagues, friends, and family.

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Espoo, March 2017

Yu Liu

# LIST OF RESEARCH ESSAYS

This doctoral dissertation consists of a summary and of the following essays which are referred to in the text by their numerals

1. Liu, Yu; Maula, Markku. 2016. Local partnering in foreign ventures: Uncertainty, experiential learning, and syndication in cross-border venture capital investments. *Academy of Management Journal*, volume 59, issue 4, pages 1407-1429. ISSN: 1948-0989. Doi: 10.5465/amj.2013.0835.
2. Liu, Yu; Maula, Markku. 2017. Status transfer across borders and the mediating role of common partners. 28 pages. Working Paper.
3. Liu, Yu; Maula, Markku. 2017. Performance effects of global vs. local status in international business: Evidence from cross-border venture capital investments. 35 pages. Working Paper.

## **Contribution of the author:**

All three papers included in this dissertation are coauthored work. In all three papers, the author of this dissertation was responsible for collecting the data and linking the secondary data from multiple datasets to be used for analyses. The author of this dissertation also conducted the statistical analyses in all three papers. The development of the hypotheses and writing of the papers were collective effort of the authors. The author of this dissertation wrote the first drafts of all three papers.

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# **INTRODUCTION TO THE THESIS**

# 1. BACKGROUND

The past three decades have witnessed a rapid expansion of global business. Firms from both developed and developing markets are crossing borders and seeking business opportunities in distant markets. A key strategic question with regard to a firm's internationalization is whether to partner with local firms (Makino & Delios, 1996). Partnering has always been a central topic in international business research, yet few prior studies have specifically considered the decision to partner with local firms. This type of partnership is unique in that it relates to a variety of academic research areas. Because it is contextualized in international markets, it is related to market-entry research in the field of international business, especially market entry mode studies (Anderson & Gatignon, 1986; Erramilli & Rao, 1993; Hennart, 1988). It is also a special form of strategic alliance that firms make when operating in the foreign markets (Inkpen, 1998; Inkpen, 2001; Simonin, 2004). In more abstract terms, it is the formation of interorganizational ties in uncertain settings (Gulati & Gargiulo, 1999). Therefore, partnering with local firms is an important form of strategic partnership that requires insights from multiple research fields to be understood in depth.

Broadly speaking, the existing literature on the formation of interfirm ties can be categorized into two types (Ahuja, 2000a). One set of studies focuses on firms' strategic needs in terms of resources, whereas the other focuses on the opportunities provided by interfirm networks. Yet, prior studies have not taken both views into consideration holistically, particularly when this interfirm tie formation is contextualized in international markets. In this thesis, I address this gap by focusing on partnering with local firms in foreign markets, linking international business literature, interorganizational tie formation literature, and organizational status literature. I strive to provide a thorough understanding of the antecedents that lead to partnering with local firms in foreign markets from both the strategic needs perspective and the sociological opportunity perspective. Moreover, prior studies investigating the effects of firm's prior collaborations and resulting network positions on performance have generally been limited to one social setting, that is, the context has been confined to one country. I address this gap by building both a global network and multiple local networks based on the host country's boundaries. In doing so, I study the ways in which the network status stemming from this local embeddedness in multiple foreign markets influences firm performance in the global context.

Cross-border venture capital (VC) investments provide a well-fitted empirical context for the empirical analyses of this thesis. In the late 1980s, VC firms from

the developed countries such as the United States and the United Kingdom started to seek investment targets in markets outside of their home countries. Over the years, VC investments across borders have become the common practice in this industry (Wright, Pruthi, & Lockett, 2005). However, unlike the high frequency of syndications that VC firms exhibit in their home countries, they seem to partner less often in foreign markets. Therefore, this dissertation uses observations of foreign VC firms partnering with local VC firms in over 60 host countries during the period of 1984-2016 to build a rich and dynamic empirical sample regarding partnering with local firms.

This summary of the dissertation is structured into five main chapters. I first introduce the research questions in the following part and then review briefly the theoretical background for this thesis. Data and methods are presented followed by the chapter detailing the findings of this research. Finally, I discuss the contributions, implications, and limitations of this dissertation.

## 2. RESEARCH QUESTIONS

The focus of this dissertation is on the understanding of firm's partnerships with local firms in foreign markets. Specifically, I investigate the antecedents and outcomes of firms' partnership with local firms in the context of cross-border venture capital investments. Hence, the central research question I seek to answer in this dissertation is:

*What are the antecedents and outcomes of partnering with local firms in foreign markets?*

I follow the broader categorization of the explanation of interfirm tie formation, as explained by Ahuja (2000a), to investigate this question from two perspectives. From the strategic needs perspective, prior studies have explained a firm's formation of a partnership as a need to seek out resources. Firms are incentivized to join a partnership to either gain the access to resources or to gain knowledge by learning from the partners. In the context of international markets, cross-border partnering faces high level of uncertainty in both the environment and the partnership itself due to the liabilities of foreignness. Hence, understanding how uncertainty would incentivize a firm to partner with local firms is important. Firms also learn from their partners and their own experiences. Hence, understanding how a firm's prior international experience will influence its need to partner with local firms is also intriguing. Therefore, the first sub-research question is as follows:

*(1) From the strategic needs perspective, how do uncertainty and experience incentivize a firm to partner with local firms?*

To address sub-research question (1), we unbundle the effects of uncertainty and experience both at the venture level and at the country level and investigate these effects on a firm's decision to partner with local firms in Essay 1. I use both the sequential logit model and a multinomial model to estimate firm's decision between going alone, partnering with other foreign firms only, and partnering with local firms.

From a sociological perspective, firms form partnerships because they are provided with the opportunity to collaborate (Gulati, 1998; Gulati & Gargiulo, 1999). In international settings, firms are often operating in multiple foreign markets and are participating in several social networks. However, we know relatively little from the social network perspective as to why firms partner with

local firms in foreign markets. In other words, how does a firm's network position in its prior network influence its current tie formation in a new network? Specifically, when a firm enters a new foreign market, understanding how that firm's position in its home network will influence the firm's partnership with local firms in foreign markets is crucial. Hence, the second sub-research question is as follows:

*(2) From the sociological opportunity perspective, how firm's position in the home country network would provide firm the opportunity to partnering with local firms?*

By focusing on network status, an important type of network resource that reflects how centrally a firm is positioned in the network, Essay 2 empirically investigates sub-research question (2). We focus on the market entry stage and on the status of only the first local partners of a firm. By doing so, we are able to capture the initial effect of a firm's home country status on its first local partnership. By acknowledging the importance of common partners in facilitating interfirm tie formation, we focus our investigation on the role of these partners in facilitating partnership formation between foreign and local firms when operating in the same foreign market.

Beyond need and opportunity considerations, the outcomes of partnering with local firms abroad are important to understand when seeking explanations as to why these partnerships occur. Through studying how such partnerships create value and positively influence firm performance, it provides a complementary and retrospective explanation for firm's partnering with local firms. Consequently, the third sub-research question is:

*(3) What is the effect of a firm partnering with local firms in foreign markets on firm performance?*

Enlightened by the global versus local perspective in international business research, Essay 3 examines the performance effect of a firm's prior partnerships with local firms while focusing on the firm's global status and local status. By comparing the effects of global status stemming from the holistic global network with the effect of the local status resulting from a central position in the local network, Essay 3 offers a comprehensive understanding of how firms benefit from their prior partnerships with local firms in foreign markets, thereby addressing the second part of the main research question.

### 3. THEORETICAL BACKGROUND

This dissertation on firm's partnering behavior with local firms in the empirical context of the cross-border venture capital industry draws on a variety of theoretical bases as the focus of this research connects to a larger cross-disciplinary discussion on interfirm relations and networks in international markets. In this chapter, I review the relevant literature in four parts. First, the review focuses on the extant research on tie formation in interorganizational networks, discussing the organizational learning perspective and the social structure perspective. Second, the review focuses on organization status, discussing the status advantages for partnering and performance as well as the transferability of status as a type of network resource. Third, the review concentrates on the relevant literature in international business, including both market-entry modes research and the global versus local perspectives. The fourth part reviews extant research on cross-border VC syndication, providing a literature synthesis of the empirical focus of this study. In the end, I will briefly discuss the linkages between the different literature streams and how they are jointly applied in each essay.

#### 3.1 Related literature on interfirm tie formation

An important research theme in studying interorganizational networks is the understanding of the formation of interorganizational relationships, the topic to which a number of theoretical perspectives are applied, including transaction cost theory, evolutionary theory, social network perspective, sociological institutional theory perspective, critical perspectives, and the management perspective (Cropper, 2008). Broadly speaking, these perspectives could be categorized into two types of explanations (Ahuja, 2000a). One type focuses on a firm's strategic needs in terms of resources, thus firms are incentivized to collaborate (e.g., Baum, Calabrese, & Silverman, 2000; Hennart, 1988; Kogut, 1988). The other type originates from the sociological perspective, which contends that firms are provided the opportunities to collaborate by their position in the network (Gulati, 1995b, 1998, 1999; Gulati & Gargiulo, 1999). Discussions in this dissertation on tie formation consist of these two broad perspectives. I first review the organizational learning perspective, which explains firm's partnering decision as a need to gain knowledge. I then review the role of common partners from the social structure perspective, focusing on the information advantage provided by firms' prior ties.

### **3.1.1 Organizational learning perspective**

Organizational learning theory implies that firms learn from their own experience and from the experiences of others (Levitt & March, 1988). As organizations encounter external changes in the environment, the considerable knowledge gap between the knowledge it possesses and the knowledge required to cope with the uncertainty related to the change facilitates organizational learning. This explains interfirm partnering behavior, which serves as a channel to acquire knowledge from partners (Dyer & Singh, 1998; Hamel, 1991; Heimeriks & Duysters, 2007; Kogut, 1988). However, firms also learn from their own experience (Huber, 1991) and the development of this internal knowledge may reduce a firm's reliance on interfirm partnerships for the access to external knowledge for survival and success (De Clercq & Dimov, 2008).

### **3.1.2 Social structure perspective**

Extant literature has widely acknowledged the significance of social context for organizations, noting that firms are placed within a network of interorganizational relationships that are crucial to their success and survival (Davis, 1991; Gulati, 1995b, 1999; Kenis & Oerlemans, 2008; Powell, 1990). The social structure perspective proposes a framework to explain tie formation with 'a rich social context', emphasizing the importance of not viewing partnering opportunities as exogenously given. Instead, firms are considered actors embedded within networks of interconnected relationships (Gulati, 1995a, 1995b, 1998, 1999; Gulati & Gargiulo, 1999). This perspective calls attention to the ways in which firms learn about new partnering opportunities and the related feasibility of partnership formation. It argues that a firm's prior ties, both direct and indirect, are an important source of information regarding both the availability and trustworthiness of current and potential partners (Gulati, 1995a, 1995b). This information is effective because it is cheaper to obtain as the search cost is lower in closer networks and is cognitively favored due to the shorter network distance. More importantly, firms involved are incentivized to be honest about the information conveyed because of their embeddedness within the social network. While prior direct ties between organizations create a strong social connection, which leads to future interactions (Gulati, 1995a), studies by Gulati (1995a) on the role of indirect ties reveal that firms connected through common partners are also more likely to be connected in the future as common partners serve as referral agents to bring together two unconnected firms, facilitating 'cooperation, reciprocity, and sharing' (Ahuja, 2000b).

## **3.2 Related literature on organization status**

Organization status, which is viewed as a type of network resource in this dissertation, refers to a firm's relative position in a social structure and is embedded in a firm's prior partnering decisions (Jensen, 2003; Podolny, 2005; Sauder, Lynn, & Podolny, 2012). Because connections are easier to observe than

quality, network status brings value to the actors occupying it. Status signals to potential stakeholders the prestige or esteem accorded to the firm from its network when more direct and credible forms of information about its quality are lacking (Jensen & Roy, 2008; Washington & Zajac, 2005). It is an important intangible resource offering advantages to the firm in many ways (Sauder et al., 2012). In this review, I mainly discuss status advantage specifically in partnering and generally in firm performance.

### **3.2.1 Status advantages for partnering**

Status is an important network resource derived from firm's embeddedness in interorganizational networks that assists in partnering, which relates to a discussion of the facilitating role that both direct and indirect ties play in new tie formation. The status advantages for partnering could be understood in two ways. On one hand, a high network status implies that a firm possesses a central position in an interorganizational network. The information benefit brought by such a network ensures that high status firms are able to be more exclusive in selecting partners and have a greater ability to assess the quality of potential partners (Stuart, 1998; Stuart, Hoang, & Hybels, 1999). On the other hand, possessing a high status in an interfirm network makes the focal firm an attractive potential partner, as an affiliation with high status partners is viewed more positively (Podolny, 1993) and shown to create real value by increasing the market value of such ventures (Stuart et al., 1999).

Status has been found to assist in simplifying partnering choices (Jensen & Roy, 2008), especially when facing heightened market uncertainty (Chung, Singh, & Lee, 2000; Podolny, 1994). This is based on the assumption that high-status firms favor alters of similar status in identifying potential partners, which is referred to as 'status homophily' in exchange relations (Podolny, 1994). However, related research has also noted the constraints that status has placed on firm's partnering behavior, as high-status organizations are restrained from partnering with low-status counterparts (Podolny, 1993), and middle-status organizations are most constrained compared to high-status and low-status ones due to conformity to legitimacy (Phillips & Zuckerman, 2001).

### **3.2.2 Status advantage for performance**

Organizations with a high status are associated with increased revenue (Benjamin & Podolny, 1999), lower costs (Bidwell, Won, Barbulescu, & Mollick, 2015; Podolny, 1993), and better access to survival-enhancing opportunities and assets (Guler & Guillén, 2010b; Jensen, 2003). Consequently, they have a better chance of organizational survival and success (Sauder et al., 2012). For instance, high status firms are found to hire workers with stronger abilities at a relatively lower cost than other firms (Bidwell et al., 2015). They are also found to experience higher sales growth (Podolny, Stuart, & Hannan, 1996) and are able to charge more (Benjamin & Podolny, 1999) at a given quality output.

Despite such performance benefits, status sometimes may constrain organizational behavior, and on a few occasions, it may impact firm performance negatively. For example, high status actors may face more difficulties entering a new field than their lower status counterparts because they are more likely to be considered as a threat by the incumbents in the field (Jensen, 2008). A high status may also lead to self-satisfaction and complacency, which could result in a negative impact on performance (Bothner, Kim, & Smith, 2012). Therefore, possessing a high status is not universally positive. Nevertheless, status constrains in an organizational context at most times preserves long-term benefits. Hence, a high status is generally beneficial for firm performance.

### **3.2.3 Transferability of status as a form of network resources**

Gulati (1999) provides a detailed discussion defining network resources as ‘inhere not so much within the firm but in the interfirm networks in which firms are located’. Network resources emerge from a firm’s participation in interfirm networks and result from the informational advantages brought by the network. The formation of network resources is uniquely related to a firm’s prior partnering experiences and thus is important for a firm’s future formation of interfirm ties (Gulati, 1999) .

Network status is an important form of network resource because it is derived from a firm’s prior interorganizational relationships and demonstrates how centrally a firm is located in its own social networks (Jensen, 2003). As discussed in the previous section, it is beneficial for both a firm’s partnering decisions and firm performance. However, given that the benefits of network resources are contextualized within the surrounding social connections, there are only a few studies that have empirically examined the transferability of network resources to a distant social context (for exceptions, see Alvarez-Garrido & Guler, 2015; Guler & Guillén, 2010b; Jensen, 2003; Xiao & Tsui, 2007). Among them, Jensen (2003) finds that network status is a complementary network resource to market ties, the value of which reduces over time. Guler and Guillén (2010b) also demonstrate that a firm’s high status is valuable in foreign expansion, but loses value in the new market as signals of quality when its home market partners enter the same new market. In a more recent work, Alvarez-Garrido and Guler (2015) examined the performance benefits of home market status in the foreign markets and find positive status effects under certain circumstances. A common implication from the extant research on this theme is that the advantages of network resources are only transferable to a different social setting if such advantages are of value in the new setting.

### **3.3 Related literature on international business**

Two important research themes in international business literature are pertinent to this study. First, studies on foreign market entry (e.g., Buckley & Casson, 1998; Pan, Li, & David, 1999; Zahra, Ireland, & Hitt, 2000) which emphasize the role of uncertainty and experience, shed great light on the understanding of

a firm's partnering behavior in foreign markets. Second, the continuing discussion in international business regarding the global- and local-specific advantages provides an analytical framework for this research by investigating the differing roles that status plays in a global and local context.

### **3.3.1 Market entry studies**

The market entry studies in international business research have a long history dating back to the dissertation work by Hymer (1960) as early as the 1960s. A subset of this topic focused on market entry mode (e.g., Agarwal & Ramaswami, 1992; Brouthers, 2002; Brouthers & Hennart, 2007; Hennart & Slangen, 2014; Shaver, 2013), which concentrates on the antecedents and outcomes of a firm's choices among multiple contractual or equity-based arrangements for participating in foreign markets. Extant literature in this area ranges from categorizing different entry modes (Anderson & Gatignon, 1986; Hennart, 2009; Martin & Salomon, 2003; Pan & David, 2000) to discussing the factors influencing a firm's entry mode choices (Brouthers, 2002; Erramilli & Rao, 1990; Erramilli & Rao, 1993; Kogut & Singh, 1988) and to investigating the varying performance effects of a specific entry mode (Brouthers, 2013; Brouthers, Brouthers, & Werner, 2008; Fernhaber & Li, 2010; Pan et al., 1999).

One central research question in this area that is relevant to this dissertation is whether a firm should go it alone or collaborate with a local partner when entering the new market. In particular, uncertainty and experience play important roles in determining a firm's partnering choices during market entry. Earlier work on entry mode research has largely relied on transaction cost economic theorizing and has linked uncertainty to partnering choices during market entry (Anderson & Gatignon, 1986; Erramilli & Rao, 1993). For instance, Anderson and Gatignon (1986) propose a framework for analyzing the balance of the control and the cost of resource commitment for each possible mode, noting that the international market entry choices often fall under conditions of considerable external and internal uncertainty. Meanwhile, prior studies on entry mode have acknowledged the importance of firm experience and identified a firm's learning from prior mode choices (Delios & Henisz, 2003; Erramilli, 1991; Erramilli & Rao, 1990).

Related to the role of uncertainty and experience in entry mode choices, the stage model of the internationalization process initiated by Johanson and Vahlne (1977) also emphasizes the importance of reducing uncertainty through the accumulation of relative knowledge, and a firm's gradual rise in its commitment level to a specific market (Eriksson, Johanson, Majkgård, & Sharma, 1997; Henisz & Delios, 2001; Johanson & Vahlne, 1990, 2009). Partnering with local firms is the primary strategy adopted by firms in international expansion to gain access to local knowledge and thereafter improve local performance (Makino & Delios, 1996). However, firms learn differently from country-specific experiences and from experiences operating in institutionally similar environments (Delios & Henisz, 2003). Although foreign firms learn from their local experiences by operating in the market, some local knowledge is firm-specific and difficult to internalize by the accumulation of local experience alone.

### **3.3.2 Global versus local perspective**

The international business research field has long seen the debate around the global versus local perspective, which relates closely to the discussion on the location specificity of firm-specific advantages (Filatotchev & Faems, 2016; Mudambi & Puck, 2016; Verbeke & Asmussen, 2016). Early work in international business and strategy was built upon the rather simplistic assumptions that large firms dominate the global market with FSAs, which are ‘non-locational bound’. Then, Rugman and Verbeke (1992; 2001; 2004) argued and demonstrated in a series of their work that many large MNEs are regionally-based. They did so by showing the regional concentration of large MNEs in terms of sales and resources. This highlighted the importance of the local context (Meyer, Mudambi, & Narula, 2011) when considering a firm’s internationalization strategy (Verbeke & Asmussen, 2016). In a more recent work, Mudambi and Puck (2016) noted limitations in the regional perspectives that they had failed to take into account the global value chain and only focused on the internal activities inside firm’s boundary. While appreciating the contribution of Rugman and Verbeke (1992; 2001; 2004) in assessing the underlying assumptions for global strategy, Mudambi and Puck (2016) pointed to the new direction of incorporating both viewpoints by considering the MNEs as a business system and reaching outside a firm’s boundaries to incorporate the global value chain.

### **3.4 Related literature on cross-border venture capital**

Research on cross-border VC investment is a burgeoning field, the development of which has been accompanied by the large-scale expansion of the VC industry from the United States into global markets over the past 20 years (Aizenman & Kendall, 2012; Maula, 2010). This phenomenon has attracted enormous attention from a diverse group of scholars who range from finance and entrepreneurship to organizations and management. It has been adopted as the empirical lens by which to study a variety of theoretical questions, including institutional theory (Bruton, Fried, & Manigart, 2005; Guler & Guillén, 2010a), agency theory (Dai, Jo, & Kassicieh, 2012; Meyer & Shao, 1995), resource-based view (Devigne, Vanacker, Manigart, & Paeleman, 2013), social network theory (Guler & Guillén, 2010b; Jääskeläinen & Maula, 2014; Madhavan & Iriyama, 2009), social capital (Mäkelä & Maula, 2008), and commitment theory (Mäkelä & Maula, 2006). Moreover, several theoretical constructs have been identified as central to the study of cross-border VC investments, such as trust (Bottazzi, Da Rin, & Hellmann, 2016; Hain, Johan, & Wang, 2015; Meuleman, Jaaskelainen, Maula, & Wright, 2011), distance (Dai et al., 2012; Dai & Nahata, 2016; Jääskeläinen & Maula, 2014; Nahata, Hazarika, & Tandon, 2014), knowledge (De Prijcker, Manigart, Wright, & De Maeseneire, 2012; Guler & Guillén, 2010a), social status (Guler & Guillén, 2010b), brokerage (Guler & Guillén, 2010b), uncertainty (Huang, Kenney, & Patton, 2015), and experience (Dai & Nahata, 2016; Guler & Guillén, 2010b). While it has created an active cross-disciplinary dialogue, this field focuses exclusively on VC investments made across

national borders into portfolio companies located in foreign markets (Maula, 2010; Mäkelä, 2004; Wright et al., 2005). This section reviews the extant literature in cross-border VC investment, categorizing the current body of literature based on the stages of the VC investment cycle.

### **3.4.1 Fundraising**

VC investment follows a cycle of fundraising, investing, and exiting (Gompers & Lerner, 2004). Studies on cross-border VC investment at the fundraising stage are relatively scarce. The few existing studies are mainly from finance literature focusing at the macro-level on how institutions influence the availability of funds from institutional investors. Existing research suggests that investor protection and corporate governance, among many other factors, are important determinants in attracting foreign institutional investors to local private equity funds (Groh & Liechtenstein, 2009, 2011; Groh, Liechtenstein, & Lieser, 2010) and that regulatory harmonization will facilitate the institutional investors' investment outflow from the home market to international private equity markets (Cumming & Johan, 2007).

### **3.4.2 Investing and value-adding**

The abundant research that focuses on the investing stage consist of three broad groups, which study (1) the internationalization of VC firms (2) the cross-border syndication, and (3) VC firm-venture relations in foreign markets.

First, both macro- and micro- factors are found to direct the cross-border investment flow. At the macro-level, recent research reveals that countries are more likely to attract foreign VC investors when they can expect high economy growth (Aizenman & Kendall, 2012); a greater amount of foreign direct investment (Madhavan & Iriyama, 2009); a favorable business environment including a more supportive tax, legal, and political environment for VC firms (Guler & Guillén, 2010a; Schertler & Tykvová, 2012); the presence of high-end human capital (Aizenman & Kendall, 2012); more patents filed in the US (Guler & Guillén, 2010a); and high levels of military expenditure (Aizenman & Kendall, 2012). Furthermore, a more developed stock market both at home (Schertler & Tykvová, 2011) and in target countries (Aizenman & Kendall, 2012; Guler & Guillén, 2010a; Schertler & Tykvová, 2012), the simplification of cross-border investment regulations (Bottazzi, Da Rin, & Hellmann, 2004), the integration of regional economic community (Alhorr, Moore, & Payne, 2008), and trust among nations (Bottazzi et al., 2016; Hain et al., 2015) also facilitate cross-border VC investment flows. By contrast, geographical, cultural, and institutional distance (Aizenman & Kendall, 2012; Hain et al., 2015; Iriyama, Li, & Madhavan, 2010; Meyer & Shao, 1995); differences in language (Aizenman & Kendall, 2012), currency (Alhorr et al., 2008), and corporate legal traditions (Guler & Guillén, 2010a); and expected economic growth in the VC firm's home country (Schertler & Tykvová, 2011) are all found to discourage VC firms' cross-border investment.

At the micro level, larger (Hall & Tu, 2003) VC firms with more international (De Prijcker et al., 2012; Guler & Guillén, 2010b, 2010a) and domestic experience (Guler & Guillén, 2010b; Schertler & Tykvová, 2011) have been found to cross borders more often, while the availability of experienced local VC firms as partners is also a critical facilitating factor (Mäkelä & Maula, 2008). From the social network perspective, the interfirm network both at home (Guler & Guillén, 2010b) and in the host country (Tykvová & Schertler, 2011) and the interpersonal network (Iriyama et al., 2010; Madhavan & Iriyama, 2009) are important for the globalization of venture capital. With regard to deal-specific factors, later stage deals (Hall & Tu, 2003) and larger deals (Dai et al., 2012) are more likely to attract foreign VC firms, especially larger deals in smaller countries in which the availability of local VC firms are limited (Schertler & Tykvová, 2011).

Second, research on cross-border syndication is a fruitful area of study since syndication is critically important for VC firm success (Jääskeläinen, 2009, 2012) and its cross-border nature creates new challenges for this common form of interfirm relation in the VC industry (e.g., Dai & Nahata, 2016; Meuleman & Wright, 2011; Wright et al., 2005). A central theme of the research in this area is the formation of cross-border VC syndicate. Similar to the antecedents for VC internationalization, VC firms are found to syndicate more cross-border deals in more institutionally supportive countries, which are those with common law legal system, greater policy stability, a more developed stock market, and a larger GDP (Dai & Nahata, 2016). When the institutional environment fails to provide this general trust, firms tend to rely more on experience-based trust (in other words, direct previous partner experience) to form cross-border syndicates (Meuleman et al., 2011).

From the foreign firm's perspective, gaining knowledge about the institutional environment is a central reason for syndication with local VC firms (Bruton et al., 2005). Hence, the propensity of foreign VC firms to syndicate with local firms increases initially with experience but declines as firms gather more local experience (Dai & Nahata, 2016), the findings of which is also validated in a study contextualized in China (Huang et al., 2015). From the local firm's perspective, local VC firms' international social capital facilitates the formation of cross-border syndicates (Mäkelä & Maula, 2008). Regarding deal characteristics, foreign VC firms investing in Asian markets syndicate more with local VC firms when investing in ventures at early stage and in the technology industry (Dai et al., 2012), whereas Huang et al. (2015) examined a Chinese sample to find that foreign VCs are more likely to partner with local Chinese VC firms in later rounds and in more mature ventures.

Factors that cause foreign VC firms to syndicate less often with local ones include the presence of a local office (Huang et al., 2015) or the host market being unimportant for the venture (Mäkelä & Maula, 2008). While VC firms often syndicate in home markets to share risk, both cultural and geographical distances create barriers to cross-border syndication such that both types of distances between a VC firm's home and target countries reduces the probability of local VC

participation and thus the cross-border VC syndication size (Dai et al., 2012; Dai & Nahata, 2016).

Third, the research examining the VC firm and venture relation at the investing stage mainly focus on the behavioral difference of foreign firms regarding monitoring and value-adding activities for the ventures, in comparison to those of local firms and to foreign firm's domestic market behavior. Two related studies on foreign VC firms in India suggest that VC firms adapt to foreign markets rather than apply their home market rules (Wright, Lockett, & Pruthi, 2002), and compared to local VC firms, foreign VC firms are more likely to be involved in the strategic level decisions of the venture rather than the operational level (Pruthi, Wright, & Lockett, 2003). Using the grounded theory approach, Mäkelä and Maula (2006) develop a model of factors including distance, social embeddedness of the investor, and the financial importance of the investment, which influence the commitment of the foreign VC firms towards the ventures in a cross-border investment. By tracking the development of 761 European technology companies over 7 years from the time they received their first VC investments, Devigne et al. (2013) found that companies initially backed by a cross-border syndicate of both foreign and local VC firms exhibit the highest growth in the long run, compared to those companies with medium term high growth backed by solo foreign VC firms and those with short-term high growth backed by purely domestic VC firms.

### **3.4.3 Exiting and performance**

The research on the exiting stage of cross-border VC investments focuses on the venture (aka. portfolio company), which mainly clusters around two broad themes: (1) the decision to exit abroad and (2) the determinants of cross-border VC investment performance.

The current literature suggests that cross-border VC firms generally compensate for the inadequate local exit conditions. Foreign VC firms can provide substantial internationalization support to portfolio companies that need to expand across national borders from a country with a limited domestic VC market (Mäkelä & Maula, 2008). Despite the market-level factors inhibiting an exit in foreign markets, such as geographical and cultural distances between home and target markets (Jääskeläinen & Maula, 2014), ventures having direct ties to foreign markets (i.e., backed by foreign investors) (Humphery-Jenner & Suchard, 2013; Hursti & Maula, 2007) and ventures having indirect ties to non-domestic markets through their investors are more likely to make a cross-border exit (Jääskeläinen & Maula, 2014). A further study that looks more closely at the role of VC firm's prior IPO experiences using data from the Chinese market reveals that foreign VC firms' IPO experience in both home and host markets facilitate ventures' IPOs abroad in the foreign VC firm's home market (Zhang & Yu, 2016).

Additionally, several factors at both market- and deal- levels have been identified as salient for cross-border VC performance. At the target market, cross-border VC performance is less dependent on the local IPO & M&A conditions but more reliant upon the development level of the local VC industry (Wang & Wang, 2011) and the economic freedom of the market (Wang & Wang, 2012).

Cultural distance is found to positively impact VC performance, as VC firms investing in distant markets are aware of the cultural disparity and thus implement more stringent screening and monitoring of ventures (Nahata et al., 2014). At the deal level, both syndication size and syndication structure are found to be related to cross-border VC performance (Dai & Nahata, 2016). Ventures backed by cross-border syndicates are found to perform better than those backed by foreign or local VC firms alone (Dai et al., 2012). Nevertheless, local VC participation is positively linked to cross-border VC performance (Chemmanur, Krishnan, & Nandy, 2011; Dai et al., 2012; Nahata et al., 2014). Research using a Chinese sample suggests that local entrepreneurs' experience is more critical for cross-border VC performance, compared to traditionally important factors such as foreign VC firms' human capital, which are market-specific and of less value in emerging markets (Wang & Wang, 2011). However, foreign VC firms' experience in local markets or culturally similar markets improves performance (Dai & Nahata, 2016). A more recent study on the European market suggests that cross-border investors also bring in additional M&A and IPO opportunities for local ventures, thus allowing a better performance (Bertoni & Groh, 2014).

### **3.5 Synthesis**

In this section, I will discuss the linkages of the literature reviewed in this part focusing on the ways in which different theoretical lens are applied in each essay of this dissertation. While this dissertation is built upon a cross-disciplinary discussion from interorganizational network, organizational status, and international business, its core lies in understanding firms' partnering behavior with local firms in foreign markets.

In the first essay, I discussed the partnering decision from a strategic resource perspective. Organizational learning theory is adopted to understand a firm's incentives to partner with local firms in the face of uncertainty and with the accumulation of relative experiences to address such uncertainty. International business literature on market entry mode choices also assisted in forming the theoretical basis for this essay. With regards to the VC literature, the first essay mainly focused on the partnering with local firms in cross-border VC syndication.

The second essay takes the social structural perspective and focuses on investigating whether home country network status would assist a firm in identifying high-status partner in the foreign market. In this essay, theoretical arguments are mainly built upon prior research on the role of common partners in tie formation and the role of the status advantage in partnering. This is an important extension of prior studies on the transferability of status as a type of network resource. This essay also relates to market entry studies in the international business field. Specifically in the VC context, this essay connects to the literature on VC status and cross-border syndication.

In the third essay, the locus of the discussion progresses from the antecedents of partnering with local firms towards the outcome of such partnerships. Build-

ing on the global versus local framework in international business and the literature on status advantages for performance, this essay distinguishes between global and local status and compares the differing impact of each on firm performance. It also builds upon the global versus local perspective in international business literature by incorporating the global value chain into its analysis. This essay also relies on VC status literature regarding the transferability of network status and prior studies on cross-border VC performance.

## 4. DATA AND METHODS

### 4.1 Empirical setting

The empirical context of this dissertation is the cross-border venture capital industry between 1984 and 2016. This industry is well suited for this study of local partnership for multiple reasons. First, VC firms syndicate frequently and the syndicated partnership among VC firms are highly valued as an important aspect of this industry (Bygrave, 1987; Dimov & Milanov, 2010). Second, the VC industry is rather localized, as its success relies heavily on intense monitoring and is profoundly shaped by market-specific institutions, either formal or informal. Hence, foreign VC firms investing cross-border rely predominantly on local partners to conduct close monitoring and gain access to a unique set of indigenous resources and information (Wright et al., 2005; Mäkelä et al., 2008). Third, the VC industry is becoming increasingly international and a growing trend of VC firms is to invest across borders globally. Cross-border VC syndications are observed not only between firms in developed countries but also among firms from both developed and developing economies. Thus, this burgeoning industry proves to be a rich and attractive context for studying firms' local partnership behavior.

### 4.2 Data

The empirical analyses of this dissertation are based on a large sample of cross-border venture capital firms, which invested in foreign ventures over the period between 1984 and 2016. In all three papers of this dissertation, the main source of data was Thomson Reuter's VentureXpert database. It is the most comprehensive database of global venture capital investments, which has been used extensively in VC syndication research (Hochberg, Ljungqvist, & Lu, 2007; Ozmel, Reuer, & Gulati, 2013; Petkova et al., 2014), and in cross-border venture capital research (Guler et al., 2010; Dai, Jo, & Kassicieh, 2012; Nahata, Hazarika, & Tandon, 2014). Following standard sample selection procedures in prior VC research, we limited our sample to VC firms that were classified as 'private equity firms' (i.e., independent VC firms, excluding bank, government, or corporate affiliates) and to ventures whose company stage was classified as 'Startup/Seed', 'Early Stage', 'Expansion', or 'Late Stage'. I then applied specific selection criteria accustomed to specific research design in each essay. Supplementary data were also collected from other secondary resources including, but not limited

to, Thomson Reuter's Global New Issues database, Thomson Reuter's Merger and Acquisition database, and the GDP database from the World Bank.

### 4.3 Analytical methods

Essay I predicts a firm's decision of whether to partner with local firms in a foreign country, as measured by a categorical variable that separates a firm's partnering decision into four classifications. Due to the categorical nature of the DV in this paper, a sequential logit model is employed in the main analysis, which estimates the effects of explanatory variables by passing through a sequence of stages (Maddala, 1986; Tutz, 1991). This model is chosen over the multinomial logit model (McFadden, 1974; Long & Freese, 2006) in the main analysis because the 'independence of irrelevant alternatives (IIA)' is found to be violated in the full sample (Greene, 2011). Both models are used in the sub-sample to predict firms' partnering decisions in foreign markets. The major difference of these two models is that while the sequential logit model assumes a sequential decision tree, the multinomial logit model assumes the simultaneity of all decisions. Additionally, to directly address the potential self-selection issue, Heckman's two-stage approach is adopted as an alternative to the sequential logit model used in the main analysis.

Essay II predicts the likelihood that a foreign firm will obtain a high-status local partner in a foreign market during market entry, as measured by the status of the focal foreign VC firm's first local partner(s) in the new host market. Status in this dissertation is measured using Bonacich (1987) centrality, which is a standard measure for firm's network status in many industries (e.g., Jensen, 2003; Castellucci & Ertug, 2010) including the VC industry (Podolny, 2001; Dimov et al., 2010; Guler et al., 2010; Pollock et al., 2015). Because the focus of this essay is to test the mediation effect of common partners' status on the transferability of home country status, two standard methods from the management field to test mediation effect are adopted in the analysis (Wood et al., 2008; DeVaro, 2011; Aguinis, Edwards, & Bradley, 2016). The first is the classic 'causal steps' approach of Baron and Kenny (1986). I also included a two-stage-least-square model as an improvement over the B-K approach, which is suggested by Shaver (2005). The second is the structural equation modeling approach (James & Brett, 1984; James, Mulaik, & Brett, 2006), which is used with bootstrapping to further examine the mediation effect.

Essay III predicts the performance effect of a firm's global status and local status in international markets, which is measured by the hazard rate of VC exit (Dai et al., 2012; Nahata et al., 2014). Following prior studies (Hochberg et al., 2007; Nahata, 2008), the VC performance is measured at the venture level as the successful exit of venture via either IPO or acquisition. Event history analysis (Cox proportional model) is adopted to model the exit performance (Cleves, Gould, & Marchenko, 2016; Guler, 2007). In the robustness test, a control function method is adopted in a two-stage model to correct for the potential endogeneity issue in this study (Wooldridge, 2015).

**Table 1.** Summary of Methods.

	<b>Essay 1</b>	<b>Essay 2</b>	<b>Essay 3</b>
<b>Title</b>	Local partnering in foreign ventures: Uncertainty, experiential learning, and syndication in cross-border venture capital investments	Status transfer across borders and the mediating role of common partners	Performance effects of global vs. local status in international business: Evidence from cross-border venture capital investments
<b>Dependent variable</b>	Whether to partner or not with a local VC firm	First local partners' status	Exit performance
<b>Independent variables</b>	Venture-level uncertainty Country-level uncertainty International experience in managing venture-level uncertainty International experience in managing country-level uncertainty International experience in the host country	VC firm home country status Status of common third parties	Global status Local status Downstream Upstream High technology focus
<b>Main data source</b>	VentureXpert	VentureXpert	VentureXpert, SDC Platinum Global New Issues, Mergers and Acquisitions
<b>Time span</b>	1984-2011	1994-2011	1996-2016
<b>Number of observations</b>	30395 first-round investments (both domestic and cross-border), including 2673 VC firms and 20995 ventures	1206 cross-border syndicated investments made by 769 VC firms in 21 different markets at market-entry stage	8478 cross-border investments made by 1281 VC firms in 6275 portfolio companies in 38 foreign countries.
<b>Statistical methods</b>	Sequential logit model Multinomial logit model Heckman's two-stage model	Mediation analysis Classical B-K approach 2SLS Structural equation model	Event history analysis Cox proportional hazard rate model Logit model Control function method

# 5. KEY FINDINGS

## 5.1 Uncertainty, experience, and the decision to partner with local firms

Focusing on the strategic needs of the firm with which firms are incentivized to partner, Essay 1 conceptualized the decision to partner with a local firm in a foreign venture as a multi-layered decision about engaging in a foreign venture, partnering (if engaging), and (finally) choosing a local partner. Responding to sub-research question (1), Essay 1 finds that venture-level uncertainty increases the need for partnering with local VC firms, whereas country-level uncertainty reduces the feasibility of partnering with local firms and decreases the need for it. Experience in managing venture-level uncertainty was found to reduce the need for partnering with local VC firms in foreign ventures, while the general international experience of managing country-level uncertainty reduces the need for partnering with both local VC firms and other foreign VC firms equally. Interestingly, prior experience in the focal host country is found to increase partnering with local VC firms. Figure 1 summarizes the hypotheses and the findings in Essay 1.

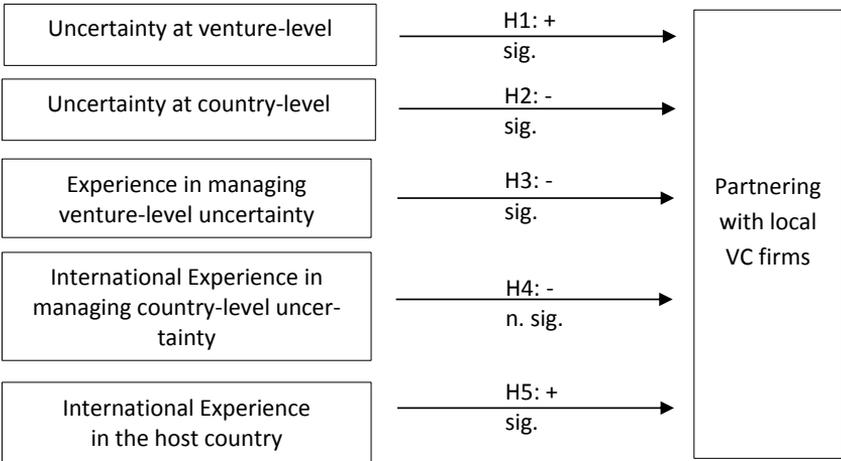


Figure 1. Summary of hypotheses and findings in Essay 1.

## 5.2 Mediation of common partners' status in status transfer

Focusing on the social network perspective that firms are provided the opportunities to partner, Essay 2 finds that while a VC firm's home country status is positively related to the status of the firm's first local partner(s), the status of common third parties mediates this positive status relation. By focusing on the status of the first local partners, this study serves as a more direct test of whether home country status is transferable to the new markets. These findings provide answers to the sub-research question (2) of this thesis, explicating how firms are provided the opportunity to partner through their prior network positions in the international context. In this cross-border setting, a firm is more likely to partner with a high status local firm(s) if the firm possesses a more central position in its prior home country network. This type of cross-border tie formation is facilitated by the high status of common partners. The hypotheses and findings from Essay 2 are presented in Figure 2 below.

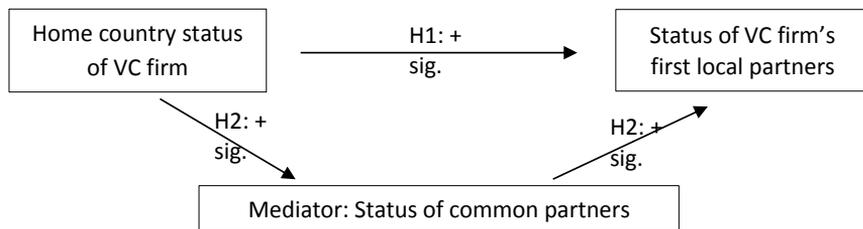
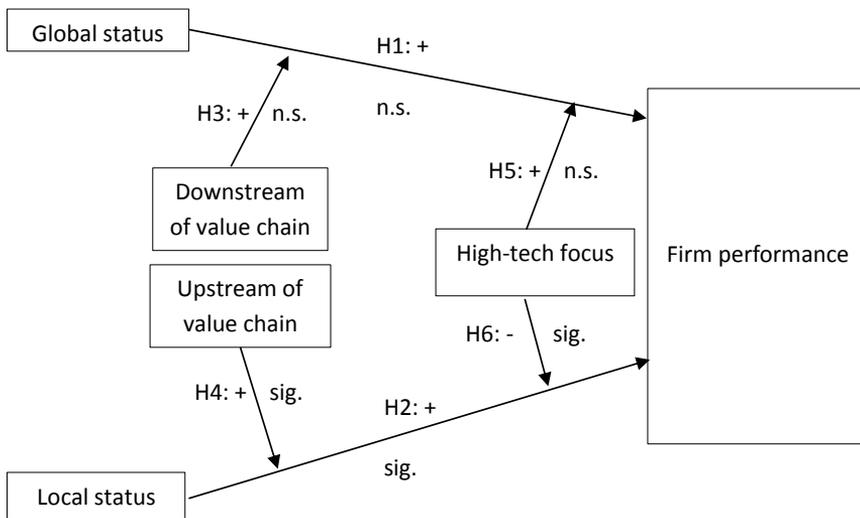


Figure 2: Summary of hypotheses and findings in Essay 2

## 5.3 Performance effects of global status and local status

Moving from studying the antecedents of partnering in the first two essays towards the outcomes of partnering with local firms, Essay 3 finds that while global status does not create value directly on firm performance in foreign markets, a firm benefits greatly from its high local status in the host country. Moreover, local status performance advantages are found to be amplified by firm's position on the upstream end of the value chain. In the context of cross-border VC investment, VC firms investing in ventures at the seed/start-up stages would be able to draw more benefits from firm's high local status leading towards the successful exit of the venture. Moreover, Essay 3 finds that the high technology focus of the venture weakens the local status performance advantage. In other words, foreign VC firms investing in high-technology local ventures would benefit less from high local status in comparison to when investing in non-high technology ventures. These findings in Essay 3 provide answers to the sub-research question (3), suggesting that there are substantial performance advantages from firm's partnering with local firms. The hypotheses and findings from Essay 3 are presented in Figure 3 below.



**Figure 3** Summary of hypotheses and findings in Essay 3.

# 6. DISCUSSION

## 6.1 Contributions to the literature

Taken together, this thesis makes several theoretical contributions to the understanding of a firm's partnering with local firms in foreign markets. While Essays 1 & 2 focus on the antecedents of partnering with local firms from the strategic resources needs perspective and the social network opportunity perspective, respectively, Essay 3 investigates the outcomes of partnering with local firms by examining the effect of status from the firm's prior partnerships with local firms on performance. In short, this thesis finds that while varying levels of uncertainty and experience influences firm's need to partner with local firms differently in foreign markets, firms' prior network position, theorized as the firm's home country status in this thesis, provides the firm a better opportunity to partner with local firms of high quality (i.e., with high status in the host country). Meanwhile, high status common partners are found to facilitate such cross-border tie formation. Moreover, this thesis finds that partnering with local firms is beneficial such that high local status is associated with better firm performance in the foreign markets. In the subsequent sections, I will discuss the theoretical contributions of this dissertation to different streams of literature.

### 6.1.1 Contributions to the related literature on interfirm tie formation

This thesis examines interfirm tie formation in the international context, explaining cross-border tie formation from both the strategic needs perspective and the sociological perspective. Extending the current studies explaining the tie formation based on resource needs (Baum et al., 2000; Kogut, 1988), this thesis focuses on the effects of uncertainty and experience on the feasibility of partnership, in addition to their need for local partnering. Specifically, this thesis helps to understand why many firms choose not to partner when arguments focused on the need to partner would suggest significant benefits from collaborating with local firms. This thesis also contributes to the research on the role of experiential learning in partnering by highlighting the difference between experience types (Inkpen, 2000; Inkpen & Tsang, 2007). While country-level international experience reduces the need for partnering in general, host country-specific experience increases partnering with local firms through increased embeddedness and greater availability of high quality local partners.

This thesis also contributes to the literature on tie formation by focusing on the opportunities provided by the social network. By establishing a positive relationship between a firm's home country status and the status of that firm's first local partners, this thesis demonstrates how a firm learns about new partnering opportunities in the international context and considers the feasibility of such a partnership (Gulati, 1995a, 1995b). Moreover, this thesis finds that the status of common partners play a mediation role in facilitating the 'status homophile' tie formation in the international contexts, contributing to studies on the role of indirect ties in tie formation (Gulati & Gargiulo, 1999; Vissa, 2012; Zhelyazkov, 2017; Zhelyazkov & Gulati, 2016). I contribute to this stream of literature by theorizing and finding that the status of common partners influences the quality of future direct ties.

### **6.1.2 Contributions to the related literature on organizational status**

By theorizing a firm's prior network position as firm network status and empirically testing the effect of status on that firm's first local partnership and on its performance in foreign markets, this thesis contributes to the extant literature on organization status in multiple ways. First, this thesis is among the first few studies to start incorporating the international business context in studying organization status (Alvarez-Garrido & Guler, 2015; Guler & Guillén, 2010b). I contribute to this stream of study by theoretically distinguishing between home status and local status in Essay 2 and global status and local status in Essay 3. Second, building upon prior studies on the transferability of network resources (Alvarez-Garrido & Guler, 2015; Guler & Guillén, 2010b; Jensen, 2003), this thesis provides empirical evidence regarding the transferability of status across markets. More importantly, by focusing on the status of the firm's first local partners, this thesis is the first study to directly assess status transfer across social settings by unpacking the underlying complex mechanisms. Third, by studying firm status in an international context, this thesis highlights the beneficial role of firm status in tie formation. Essentially, the findings in this thesis suggest that firms that are central in their home country network are more likely to partner with local firms that hold a similar central position in their local network during market entry through prior ties to high status common partners. Fourth, this thesis contributes to the studies on status advantages for performance (Benjamin & Podolny, 1999; Bidwell et al., 2015) by demonstrating the differences between the performance effects of global status and local status and identifying contingencies for such benefits. Taken together, the findings of Essays 2 & 3 suggest that global (or home market) status does not have a direct positive performance effect (except in some specific circumstances (Alvarez-Garrido & Guler, 2015)). The benefits come from global (or home market) status being first transferred to local status in the target market, which then has positive performance effects. Finally, this thesis contributes methodologically to the research in organization status by carefully delineating several host country networks based on VC syndications, while prior studies have mainly a focus on a single country (Guler & Guillén, 2010b; Jensen, 2003).

### **6.1.3 Contributions to the related literature on international business**

This thesis mainly studies firm's partnering with local firms in foreign markets. Firstly, it contributes to market entry studies in the international business literature (Brouthers & Hennart, 2007). By considering firms' partnering decisions in foreign countries as multilayered in nature and modeling them accordingly in Essay 1, this thesis contributes methodologically to the existing entry mode literature (Hennart & Slangen, 2014). Focusing on the market-entry stage in Essay 2, this thesis contributes to the market entry studies (Agarwal & Ramaswami, 1992; Brouthers, 2002, 2013; Brouthers & Hennart, 2007) through highlighting the importance of firm home country status and the presence of a high status common partner(s) in the same host market used for identifying a high quality local partner during market entry. Second, this thesis contributes to the international business literature by adding to the existing debate around the global versus local perspective in this field (Verbeke & Asmussen, 2016). Essay 3 responds to the call to incorporate both global and local perspectives by viewing the firm as a business system and incorporating the global value chain into the analysis (Mudambi & Puck, 2016). Lastly, by considering and measuring status as a potential FSA and considering its location-specificity (Meyer et al., 2011; Mudambi & Puck, 2016; Verbeke & Asmussen, 2016), this thesis is among the first few studies in integrating the social network perspective into international business research (Haas & Cummings, 2015; Vasudeva, Zaheer, & Hernandez, 2013).

### **6.1.4 Contributions to the related literature on cross-border venture capital**

The empirical context of the research conducted in this thesis is the cross-border venture capital investments. This thesis contributes to the studies on the cross-border VC syndication by focusing its study on the formation of cross-border syndicates (Chemmanur, Hull, & Krishnan, 2016; Dai & Nahata, 2016; Meuleman & Wright, 2011; Wright et al., 2005). While the central reason for cross-border syndication is identified as gaining new knowledge about the institutional environment (Bruton et al., 2005), I add to the existing studies regarding the frictions that interferes with syndicate creation (Mäkelä & Maula, 2008) by demonstrating that country-level uncertainty reduces cross-border syndication. Our findings also add some nuances to the understanding of the effects of institutions and experience in cross-border VC syndication (Meuleman et al., 2011) regarding the different roles of general international experience and host-country experience in facilitating either general partnering or partnering with local firms. Prior studies on cross-border VC investment performance have mainly focused on the role of macro-level factors such as the development level of VC industry and distance and the roles of micro-level factors, such as syndicate size and structure. Few prior studies have linked firm status to cross-border VC investment performance (Alvarez-Garrido & Guler, 2015). Adding to the existing studies on cross-border VC investment performance, this

thesis finds that VC firm performance in foreign markets benefits from foreign VC firms' high local status in the target market.

## **6.2 Practical implications**

This dissertation investigates the antecedents and outcomes of partnering with local firms in cross-border VC investments. In this section, I discuss the practical implications of the findings of this thesis for firms in general, for VC firms in particular, and for policy makers.

### **6.2.1 Practical implications for firms in general**

The question of whether to partner with local firms is an important international strategic decision that every firm must make when entering foreign markets. This thesis provides a better understanding of the factors that may affect such decisions helping firms to better assess and address the disadvantages caused by unfamiliarity with either the environment, or the investment target, or the potential partner.

First, the findings in this thesis regarding different types of international experience and their roles on partnering with local firms suggest that firm's general international experience accumulated in multiple markets varies from that cumulated in a specific market in impacting firm's partnering decisions in international business. The international experience firm accumulates from operating in multiple markets is important for local partnerships as such general experience could be interpreted and applied in the local context to an extent. However, the firm still needs to learn in the specific local context to be able to partner with local firms. This is because when firm lacks relevant country-specific experience, partnering with local firms can be challenging. Therefore, this thesis points out the significance of foreign firm's accumulation of country-specific knowledge and experience, in particular for those foreign firms with the strong intension to enter countries with high institutional uncertainty, in other words, when the institutions in such countries fail to support effective cross-border cooperation.

Second, this thesis underlines the importance of firm status in international business. While status might appear as a rather theoretical concept, it does have important practical implications for firms' partnering in foreign countries. For one thing, the findings of this dissertation suggest that when a foreign firm is seeking to enter a new international market through partnering, it should pay special attention to possible opportunities provided by prior partners who are also present in the same host country. Higher status prior partners are very likely the key towards a good beginning of cross-border cooperation with high quality local firm(s) and after that a successful market entry. Moreover, this thesis also provides implications for firm's network strategy by establishing the link between a firm's home country status and the status of its first local partners. Such local ties are important as this thesis finds that high local status is beneficial for firm performance in foreign markets. Hence, it implies that in practice,

at the market entry stage, firms should not only rely on their prior network connections to seek potential high quality local partners but also be cautious in selecting future local partners in its following cooperative deals in foreign markets, bearing in mind the importance of gradually enhancing its local network positions. Such a high local network position is a very valuable form of location-specific firm advantage, which will bring the focal firm an abundant bundle of local information and resources, thus enhancing firm performance in the foreign markets.

### **6.2.2 Practical implications for VC firms**

The findings in this thesis are based on an analysis of an extensive sample of cross-border VC investments during 1984-2016. This period covers the initial few cross-border deals made by VC firms as early as in 1980s and the blossom of the cross-border VC investments following the globalization of the finance industry in the recent 20 years. By focusing on the cross-border VC syndication, this thesis highlights the globalization of VC industry and provides important practical implications for VC firms investing in foreign markets. First, the findings of this thesis highlight the importance of cross-border syndication, in other words, foreign VC firms syndicating with local VC firms. Such partnerships are particularly important when the investment target is highly risky, as suggested by the findings in Essay 1 regarding the effect of venture-level uncertainty on partnering with local firms, and in Essay 3 regarding the amplified effect of local status on firm performance at the upstream end of the value chain. In practice, VC firms should consider syndication with local firms, especially when investing in seed and early stage ventures at foreign countries.

Nevertheless, the findings in this thesis also points out the obstacles foreign VC firms may face in syndicating with local VC firms. The difficulty is mainly due to the lack of feasibility in cross-border syndication. In particular, when the local intuitions lack efficient and effective legal protection for foreign investors, foreign VC firms tend to alienate themselves from local counterparts. The findings in this thesis direct our attention towards three possible practical solutions for foreign VC firms to overcome such difficulties: first, the general international experience VC firm accumulate from investing and syndicating in multiple countries will effectively reduce firm's reliance on syndication in general. Second, VC firm's country-specific investing experience will alleviate the obstacles in syndicating with local VCs, enhancing the feasibility of such partnership. Third, cross-border VC syndication will likely be more feasible if VC firm could identify local VC firms as potential partners through its prior syndicating partners.

Moreover, this thesis compares the performance implications of VC firm's global status and local status. Although in theory status is only loosely connected to firm's prior performance, it is perceived as a signal of firm's past quality. The findings in this thesis suggest that local status influences firm performance positively while global status does not have such direct performance impact. Such findings imply that, in practice, the historical investment success in the global market is not a guarantee that foreign VC firms will achieve better

performance in the local context. As a matter of fact, even the top VC firms from the US or UK may find a difficult time in accommodating itself to the local business culture and practices when investing in many developing countries for the first time. As suggested in this thesis, the success in a specific local market leans greatly on foreign VC firm's accumulation of market-specific experience and cross-border syndication with local VC firms.

The last but not least, this thesis directs the VC firms to consider its investment strategy when investing in ventures of a specific industry. For instance, the findings in Essay 3 regarding the contingent effect of a high technology focus on the local status performance effect suggest that VC firms should be careful when investing in non-high tech ventures in foreign markets. It might be wiser to wait until the VC firm has established a certain amount of local status in the host country network, allowing that local status to help achieve positive performance in those foreign markets.

### **6.2.3 Practical implications for policy makers**

This thesis also has important practical implications for policy makers. First, it indicates the importance of a stable and comprehensive institutional environment for cross-border partnering. The findings in Essay 1 reveal that a weak and inefficient formal institutional environment acts as an inhibiting influence on foreign firms that are otherwise actively seeking relationships with local firms. Essay 3 demonstrates that higher quality legal institutions facilitate firm performance in foreign markets. Both sets of findings suggest that policy makers should work efficiently to improve the local institutional setting. Such supportive institutions facilitate cross-border cooperation, thereafter assisting both foreign and local firms to perform better in the local markets.

Second, this thesis features the significance of legal intuitions for cross-border VC investment success. It suggests a potential influential and efficient approach for policy makers to boost innovations and enhance domestic economic development in society. The findings show that a sound legal institution is a key factor in attracting foreign investors, as it ensures the necessary legal protection over the foreign investor's investment gains and interests in cross-border contracting. Such a supportive and protective environment is the prerequisite for foreign firms to seek investment opportunities and international cooperation with local firms. At the same time, the VC industry is an integral part of a nation's entrepreneurial ecosystem, fundamental to the entrepreneurship and innovativeness of a society. For developing countries, attracting foreign venture capital inflow is essential for boosting the local VC industry, introducing local technology innovation to the global market, and thereafter further improving a nation's economic influences in the international markets. Consequently, policy makers should focus on improving the legal institutions, in particular providing an efficient legal environment for venture capital inflow and outflow as well as effective legal protections for foreign investors' rights.

In addition, the findings in this thesis regarding the relevance of firm status in local network for firm performance, in a way, suggests an indirect approach for policy makers to help the development of local ventures. Local government or

relevant organizations should support the local VC industry to form intra-industry confederation that acts as a reliable platform for foreign VC firms to identify local VC firms as potential partners. In such a way, more high quality cross-border syndication will be efficiently formed through such confederation. Local ventures will benefit by receiving not only cross-border financial capital but also valuable managerial advices from both foreign and local VC firms as well as the opportunities to expand globally through foreign VC firm's existing network. Admittedly, the responsibility for facilitating such intra-industry communication shall not be laid upon the local government only. Policy makers in both the foreign VC firm's home country and host country shall be actively involved as the cross-border syndication is a mutual and reciprocal dialogue involving the both parties.

### **6.3 Limitations and avenues for future research**

This thesis has several limitations to be addressed in future studies. These limitations were unavoidable given the nature of our data. First, because of the empirical focus on cross-border VC investments, this dissertation adds to our understanding of partnering with local firms mostly in the services industry. This is an industry that requires limited physical infrastructure and differs largely from manufacturing and is largely heterogeneous (Erramilli & Rao, 1993). Second, whereas this study provides empirical evidence of status transfer across markets and the facilitating role of common partners, these findings may not be fully generalizable beyond the VC industry, in which interorganizational ties are important and information transmitted through indirect ties is highly valued. Future studies could well address the limitation of the data in the VC industry by exploring other industries and examining partnerships with local firms as well as status transfer and the role of prior ties, exploring the generalizability of the findings in this thesis. Third, in analyzing the effects of the institutional environment on partnering decisions, this thesis is limited in that it has focused its investigation on the effect of legal institutions, which is the most important dimension of institutions in the VC context. Therefore, future research could examine a broader set of institutions and their effects on firm's partnering decision with local firms. Fourth, in studying the status transfer across markets, this thesis is limited to the market-entry stage and only looked at firm's first local partnership. To address the limitation in market-entry stage, future studies could add to our understanding of the status transfer by longitudinally following firms' status establishment in the foreign market and track the local network evolution of the foreign firm (Milanov & Shepherd, 2013; Pollock, Lee, Jin, & Lashley, 2015).

Whereas Essay 1 studied the partnering with local firms from the strategic need perspective, Essay 2 in this thesis looked at the same partnering decision from the sociological perspective. Extending the studies in interorganizational tie formation, future studies could build upon these two perspectives and incorporate both views in one study to better understand the interplay of need and opportunities in partnering with local firms (Dimov & Milanov, 2010).

Related to the studies in international business, this thesis is only one of the first few to introduce the social network perspective in studying firms' international activities. Considering that firms normally operate in multiple foreign markets and create both cross-country and country-specific connections, this is a promising area in which future studies could actively explore by examining the role of social networks in an international business context.

While this thesis deepens our understanding of firm status in the international context, future studies could also add to the findings by carefully constructing global status, home status, and local status in one research design and examining the interactions and contingencies for the advantages of each type of firm status across social settings (Alvarez-Garrido & Guler, 2015).

Finally, cross-border VC investments are an interesting phenomenon to study. In this thesis, the sample includes over 60 countries across a time period of over 30 years. However, the distinction of the VC firm's home country between developed and developing countries is not made. This leaves a clear path for future studies to investigate the effect of home country institutions and the interactions of such institutional backgrounds on firms' partnering behavior in foreign markets (Guler & Guillén, 2010a).

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