Do Local and International Venture Capitalists Play Well Together? The Geography of International Venture Capital Investments

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Abstract

We analyze the effectiveness of international versus local venture capitalists in adding value to entrepreneurial firms and the determinants of collaboration between the two types of venture capitalists. Entrepreneurial firms backed by syndicates composed of international and local venture capitalists are more successful than those backed by syndicates composed of purely international or purely local venture capitalists. Further, greater distance between the country of the international venture capitalist and that of the entrepreneurial firm is associated with a lower probability of success. International venture capitalists that are farther away from entrepreneurial firms are more likely to syndicate with local venture capitalists potentially to mitigate their deficiencies in local knowledge and their higher monitoring costs. Consistent with this, syndication with local venture capitalists weakens the negative association between the distance of the venture capitalist from the entrepreneurial firm and the successful outcome of the venture capital investment. Purely international venture capitalists syndicates are the less likely to invest in early stage firms and more likely to stage their investments to a greater extent than purely local venture capitalists. All the above results are stronger for international venture capital investments in emerging nations than for those in developed nations, consistent with the higher monitoring costs and deficiencies in the local knowledge of international venture capitalists being greater in emerging markets. Finally, local venture capitalists that have a greater extent of prior syndication experience with international venture capitalists have higher success rates in making subsequent investments on their own and are less likely to syndicate again with international venture capitalists. Overall, our results indicate that the greater venture capital expertise of international venture capitalists and the superior local knowledge and lower monitoring costs of local venture capitalists are both important in obtaining successful investment outcomes.

1. Introduction

In recent years, venture capital (VC) investments across national borders have started to trend upwards. Foreign or cross-border investment in venture capital markets has increased from 10 percent of all venture capital investments in 1991 to 22.7 percent in 2008 (based on number of venture capital investments). An important driver of this increase is the significant upward trend in international venture capital investments in emerging nations over this time period.[1] The number of venture capital investments by international investors as a fraction of total venture capital investments in emerging nations increased from 8.7 percent in 1991 to 56 percent in 2008. There has also been an increase, although more modest, in the number of international venture capital investments as a fraction of all venture capital investments in developed nations over the same time period (10.1 percent in 1991 to 20 percent in 2008). While the venture capital industry originated in the U.S., a number of non-U.S. economies have developed their own venture capital industries, with a significant number of local venture capitalists investing in entrepreneurial firms in their own countries. However, there has been little research on the effectiveness of international versus local venture capitalists in adding value to entrepreneurial firms and on the determinants of collaboration between the two types of venture capitalists. The objective of this paper is to fill this gap in the literature.

We address a number of interesting questions in this context. First, how do international venture capitalists compare in effectiveness with local venture capitalists or syndicates consisting of both international and local venture capitalists? Second, how does the distance from the home country of the venture capitalist to that of the entrepreneurial firm affect the success of international venture capital investments? Third, how does the distance from the home country of the venture capitalist to that of the entrepreneurial firm determine the propensity of an international venture capitalist to syndicate with a local venture capitalist? A related question is how the syndicate structure of a venture capital investment affects the relation between venture capitalist distance (i.e., distance from the home country of the international venture capitalist to

[1] Recent anecdotal evidence suggests an acceleration of international investments in emerging nations. One example is that of Accel Partners investing in the series A financing of a Brazilian e-commerce company called el07 in syndication with a local venture capitalist (See "Accel in Brazilian e-commerce Investment," New York Times Dealbook, Oct 11, 2011, by Vinod Sreeharsha). Another example is San Francisco-based Redpoint Ventures investing $3 million in 55Social, a Brazilian social media marketing company, and $6 million in Grupo Xango, a Brazilian Company operating in the cloud, security, and e-commerce space (See "Redpoint and BV Capital form Brazilian V.C. Firm," New York Times Dealbook, March 5, 2012, by Vinod Sreeharsha).

that of the entrepreneurial firm) and the success of the venture capital investment. Fourth, how does the syndicate structure affect the choice to invest in early versus late stage firms? Fifth, how does the syndicate structure determine the staging of international venture capital investments? Finally, how do local venture capitalists' decisions to syndicate with international venture capitalists relate to their prior syndication experience with international venture capitalists? We address the above questions differentiating between international venture capital investments in emerging versus developed economies. We use the probability of successful exit as the main outcome variable in our analysis.

In developing our empirical analysis, we consider the following opposing effects that may affect the ability of local versus international venture capitalists in adding value to entrepreneurial firms. On the one hand, international venture capitalists are likely to have considerable expertise in helping entrepreneurial firms to become successful through better deal structure, providing product market support, professionalizing firm management, setting effective incentive schemes, and through monitoring firm management. On the other hand, international venture capitalists may lack knowledge of the local product markets of the entrepreneurial firms they invest in and may face significant costs in monitoring these firms. The above disadvantages may be exacerbated when the distance between their home country and that of the entrepreneurial firms is greater. In contrast, local venture capitalists, while potentially lacking in expertise in some of the areas discussed above where international venture capitalists are strong, may have significant strengths in areas where international venture capitalists are weak. In particular, local venture capitalists may enjoy a significant advantage in their home markets in terms of their information about local market conditions and investment opportunities. Further, local venture capitalists can monitor their investments more easily because of proximity. In summary, international and local venture capitalists have their own advantages and disadvantages when it comes to investing in entrepreneurial firms.[2] Our

[2] The difficulties in monitoring international investments by venture capitalists have been commented upon in the popular press. See, e.g., "Redpoint and BV Capital form Brazilian V.C. Firm," New York Times Dealbook, March 5, 2012, by Vinod Sreeharsha. To quote, "*For the last couple of years, Redpoint partners have frequently traveled to Brazil, often visiting for a full week each trip, saying the lack of direct flights from San Francisco to Brazil makes a weeklong stay the only efficient way to conduct business there.*" The news article goes on to quote U.S. venture capitalists as seeking to ease difficulties such as the need for excessive travel by teaming up with local venture capitalists. The article also comments on the nascency and resulting lack of experience of the local (Brazilian) venture capital industry.

empirical analysis addresses the question of whether investments by purely international or purely local venture capitalists have a higher chance of a successful outcome, or whether both of the above types of investments are dominated by those of syndicates consisting of both international and local venture capitalists.

We differentiate our analysis by entrepreneurial firms located in emerging versus developed nations. The disadvantages of international venture capitalists in terms of their lack of knowledge of local product market conditions and difficulty in monitoring due to lack of proximity may be worse for investments in emerging nations, especially due to the worse infrastructure in emerging nations.[3] On the other side, the expertise of international venture capitalists in adding value to entrepreneurial firms is likely to be greater for developed nations than in emerging nations given the greater extent and longer history of cross-border investments between developed nations.[4] Thus, we expect significant differences between our results for developed versus those for emerging nations.

Our results indicate that the probability of successful exit is higher when the syndicate consists of both local and international venture capitalists than when the syndicate consists of purely international or purely local venture capitalists. This result is consistent with the idea that the knowledge base and skill-sets of international and local venture capitalists are complements and that the combination of local and international venture capitalists can help them overcome their relative disadvantages. Our results are also robust to controlling for the potential endogeneity that may arise from international venture capitalists selecting higher quality firms to invest in. We control for such potential endogeneity using an instrumental variables approach and also a natural experiment and thus show that international venture capitalists have a positive causal impact on the exit rates of the firms that they back. Further, our results are robust to the endogeneity of the choice of international venture capitalists to syndicate with local venture

[3] For instance, according to data obtained from the World Bank, the average per capita number of flights in developed nations was eight times greater than that in emerging nations in 2008. Another example is the average per capita number of mobile and fixed telephone subscribers, which was 64% greater in developed nations than in emerging nations in 2008. We are grateful to the International Telecommunication Union for making data on telephone subscriber usage available on the World Bank website.

[4] For instance, based on data from the World Bank, the average foreign direct investment (FDI) in developed nations was $6.86 billion in 1990, compared to $1.16 billion in emerging nations. As recently as 2008, the difference between these two groups was still substantial: the average FDI in developed nations was $39.3 billion and that in emerging nations was $27.9 billion.

capitalists. In particular, we find that, after controlling for the endogenous nature of the choice of international venture capitalists to syndicate with local venture capitalists, entrepreneurial firms backed by syndicates of international and local venture capitalists have higher successful exit rates than those backed by syndicates of purely international venture capitalists. As a robustness check for our exit results, we analyze whether investment by a combination of local and international venture capitalists in an entrepreneurial firm has a positive association with the firm's post-IPO operating performance relative to investments by purely international venture capitalists or by purely local venture capitalists. While the above results hold for emerging nations, we do not find similar results for developed nations, which is consistent with the notion that the difficulties in monitoring and the deficiencies in local knowledge faced by international venture capitalists are much more important in emerging nations than in developed nations.

We further investigate whether our syndication results above indeed reflect a distance disadvantage for international venture capitalists and a lack of venture capital skills for local venture capitalists. Thus, we relate the probability of successful exit with the distance of international venture capitalists from the entrepreneurial firm backed by it. Distance is likely to exacerbate the disadvantages of international venture capitalists related to the lack of local market knowledge and to the inability to effectively monitor the entrepreneurial firm. Consistent with this argument, we find that the probability of exit is lower when international venture capitalists are farther away from the country of the entrepreneurial firm receiving venture capital financing. In addition, we find that the negative association between the distance of the international venture capitalist from the entrepreneurial firm and the probability of exit is mitigated by syndication with a local venture capitalist. International venture capitalists are able to overcome their distance disadvantage by syndicating with local venture capitalists. Consistent with this argument, we find that the probability of syndication between international and local venture capitalists increases with the distance of the international venture capitalists' home country from that of the entrepreneurial firm receiving venture capital financing. As with our previous set of results, these results are stronger in the sample of emerging nations.

In order to further investigate the disadvantages of international venture capitalists arising from difficulties in monitoring and lack of local knowledge, we delve deeper into the characteristics of investments made by international versus local venture capitalists. We find that

syndicates composed of purely international venture capitalists are less likely to invest in early stage entrepreneurial firms than those composed of either purely local or a combination of local and international venture capitalists. This result holds in both emerging and developed nations, although its economic significance is greater in emerging nations. The above results are consistent with the idea that early stage investments, which are characterized by higher information asymmetry, greater uncertainty, and a greater need for monitoring, exacerbate the disadvantages of international venture capitalists since local knowledge and ability to monitor investments are likely to be even more important when making early stage investments.

It has been argued that staging of venture capitalist investment is one way to mitigate difficulties in monitoring (see, e.g., Gompers (1995) or Tian (2011)). If this is the case, then one would expect the number of rounds over which an entrepreneurial firm receives venture capital financing to be lower when purely local venture capitalists invest in the firm than when purely international venture capitalists invest in the firm, since local venture capitalists face lower costs of monitoring due to their proximity. Consistent with this notion, we find that the extent of staging (i.e., number of rounds of investment) by local venture capitalists is lower than that by international venture capitalists.

Finally, we investigate how the propensity of local venture capitalists to syndicate with international venture capitalists relates to their prior syndication experience with international venture capitalists. We find that local venture capitalists who have syndicated with international venture capitalists over a greater number of prior investments (i.e., with the number of syndications with international venture capitalists above the sample median) are less likely to syndicate with them again, indicating a greater extent of learning by local venture capitalists during earlier syndications. Further, the success rate of entrepreneurial firms backed by purely local venture capitalists is higher when they have a greater extent of prior syndication experience with international venture capitalists. These results hold for both emerging and developed nations. The above results are consistent with local venture capitalists who have a lesser extent of prior syndication experience with international venture capitalists being disadvantaged in terms of their venture capital skills, and overcoming this disadvantage through learning these skills over time by syndicating with international venture capitalists.

Overall, our results support the idea that the investments that are more likely to succeed are the ones that combine the greater expertise and knowledge of international venture capitalists and the local knowledge and proximity-advantage of local venture capitalists. Distance seems to exacerbate disadvantages relating to lack of local knowledge and makes monitoring more difficult for international venture capitalists. To mitigate the above disadvantages, international venture capitalists that are farther away syndicate more with local venture capitalists. Further, international venture capitalists are less likely to invest in early stage entrepreneurial firms and stage their investments to a greater extent than local venture capitalists. On the other hand, local venture capitalists are able to mitigate their disadvantage related to their lack of venture capital expertise by learning these skills from international venture capitalists by syndicating with them.

What do our results tell us about venture capital investing in general? Our results indicate that both expertise in venture capital and knowledge of local firms and markets are important in enabling venture capitalists to add value to the entrepreneurial firms they invest in. Our results further indicate that syndicates consisting of different kinds of venture capitalists allow an exchange of information across venture capitalists and also enable the syndicate to overcome the deficiencies of individual venture capitalists. Our results provide empirical support for the idea that greater distance between a venture capitalist and an entrepreneurial firm results in larger monitoring costs Finally, our results suggest that younger and early stage entrepreneurial firms require a locally available venture capital industry, since international venture capitalists are less likely to invest in such firms. From the perspective of policy, this suggests that, in addition to attracting investments from venture capitalists from other geographic regions, national and local governments need to consider policies that would build a local venture capital industry in order for local start-ups to get greater early stage support. The fact that our results are stronger in emerging nations than in developed nations indicates that the deficiencies of international venture capitalists may be overcome by the better infrastructure available in a given market and the greater experience of international venture capitalists in investing in these markets.

The rest of the paper is organized as follows. Section 2 discusses the related literature. Section 3 develops our hypotheses, section 4 describes the data and important variables, and section 5 discusses our empirical tests and results. Section 6 discusses some additional robustness checks of our empirical analyses. Section 7 concludes.

2. Literature Review

Our paper is related to several strands in the empirical corporate and entrepreneurial finance literature. The first literature our paper is related to is that on the local availability of financing from intermediaries on the development of entrepreneurial firms: see, e.g., Kerr and Nanda (2009). Our paper contributes to this literature by analyzing the role of local venture capital industry in the development of entrepreneurial firms. Second, it is related to the literature on venture capital deals across various countries. See, e.g., Jeng and Wells (2000), who analyze the determinants of venture capital deals for a sample of 21 countries, and find that the development of IPO markets affect the level of venture capital investments in various countries.[5] Bottazzi, Da Rin and Hellmann (2011) analyze the role of trust in investment decisions and contracting for cross-border venture deals in Europe. They find that trust between two countries, measured by survey data asking citizens of one country about their trust in citizens of another country, is positively related to cross-border venture capital investments between the countries. Unlike us, however, they do not analyze success rates of cross-border venture capital investments. Balcarcel, Hertzel and Lindsey (2010) find that U.S. venture capital investments made abroad are staged to a lower extent if the country of the entrepreneurial firm has fewer legal protections.

Hazarika, Nahata and Tandon (2009) analyze the role of cultural dissimilarities between the country of the venture capitalist and the country of the entrepreneurial firm in determining the success of the venture. They find that the success of a venture capital investment is positively related to the extent of cultural dissimilarity between the country of the venture capitalist and that of the entrepreneurial firm. While, we control for cultural differences in our analysis below, the effect of culture is not the main focus of our paper. Further, our results on culture are opposite that of Hazarika, Nahata and Tandon (2009): we find that greater cultural distance between the country of the entrepreneurial firm and that of the venture capitalist (using the same Hofstede distance measure as Hazarika, Nahata and Tandon (2009)) reduces the success probability of the entrepreneurial firm. This is possibly because, unlike their paper, we explicitly control for unobserved entrepreneurial country-specific heterogeneity using entrepreneurial firm country fixed effects in our analysis.

[5] Our paper is also related to the literature on the contracting of private equity deals in various countries (e.g., Kaplan, Martel and Stromberg (2007), Lerner and Schoar (2005), and Bottazzi, Da Rin and Hellmann (2009)).

Third, it is related to the literature on geography and corporate finance: for example, Tian (2011) studies, in the US context, the relationship between entrepreneurial firms and their distance to the venture capitalist backing them. Bengtsson and Ravid (2009) analyze the relationship between the location of an entrepreneurial firm and the structure of the contracts between the entrepreneurial firm and the venture capitalists investing in them.[6] Our paper extends this literature by being the first one to study the relative effectiveness of international versus local venture capitalists and syndicates consisting of the above in creating value for entrepreneurial firms.

The fourth and final literature our paper is related to is the broader literature on venture capital. Our paper is related to the literature on venture capital syndication (see, e.g., Lerner (1994) and Brander, Amit and Antweiler (2002)). It is also related to the literature on venture capital staging (see, e.g., Gompers (1995) and Tian (2011)), and to the literature showing that venture capitalists create "extra-financial" value for entrepreneurial firms and the relationship between this value added and the reputation of the venture capitalist (see, e.g., Chemmanur, Krishnan and Nandy (2011) and Hsu (2004)).[7] Finally, our paper is also broadly related to the theoretical literature on value addition by venture capitalists and other private financiers (e.g., Fulghieri and Sevilir (2009)) and the effect of the availability of private financing to a firm on its going public decision (e.g., Spiegel and Tookes (2008)).

3. Development of Hypotheses

The first question that we are interested in examining is the relative importance of expertise in venture capital investing versus knowledge of local markets and the monitoring advantage of proximity. On the one hand, international venture capitalists, by virtue of their greater experience in investing in their home countries, are likely to have greater expertise in venture capital investing. On the other hand, local venture capitalists are likely to be more knowledgeable about their local markets and the nature and quality of entrepreneurial firms in

[6] Kedia and Rajgopal (2009) and Uysal, Kedia and Panchapagesan (2008) study the effect of geography on option compensation and acquisitions, respectively.

[7] Our paper is broadly related to the home bias literature (see, e.g., Coval and Moskowitz (1999), Coval and Moskowitz (2001), and the survey article by Karolyi and Stulz (2003)), which finds that local investors perform better than investors farther away because of advantages of proximity such as a more comprehensive knowledge of local markets.

these markets. In addition, the proximity of local venture capitalists to entrepreneurial firms they invest in would make it easier for local venture capitalists to monitor their investments. Thus, if venture capital expertise is the most important factor affecting the success of venture capital investment in an entrepreneurial firm, then we would expect entrepreneurial firms backed by syndicates consisting of purely international venture capitalists to be more successful than those consisting of purely local venture capitalists or a combination of local and international venture capitalists (**H1A**). If, however, local knowledge and effective monitoring due to proximity are the most important factors in determining the success of venture capital investments, then we would expect entrepreneurial firms backed by syndicates of purely local venture capitalists to be the most successful (**H1B**). Finally, if venture capital expertise, local knowledge, and the monitoring advantage of proximity are complements, in the sense that all these factors are essential in determining the success of a venture capital investment, then we would expect entrepreneurial firms backed by syndicates of both international and local venture capitalists to be the most successful (**H1C**).

Geographic distance can exacerbate the difficulty in monitoring and the lack of local knowledge facing international venture capitalists. Thus, a greater geographic distance between the international venture capitalist and the entrepreneurial firm would be associated with a lower likelihood of success (**H2**). Further, if syndication with local venture capitalists allows international venture capitalists to mitigate their disadvantages of greater difficulty in monitoring and lack of local knowledge (arising from the lack of proximity), then we would expect the following. First, international venture capitalists that are farther away from entrepreneurial firms they invest in are more likely to syndicate with local venture capitalists (**H3**). Second, the negative association between the distance of the international venture capitalist from the entrepreneurial firm and the probability of a successful outcome will be mitigated by syndicating with local venture capitalists (**H4**).

The conjecture that international venture capitalists may have difficulty screening and monitoring the entrepreneurial firms that they invest in can have implications for the stage at which international venture capitalists may fund entrepreneurial firms as well as the number of investment rounds (i.e., staging). Early stage firms are considered to be the hardest to screen and monitor, due to the high extent of information asymmetry and uncertainty about them. Thus, we

expect that syndicates of purely international venture capitalists, due to their lack of local knowledge and monitoring disadvantage will be the least likely to invest in early stage entrepreneurial firms, compared to either purely local venture capitalists or combination of local and international venture capitalists (**H5**). Moreover, purely international venture capitalist syndicates are likely to stage their investments over more rounds than purely local venture capitalist syndicates, again to mitigate the international venture capitalists' disadvantages arising from their lack of proximity to the entrepreneurial firm (**H6**).

While the above conjectures are related to the international venture capitalists' disadvantage due to lack of proximity, we are also interested in the local venture capitalists' disadvantage in terms of lack of venture capital skills. Thus, we are interested in examining how local venture capitalists' prior syndication experience with international venture capitalists affects their choice to syndicate again with international venture capitalists. Local venture capitalists can potentially gain venture capital expertise and skills by interacting with international venture capitalists through a greater extent of syndication with them. If this is the case, we would expect local venture capitalists with a greater extent of prior syndication experience with international venture capitalists to have developed greater venture capital expertise and thus to be less likely to syndicate again with international venture capitalists (**H7**). Further, we expect local venture capitalists who have a greater extent of prior syndication experience with international venture capitalists to be more successful when they invest alone (compared to local venture capitalists that have a lesser extent of prior syndication experience with international venture capitalists) (**H8**).

4. Data

We draw our original sample of venture capital backed firms from the VentureXpert database over the twenty year period from 1989 to 2008. Prior to this period, there was almost no cross-border venture capital investment in emerging nations. We exclude buyouts and private equity investments from our sample. The VentureXpert database contains information about the nation of the venture capitalist as well as the nation of the entrepreneurial firm receiving venture financing which allows us to classify the venture capitalist as local or international. We exclude entrepreneurial firm nations with fewer than 10 venture capital backed entrepreneurial firms over

the entire sample period in order to exclude outlier nations. The final sample includes 30,071 venture backed firms from 45 countries.

4.1 Country Distributions of Venture Capital Investments

Nations are classified as emerging or developed using the World Bank classification of high income nations based on the 2008 real GNI per capita.[8] We find that, while the majority of venture capital backed entrepreneurial firms in our sample are in the US, there are a significant number of venture capital backed entrepreneurial firms in other countries. Not surprisingly, the BRIC countries (Brazil, Russia, India, and China) constitute the largest share of venture capital backed entrepreneurial firms in emerging nations. India and China have the highest levels of venture capital investment with roughly 46 percent and 21 percent of the total emerging nation venture capital investments, respectively. Other emerging nations with significant venture capital investments are Poland, Thailand, and Malaysia. Among developed nations, the US is the largest venture capital market followed by UK (5.84 percent of all developed nation venture capital investments), South Korea (4.99 percent), France (2.96 percent), Canada (2.8 percent), and Australia (2.17 percent).

Detailed tables and additional descriptions of country distributions of entrepreneurial firms and venture capitalists, and year and industry distributions of entrepreneurial firms receiving venture capital financing are provided in the appendix.

4.2 Summary of the Data and Description of Important Variables

Table 1 reports the summary statistics for our sample of venture capital backed firms. We create various dummy variables to identify the location of the venture capitalist and their syndication choice. The local VC dummy is one if only local venture capitalists invest in the entrepreneurial firm in all rounds, and zero otherwise.[9] Similarly, local and international VC dummy is one if at least one local and one international venture capitalist invest in the

[8] The World Bank classifies economies according to the GNI per capita, calculated using the World Bank Atlas method. According to this definition, high income nations are those that had a 2008 GNI per capita of $11,906 or more. We classify all high income nations (as defined above) as developed nations and non-high income nations as emerging nations.

[9] We also conduct our analyses with only the first round data and find qualitatively similar results to the ones reported in the paper.

entrepreneurial firm, and zero otherwise. The table indicates that purely local and local-international combination syndicates are more common for venture capital investments in developed nations, suggesting that investments by purely international venture capitalists is more common in emerging nations (since pure international venture capital investment is the complement of the sum of the local and local-international dummies). This is consistent with the idea that emerging markets may not have many local investors with sufficient experience in venture capital investing, potentially since venture capital investing requires providing extra-financial support to the entrepreneurial firm such as management support, board monitoring, and development of relationships with customers and suppliers (e.g., Hellmann and Puri (2000) and Chemmanur, Krishnan and Nandy (2011)). US VC dummy and UK VC dummy are variables that are one if there is a US or a UK venture capitalist, respectively, investing in the entrepreneurial firm, and zero otherwise. We find that US and UK venture capitalists are more likely to invest in entrepreneurial firms located in developed nations than those in emerging nations.

The average international VC distance is the average distance between the country of all international venture capitalists and the country of the entrepreneurial firm receiving venture financing, in thousands of miles. Distance between countries is measured as the distance between the capitals (or the most populated cities if the capital is sparsely populated) of the respective countries using the great circle formula.[10] The distance between a venture capitalist and an entrepreneurial firm in the same country is zero.[11] We find that the average international venture capitalist distance is higher in emerging nations than in developed nations. The table also provides data on VC amount, which is the total amount of venture financing received by a firm; number of venture capitalists investing in the firm; VC age, which is the average age of all venture capitalists investing in the firm; and the total number of rounds of venture funding the firm obtains. We find that venture capital backed entrepreneurial firms in emerging nations get smaller investments, involve fewer and younger venture capitalists, and have fewer investment rounds than venture capital backed firms in developed nations.

[10] We obtain these distances from the CEPII website. Please see http://www.cepii.fr/anglaisgraph/bdd/distances.htm.
[11] As a robustness check, we run our analysis using city level distances measured as the distance between the city of the international venture capitalist and that of the entrepreneurial firm, where data is available. Our results remain qualitatively similar.

Given that our database is obtained from a North American company, a potential concern is whether our sample is representative of venture-backed firms in non-US countries, particularly for those in emerging nations. We therefore compare the distribution of our sample relative to prior studies in the international venture capital and private equity literature. For instance, the distribution of the number of emerging nation venture-backed firms in our sample relative to Lerner and Schoar (2005) (over the same set of countries and over a similar sample period) has a correlation of 64% which is statistically significant at the 5% level. In terms of developed nations, we compare our distribution of the dollar value of investments with that reported in Jeng and Wells (2000) and find a correlation of 72% which is statistically significant at the 1% level. These figures help mitigate concerns of potential sample selection biases in our data.[12]

5. Empirical Results

5.1. Local-International Syndication and Exit

We conduct logit regressions to analyze the exit probability of venture capital backed firms through initial public offerings (IPOs) and acquisitions. Venture capital exit is the common metric of success used in the venture capital literature. Successful exits of portfolio firms are the primary value generator for venture capitalists. Table 2 reports the results of the logit regressions separately for emerging nations, developed nations not including US, and all developed nations. We show a separate regression for developed markets without including the US since the venture capital industry in the US is significantly larger and more mature than those in other developed nations.[13] In addition to the variables described in Table 1, we also control for the GDP of the nation of the entrepreneurial firm obtaining venture capital financing; a stock market development variable, which is the stock market capitalization of the nation of the firm receiving venture capital financing;[14] entrepreneurial firm country fixed effects to control for country

[12] In addition, we obtain the number of VC investments made between 2004 and 2008 in India from a database of Indian venture backed firms called TSJ Venture Intelligence. Our sample of VentureXpert VC-backed firms from India over the same time period (i.e., 2004 to 2008) constitutes 82 percent of the number of Indian venture backed firms from TSJ Venture Intelligence. This provides additional support that our sample for emerging markets is representative (particularly for Indian VC-backed firms).

[13] While our analysis uses the entire dataset, we repeat the exit analysis using the set of firms that obtain their first round of venture capital financing prior to 2005 to ensure that our analysis is not biased by the venture investments that do not have sufficient time to mature and exit. Our results are qualitatively similar.

[14] Data on stock market capitalization is obtained from Beck, Demirguc-Kunt and Levine (2000) and Beck, Demirguc-Kunt and Levine (2009). We are grateful to the authors for making this data available.

specific characteristics such as legal structure (see, e.g., La Porta and et al. (1997), La Porta and et al. (1998)); year of first round of venture capital financing fixed effects; industry fixed effects using VentureXpert industry classifications; and fixed effects for the firm development stage at the time of the first round of venture capital financing (i.e., early, late, startup/seed, expansion, or other). We also include dummies for venture capitalists being from US and UK, since venture capitalists from these countries have the largest fraction of venture capital investments in the world, and may be better at adding value to their investments because of their significant experience.

We find that the coefficient estimate on the local and international VC dummy is positive and significant for exits in the emerging nations sample but not in the developed nations samples. Using a Wald test, we also find that the coefficient estimate of the local and international VC dummy is significantly larger than that of the local VC dummy for exits in emerging markets. Thus, the combination of international and local venture capitalists is associated with a higher probability of exit, consistent with the idea that combining international venture capitalists' venture capital skills and local venture capitalists' local market knowledge and proximity to the investment leads to the most favorable outcome, particularly in emerging nations. This result is also consistent with the idea that local venture capitalists in emerging nations may be weaker in terms of venture capital skills than international venture capitalists. Economically, combined investment by local and international venture capitalists is associated with an 8.6 percentage point increase in the probability of exit in emerging nations. Thus, consistent with hypothesis (**H1C**), our results indicate that venture capital investments by local and international venture capitalists dominate those by purely local or purely international venture capitalists investing in emerging nations.

We also find that investment amount and total number of investing venture capitalists have a positive association with exit probability. Entrepreneurial country GDP at the first round of venture investment has a negative association with exit probability. Since we are controlling for entrepreneurial country fixed effects and year fixed effects, the GDP variable essentially captures the economic cycle of a particular country. This suggests that venture investments made

during better times in the economic cycle of a country perform worse (i.e., have a lower probability of eventual successful exit).[15]

To check the robustness of our results, we conduct our analysis with two different additional specifications. First, we redefine successful exit as IPO exits and see whether our results above for the emerging nations sample hold with this alternative definition.[16] The IPO exit logit regression results for the emerging nations sample are reported in column (1) of Table 3. From the logit regression, we estimate that the probability of IPO exits increases by 10.3 percentage points when the firm is backed by both local and international venture capitalists.[17] As an additional robustness check, in column (2) of Table 3, we report the results of the logit analysis of exit outcomes for the emerging nations sample using round level data. Here, the local VC dummy is one if only local VCs invest in a particular round, and zero otherwise. Other variables are similarly defined. We find similar results for the round level regressions as those in Table 2.

Overall, the results in this section indicate that international and local venture capitalists experience higher exit rates in emerging nations when they syndicate with each other, suggesting that the skills and expertise of local venture capitalists and international venture capitalists can complement each other (particularly in emerging nations).

5.2 Endogeneity: Instrumental Variables Analysis

5.2.1 Endogeneity of International Venture Capitalist Participation

An important concern about our prior results is whether international venture capitalists add value to their investments or simply select higher quality entrepreneurial firms (that are more likely to succeed) to invest in. In particular, there may be unobservable factors that affect both the likelihood of investment by international venture capitalists in an entrepreneurial firm as well

[15] Consistent with this, when we run our analysis without the entrepreneurial country fixed effects, we find that the negative relation between GDP and exit does not exist. In other words, when our analysis does not account for between-country differences, we find that country GDP (which now also reflects cross-sectional variation in the economic development between various countries) is either positively related to exit probability or is statistically insignificant. In addition, when we replace GDP levels with GDP growth rates in the above regression (i.e., with country fixed effects), our results remain the same, i.e., GDP change at the time of the venture investment is negatively related to the probability of successful exit.

[16] Prior literature and practitioner data indicates that IPO exits are considerably more profitable for venture capitalists, on average, than a private sale of the entrepreneurial firm to an existing firm (e.g., Gompers (1995)).

[17] We run all our analyses with IPO exits only and find similar results to those reported in this paper.

as the probability of a successful outcome of the investment. Thus, we use an instrumental variables approach to analyze the causal effect of international venture capitalist backing on investment success. Given that our dependent variable is categorical (exit probability), standard two-stage methods are not sufficient to address this concern. Rather, we use the fact that the likelihood function of a bivariate probit model can be used to estimate models with binary dependent variables and endogenous binary variables (See, e.g., Greene (2003), p. 715). Maddala (1983) (p. 120 & 123) argues that, to identify this system, we need an exogenous variation in the binary endogenous variable (i.e., international venture capitalist participation) that does not affect exit probability. We use two instruments for this purpose. The first instrument we use is the extent of foreign ownership and investment regulations that restrict investments by international investors in a country or limits their ownership stakes in an investment. Such regulations may either prevent an international venture capitalist from investing in a country or require them to co-invest with local venture capitalists. The second instrument is the extent of capital market controls placed by a country which may restrict the ability of international venture capitalists to invest in a country. The data for these variables comes from the data in World Economic Forum Global Competitiveness reports and the International Monetary Fund annual reports on exchange arrangements and exchange restrictions (compiled and aggregated in the 2009 Economic Freedom of the World Annual Report). We create dummy variables which are one if the country has higher than median ratings for foreign investment and ownership regulations and capital market controls (higher ratings imply less restrictive regulations), and zero otherwise.[18] Since we control for country fixed effects and time varying country GDP, which together capture the effect of the overall economic development of the entrepreneurial firm's country over time as well as non-time varying country characteristics, it is unlikely that the above instruments directly reflect the success probability of any individual firm that the venture capitalist may invest in.

The dependent variables in the two probit equations are thus: the propensity of investment by an international venture capitalist and the propensity of exit. Further, since our instruments do not exhibit significant variation in developed nations, we restrict our analysis to

[18] The data in the Economic Freedom of the World annual report are created as rating variables from 1 to 10 where 1 represents the most restrictive and 10 represents the least restrictive regulatory regime. We do not expect the individual ratings changes to linearly impact the ability of international venture capitalists to invest in a firm, and thus use a binary version of the instruments.

our sample of emerging nations. Columns (1) and (2) of Table 4 report the results of this analysis. We find that, after controlling for the potential selection of firms by international venture capitalists, firms backed by international venture capitalists in emerging nations are more likely to experience exits. The instruments (low foreign investment/ownership regulation and low capital controls) are positively related to the propensity of being backed by international venture capitalists.[19] In addition, the correlation between the error terms of the two equations is statistically significant, suggesting that there are unobservable factors that determine investment by international venture capitalists and also affect the outcome of their investments. However, even after accounting for such unobservable factors, there is a positive causal effect of participation by international venture capitalists on the propensity of the entrepreneurial firm to succeed.

5.2.2 Endogeneity in the Syndication Choice of International Venture Capitalists

We also address the concern that the syndication choice of international venture capitalists in a country (i.e., the choice to invest alone or to syndicate with a local venture capitalist) may be endogenous. In particular, the choice of an international venture capitalist to co-invest with a local venture capitalist may be correlated with unknown factors that may also predict the success of the entrepreneurial firm.

Thus, we analyze the extent of success of international and local venture capitalist syndicates relative to that of purely international venture capital syndicates by instrumenting the choice of syndication of the international venture capitalist with a local venture capitalist. We use the same instruments as in the previous section. We expect that restrictions on foreign ownership and investments as well as capital controls may increase the need for international venture capitalists to syndicate with local venture capitalists. As before, since our instruments have little variation in the developed nation sample, we conduct this analysis in the sample of emerging nations, where we find a stronger effect of local and international venture capital syndicates on the success of the entrepreneurial firm. Columns (3) and (4) of Table 4 report the

[19] Since the US and UK VC dummy variables predict success perfectly in the first stage (i.e., participation by international venture capitalists), we exclude them from the first stage. Note that, unlike standard two-stage models (like the two-stage least-squares model), the derivation of the bivariate probit model likelihood function does not require all non-instrument exogenous variables to be specified in both probit specifications (see Greene (2003), p. 715 for an example).

results of this analysis. We find that, after controlling for any potential endogeneity in the syndication choice of international venture capitalists, entrepreneurial firms backed by syndicates of local and international venture capitalists in emerging nations are more likely to experience exits than purely international venture capitalist syndicates. The low foreign investment/ownership regulation instrument is negatively and significantly related to the propensity of co-syndicating with local venture capitalists. Thus, even after accounting for potential endogeneity in international venture capitalist syndication propensity, we find a positive effect of the choice of international venture capitalists to syndicate with local venture capitalists on the success of the entrepreneurial firm.

5.3 Endogeneity: Natural Experiment

As an alternative to our instrumental variables analyses, we use terror activities in India as natural experiments to analyze the causal impact of international venture capitalist participation on entrepreneurial firm exit rates. In our sample of emerging nations, India has the largest extent of venture capital investments and also has a history of significant terrorist activity. Prior literature has found that terrorist activity has a negative effect on foreign direct investment (e.g., Enders and Sandler (1996), Abadie and Gardeazabal (2008)). Abadie and Gardeazabal (2008) argue that terror attacks reduce international investment by increasing uncertainty and reducing the expected rate of return. Further, corporate investors rate terrorism as an important factor in their decision to invest abroad (e.g. A.T. Kearney (2004)). Thus, we use four terror attacks on the major Indian cities of New Delhi (on October 29, 2005) and Mumbai (on March 12, 1993; August 25, 2003; and July 11, 2006), which had greater than 50 casualties, as natural experiments to assess the effect of international venture capitalist participation on entrepreneurial firm success rates. We focus on these events because relatively large attacks on major cities in a country are likely to have the greatest impact on foreign investment and receive wider media coverage. However, these events did not substantially impact the overall economic activity in India. In fact, in the years following each of these attacks, India's real GDP per capita increased. This provides support to our identification strategy since these attacks did not seem to substantially affect long-term domestic economic activity.

To further sharpen our identification, we restrict our sample to the set of emerging nation venture-backed firms and to a time period within six months prior to the attack dates and seven months after the attack dates. The sample period restriction ensures that macroeconomic factors that affect the success of entrepreneurial firms at the time of venture capital financing are similar before and after the attack periods. We thus define a post-attack dummy variable as one for the six month period starting one month after the attack date. We add a one month buffer period since venture deals already in place or close to finalizing are likely to get funding even in the immediate aftermath of terror attacks.[20] We then conduct our exit analysis in a differences-in-differences setting by using the post-attack period dummy and post-attack period dummy interacted with India dummy as independent variables in our exit regressions. The India dummy is one if the entrepreneurial firm is located in India, and zero otherwise. Recall that we use country fixed effects in our estimations, so the India dummy is present in the regression by itself as well. Further, in order to control for any changes in the demand for venture capital, we also include a control variable that measures the change in the number of firms obtaining venture capital financing from before to after the terror-attack period.

Panel A of Table 5 reports the results of our logit exit regression. In this analysis, we pool all countries in our sample. Thus, the control group in our sample is the set of all countries other than India in the time period immediately before the terror attacks in India. Given the empirical evidence in the literature mentioned above, we expect that entrepreneurial firms receiving venture capital financing in the immediate post-terror attack period in India to be less likely to be eventually successful. Our results are consistent with this expectation: the post-attack period variable interacted with India dummy has a negative and significant coefficient estimate. Further, in order to assess whether our identifying assumption is valid, we conduct a logit analysis of international venture capital participation using the post-attack period dummy and post-attack period dummy interacted with India dummy as an independent variables. Consistent with our expectations, we find, in Panel B of Table 5, that the post-attack period dummy interacted with the India dummy is negatively associated with international venture capitalist participation.

Our exclusion restrictions can draw criticism if the quality of firms that seek venture capital financing is lower immediately after terror attacks in India. This can happen for two

[20] Our results do not change qualitatively if we classify the post-attack period immediately after the attack date. Further, our results are similar if we use three months, eight months, or one year cut-off dates.

reasons. First, higher quality entrepreneurial firms may feel that international venture capitalists can add more value (i.e., a monitoring effect) and thus stop seeking venture financing if international venture capitalists are less willing to participate in the aftermath of terror attacks. However, since this concedes our argument of causality of international venture backing on performance, it is not damaging to our interpretation. A more important concern would be that higher quality entrepreneurial firms may feel that international venture capitalists are better at screening them (i.e., understanding that they are indeed of higher quality) and thus stop seeking venture funding until the point that international venture capitalists re-enter the market after the terror attacks. To address this, we control for the change in the number of firms getting venture capital from before to after the terror attack period in our regressions. We do not find that the change in number of firms receiving venture capital financing removes the effect of terror attacks on entrepreneurial firm success. We also do not find that the number of entrepreneurial firms getting financing is significantly lower from immediately before to immediately after the terror attack periods in India within our short window around the terror attacks. Thus, firms dropping out of the pool of firms seeking venture financing does not explain away our results.

Thus, the results in the previous two sections provide support to the conjecture that international venture capitalists have a causal impact on the success of entrepreneurial firms that they back. We approach the question of endogeneity of international venture capitalist participation using two different identification strategies. The survival of the impact of international venture capitalist on entrepreneurial firm success through both tests makes us more confident about the causal effect of international venture capitalists on the success of entrepreneurial firms.

5.4 Local-International Syndication and Post-IPO Operating Performance of Entrepreneurial Firms

We also analyze the post-IPO operating performance of firms obtaining venture capital investments as an alternative measure of performance. Our dependent variable is the post-IPO operating income to assets of the entrepreneurial firm that obtained venture capital financing and went public in their local markets (we restrict our analysis to four years after the IPO date). Thus, we now have a panel data at the firm-year level for firms that go public. We obtain our data on

operating performance from various data-sources including the Bureau Van Dijk's Osiris, Global Compustat, and CMIE Prowess databases. Since only a subset of entrepreneurial firms actually exit through IPOs, and since not all entrepreneurial firms exiting through IPOs have data in our data sources (data had to be hand-matched to the various data sources using firm names), the sample for this analysis is significantly smaller than the sample used in previous analyses.

Table 6 reports OLS regressions of the post-IPO operating performance on the independent variables similar to those in the exit regressions in Table 2 in the paper. To control for entrepreneurial firm size, we use lagged value of assets, which is the one year prior value of log of the assets of the entrepreneurial firm in US Dollars. We also use time-varying lagged values of country GDP and stock market development, as well as dummy variables for IPO year, year of the first round of venture capital financing, and the number of years between the IPO and VC financing in addition to the various other controls that we use in our exit regressions. Standard errors are clustered at the firm level in these regressions.

We find that our results mirror those in Table 2; i.e., syndicates composed of both international and local venture capitalists in emerging nations are associated with better post-IPO operating performance of the entrepreneurial firms they back. Economically, the presence of local and international venture capitalists is associated with a 17.4 percentage point increase in the post-IPO operating performance of entrepreneurial firms in emerging markets relative to those backed by purely international venture capitalists. Further, the coefficient estimate on the local and international VC dummy is significantly different from that on the local VC dummy, suggesting that entrepreneurial firms backed by the combination of local and international venture capitalists have the most positive outcomes. The economic magnitude of the local and international VC dummy coefficient estimate is also greater than that of the local VC dummy. This result is consistent with the idea that the combination of local venture capitalists' location-specific skills and proximity advantage and international venture capitalists' venture capital skills has a long-lived impact on the firm obtaining venture financing. Note that these results are similar in the sample of developed nations, although there is no statistically significant difference between the local and international VC dummy and the local VC dummy in these nations.

5.5 International Venture Capitalist Distance and Exit

The disadvantages faced by international venture capitalists due to their lack of proximity to the entrepreneurial firm will likely be exacerbated by greater geographic distance between the country of the venture capitalist and the country of the entrepreneurial firm. Thus, we analyze how geographic distance of the international venture capitalist can affect exit outcomes. Table 7 reports the results of our exit logit regressions where the main test variable is international VC distance, which is the log of one plus the average distance between the country of the international venture capitalists which invest in the entrepreneurial firm and the country of the entrepreneurial firm. We find that, consistent with hypothesis (**H2**), international VC distance has a negative and statistically significant association with the probability of exit for entrepreneurial firms in emerging nations. International VC distance is also negatively associated with exit probability in the sample of developed nations that includes the U.S. However, the economic magnitude of the association between geographic distance and exit probability is significantly larger in emerging nations. Economically, an inter-quartile range increase in the distance between the international venture capitalists' country and the country of the entrepreneurial firm is associated with a 6.55 percentage point decrease in the probability of exit in emerging nations; whereas an inter-quartile range increase in distance is associated with a 1.08 percentage point decrease in the probability of exit in developed nations.

One alternative explanation for our results above is that the negative association between geographic distance and exit probability reflect the effect of cultural differences between the country of the venture capitalist and that of the entrepreneurial firm. To address this possibility, we introduce additional variables in our exit regressions to control for cultural differences between the country of the venture capitalist and that of the entrepreneurial firm. These variables reflect differences in religion, language, and legal origin between the country of the entrepreneurial firm and that of the venture capitalist. In addition, we also introduce a cultural distance measure based on the Hofstede (1980) culture measures. Our results, reported in the appendix, indicate that our distance results exist even after controlling for cultural distance between the entrepreneurial firms' and the venture capitalists' countries.

5.6 The Effect of International Venture Capitalist Distance on Syndication between Local and International Venture Capital Investors

International venture capitalists may be able to overcome their lack of local market knowledge and difficulty in monitoring farther away investments by syndicating with local venture capitalists. It follows that farther away international venture capitalists may be more willing to syndicate with local venture capitalists to mitigate their distance disadvantage. Thus, we analyze how distance is related to the propensity of international venture capitalists to syndicate with local venture capitalists and whether such syndication mitigates the negative effect of distance on exit probability that we find in the previous section.

We first analyze the association between the distance of the international venture capitalist from the entrepreneurial firm and the probability that the international venture capitalist will syndicate with a local venture capitalist. We use the sample of entrepreneurial firms that obtain investment from at least one international venture capitalist and conduct logit regressions with the local and international syndicate dummy as the dependent variable and the average distance of international venture capitalists and other controls as our independent variables. We also include a squared distance term in these regressions to account for any potential non-linear relation between international venture capitalist distance and local syndication probability. Such a non-linear relation may exist, for example, if the benefit of syndicating with a local venture capitalist is tempered by difficulties of coordinating with them as the distance between local and international venture capitalists increases. Our data for this analysis is at the round level, i.e., the unit of data is firm-round. We reshape our data into this form to explicitly account for an international venture capitalist's choice of syndication with a local venture capitalist at each round. In contrast, aggregating our data across rounds may not reflect this choice.

Table 8 reports the results of our logit regressions. The positive and significant coefficient estimate on international VC distance in Table 8 supports the idea that farther away international venture capitalists are more likely to syndicate with local venture capitalists. This result holds in the sample of emerging nations as well in the sample of all developed nations. Further, we find a negative coefficient estimate on the distance squared term, suggesting that the benefit of syndicating with local venture capitalists increases at a lower rate as the distance between the international venture capitalists and the entrepreneurial firm increases.

We also find that US venture capitalists are more likely to syndicate with local venture capitalists in both emerging and developed nations. This is true for UK venture capitalists as well, but the results are somewhat weaker in this case. This result is consistent with the idea that venture capitalists in US and UK are sophisticated enough to understand their disadvantages of investing in international markets, specifically their lack of local market knowledge and proximity. As a result, they will be more likely to seek partnerships with local venture capitalists.

We also analyze whether the syndication of international venture capitalists with local venture capitalists indeed mitigates the negative association between venture capitalist distance and exit probabilities that we find in Table 7. We conduct logit regressions similar to those in Table 7 using the sample of firms with at least one international venture capitalist investing in the entrepreneurial firm and add the following variables: international VC distance squared, local and international VC dummy, the interaction variable between the international VC distance variable and the local and international VC dummy, and the interaction variable between the international VC distance squared variable and the local and international VC dummy. A positive coefficient on the interaction variable would indicate that syndicating with a local venture capitalist indeed reduces the negative association between international venture capitalist distance and exit rates. Table 9 reports the result of this analysis and we find that the coefficient estimate on the interaction term is indeed positive in emerging nations (as well as the sample of non-US developed nations). Thus, our results indicate that international venture capitalists syndicate with local venture capitalists to increase their chances of success, particularly when they are farther away from the country of the firm in which they invest. We also find that the interaction term between international VC distance squared and local and international VC dummy has a negative coefficient estimate for the emerging nations sample, consistent with the idea that the mitigation effect of local syndication on the negative effect of international venture capitalist distance on exit probability is smaller as the distance between the international VC and the entrepreneurial firm increases.

Thus, the empirical results in this section are consistent with hypothesis (**H3**). That is, international venture capitalists are more likely to syndicate with local venture capitalists when they are farther away from the nation of the entrepreneurial firm. We also find that, consistent with hypothesis (**H4**), the negative association between the distance of the international venture

capitalist and the probability of a successful outcome is mitigated by syndication between the international venture capitalist and local venture capitalists. However, the above effects are non-linear. In particular, the benefit of syndicating with local venture capitalists increases at a lower rate as the distance between the international venture capitalists and the entrepreneurial firm increases. This non-linearity may indicate that international venture capitalists may have more difficulties coordinating with local venture capitalists as the distance between local and international venture capitalists increases.

5.7 Early Stage Investments in International Venture Capital

In this section, we analyze whether and to what extent the geography and syndicate structure of international venture investments are associated with the probability of venture capital investment in early stage entrepreneurial firms. In Table 10, we report the results of logit regressions where the dependent variable is an early stage investment dummy which is one if the investment is in a "Startup" or "Seed" stage entrepreneurial firm, and zero otherwise. Such firms face a greater extent information asymmetry and uncertainty than firms that are in later stages. Since the decision to invest in early stage firms takes place in the first round of financing, we run our analysis using only first round observations and variables.

In Table 10, we analyze the association between the type of venture capital syndicate (i.e., purely local, purely international, or local-international combination) and the probability of investing in early stage entrepreneurial firms. We find that syndicates composed of purely international venture capitalists are less likely to invest in early stage firms than those composed of purely local or combined local and international venture capitalists. This result is significant not only for entrepreneurial firms in emerging nations but also for those in developed nations. Further, the economic significance of the local VC dummy is higher for entrepreneurial firms in emerging nations than those in developed nations. The presence of a purely local venture capitalist is associated with an 8.2 percentage point increase in the probability of investment in an early stage entrepreneurial firm in emerging nations compared to purely international venture capitalists. This figure is 3.65 percentage points for entrepreneurial firms in developed nations (excluding the US) and 4 percentage points for entrepreneurial firms in developed nations including the US. The economic significance of the local and international VC dummy is also

higher in emerging nations than in developed nations. The presence of local and international venture capitalists is associated with a 6.9 percentage point increase in the probability of early stage investment in emerging nations, and with a 4.12 percentage point increase in developed nations (excluding the US). When we include the US in the developed nation sample, the probability of early stage investment increases by 3.22 percentage points when the syndicate consists of local and international venture capitalists compared to when the syndicate consists of only international venture capitalists. Thus, we can estimate that the presence of purely international syndicates reduces the probability of early stage venture capital investment by 15.1, 7.77, and 7.22 percentage points in emerging nations, developed nations excluding the US, and developed nations including the US, respectively. That is, purely international venture capitalist syndicates are the least likely, and purely local venture capitalist syndicates are the most likely to invest in early stage investments consistent with hypothesis (**H5**). Further, this effect is stronger in emerging nations than in developed nations.

5.8 Staging in International Venture Capital Investments

In this section, we analyze staging patterns in international venture investments. In particular, we analyze the effect of syndicate structure on staging over multiple rounds. We use the number of rounds over which the entrepreneurial firm receives venture capital financing as our measure of staging. Since this is a count variable, we conduct Poisson regressions.

In Table 11, we analyze the extent of staging by syndicates composed of purely local, purely international, or the combination of local and international venture capitalists. We define our independent variables using the first round data to predict the extent of staging. We find that purely local venture capitalists in emerging nations are likely to stage venture investments over fewer rounds than purely international venture capitalists, consistent with hypothesis (**H6**). Economically, entrepreneurial firms with investment by purely local venture capitalists in emerging nations are associated with 7.36% fewer rounds than those with investments made by purely international venture capitalists. This result is consistent with the idea that local venture capitalists do not need to produce information about their investments through staging since they already have better information about the entrepreneurial firm and market in which the firm operates.

5.9 Learning by Local Venture Capitalists and Local and International Venture Capitalist Syndication

In this section, we test the conjecture that local venture capitalists benefit from syndicating with international venture capitalists because they are able to mitigate their lack of venture capital skills and expertise through such collaboration. We test this conjecture by analyzing how the choice between investment by purely local venture capitalists versus local and international venture capital syndication depends on the extent of prior interaction of the local venture capitalist with international venture capitalists. Specifically, if local venture capitalists indeed lack venture capital skills and can learn such skills through multiple interactions with international venture capitalists, then local venture capitalists with a greater extent of prior syndication experience with international venture capitalists will be less likely to co-invest again with international venture capitalists. Our main analysis variable is a dummy variable, called high prior syndication, which is one if the number of rounds in which the local venture capitalists syndicated with international venture capitalists is greater than the sample median, and zero otherwise. We use a dichotomous variable since learning by the local venture capitalist is unlikely to be linear in the number of interactions, but rather a process that takes multiple interactions.

In Table 12, we report logit regression results for the choice in a particular round between purely local and local-international venture capitalist syndication. Thus, the dependent variable is one if the round has both local and international venture capitalists, and zero if it has only local venture capitalists. Thus, the sample excludes purely international venture capital investments. Here, as in section 5.6, the data is analyzed at the round level since syndication choices are made at the round level.[21] We find that the coefficient estimate on the high prior syndication dummy is negative and statistically significant, suggesting that local venture capitalists that have had a greater extent of prior interaction with international venture capitalists are less likely to syndicate (again) with international venture capitalists. This result suggests that a potential benefit of syndicating with international venture capitalists, which is their expertise in venture capital investing, is greater for local venture capitalists that have syndicated to a lesser extent with

[21] The US and UK venture capitalist dummies are dropped in these regressions because of collinearity (they predict the outcome variable perfectly).

international venture capitalists in the past. The results are statistically and economically significant for both emerging and non-US developed nations. In particular, local venture capitalists that have a greater extent of prior syndication experience with international venture capitalists are associated with a 10 percentage point reduction in the probability of syndication with international venture capitalists in emerging nations and with a 19.1 percentage point reduction in the probability of syndication with international venture capitalists in non-US developed nations. As a percentage of the unconditional rate of international syndication (19.4 percent in emerging nations and 33.5 percent in non-US developed nations), the magnitude of decrease in international syndication probability is 52 percent in emerging nations and 57 percent in non-US developed nations. In the sample of developed nations including the US, however, prior syndication experience of local venture capitalists does not seem to affect future syndication probability. This is expected because US venture capitalists (that may be driving the results) are conceivably more sophisticated and less likely to need syndication with international venture capitalists to learn venture capital skills.

We also analyze whether the relation between investment by purely local venture capitalists and successful exit outcomes depends on the extent of prior syndication of local venture capitalists with international venture capitalists. We thus conduct logit regressions with exit outcome as the dependent variable and the high prior syndication dummy, interaction of local VC dummy and high prior syndication dummy, local VC dummy, and other controls as independent variables. The results, reported in Table 13, show a negative coefficient estimate on the local VC dummy in the emerging nations sample, suggesting that investments by purely local venture capitalists underperform those by syndicates of local and international venture capitalists, consistent with prior results. We also find a positive coefficient estimate on the interaction term suggesting that investments made by purely local venture capital syndicates are more likely to be successful if they have had greater syndication experience with international venture capitalists in the past. Further, the sum of coefficient estimates on the high prior syndication dummy and the interaction term, which reflects the difference between the performance of experience-rich local VC-backed firms and non-experience-rich local VC-backed firms is statistically significant.

In summary, the results in this section indicate that the probability that a local venture capitalist will syndicate with international venture capitalists is negatively related to the extent of the local venture capitalist's prior syndication experience with international venture capitalists, consistent with hypothesis (**H7**). Further, local venture capitalists that syndicate with international venture capitalists to a greater extent are also more likely to be successful investing on their own than local venture capitalists that syndicate with international venture capitalists to a lesser extent, consistent with hypothesis (**H8**). Our results are significant for both emerging and developed nations. These results suggests that local venture capitalists that have a lesser extent of prior syndication experience with international venture capitalists may be more disadvantaged in terms of their venture capital skills, and thus need to syndicate with international venture capitalists to overcome this disadvantage.

6. Additional Robustness Checks

We also conduct additional robustness checks of our results. First, we conduct our distance exit regressions by including dummy variables for whether or not the entrepreneurial firm's nation and the international venture capitalist's nation share a border and whether or not the entrepreneurial firm's and the international venture capitalist's respective nations are located on different continents. Our distance results are qualitatively similar even after controlling for these variables. This alleviates concerns that our distance results may be driven not by geographic distance between the venture capitalist and the entrepreneurial firm but by other geographic characteristics such as sharing of a border or being located on the same continent. Another potential concern could be that nation to nation distance measures may introduce additional noise and potential biases into our tests. Thus, we conduct our distance analysis with a city level distance measure and find results similar to those above. [22]

It may also be argued that our results on the efficacy of syndicates of international and local venture capitalists in creating value for entrepreneurial firms are driven primarily by the nature of the lead venture capitalist (i.e., whether the lead venture capitalist is local or international). In unreported tests, we do not find that the lead VC designation has any significant impact on the effect of syndication type on exit. Finally, in unreported tests, we also

[22] Please see the appendix for detailed tables and discussions for these analyses.

run our analysis after excluding the internet bubble period (1998 to 2000), and find that our results are statistically and economically consistent with the results that we report in the paper. Thus, our results are not driven by internet bubble period investments made by venture capitalists.[23]

7. Conclusion

We analyze the geography of international venture capital investments, and in particular, the effectiveness of international versus local venture capitalists in adding value to entrepreneurial firms. Our findings are as follows. Venture capital investments by syndicates composed of international and local venture capitalists are more successful than venture capital investments by syndicates composed of purely international or purely local venture capitalists. This result holds even after controlling for the potential endogenous selection of entrepreneurial firms by international venture capitalists. Further, greater distance between the country of the international venture capitalist and that of the entrepreneurial firm is associated with a lower probability of success. Farther away international venture capitalists are more likely to syndicate with local venture capitalists, potentially to mitigate their deficiencies related to the lack of knowledge of local markets and higher monitoring costs. Consistent with this, we find that syndication with local venture capitalists mitigates the negative association between international venture capitalist distance and the successful outcome of the venture capital investment. However, the benefit of syndicating with local venture capitalists increases at a lower rate as the distance between the international venture capitalists and the entrepreneurial firm increases. The above results are stronger for venture capital investments in emerging nations than for those in developed nations, which is consistent with the notion that the difficulties in monitoring and the deficiencies in local knowledge faced by international venture capitalists are more important in emerging markets.

We find that syndicates composed of purely international venture capitalists are less likely to invest in early stage firms compared to syndicates composed either of purely local or a combination of local and international venture capitalists. Early stage investments are characterized by a greater extent of information asymmetry and uncertainty and thus can

[23] The results of these analyses are available from the authors upon request.

exacerbate the disadvantages faced by international venture capitalists due to their lack of proximity to the entrepreneurial firm. Moreover, purely local venture capitalists are associated with a lower extent of staging, consistent with the notion that purely local venture capitalists face lower monitoring costs due to their proximity to the entrepreneurial firm.

Finally, we find that local venture capitalists that have a greater extent of prior syndication experience with international venture capitalists have higher success rates (when they invest alone) than local venture capitalists that have a lesser extent of syndication experience with international venture capitalists. Further, local venture capitalists that have a greater extent of prior syndication experience with international venture capitalists are less likely to syndicate again with international venture capitalists. These results suggest that an important motivation for local venture capitalists to syndicate with international venture capitalists is to overcome their lack of venture capital investing skills.

Overall, our results indicate that the greater expertise of international venture capitalists and the superior local knowledge and lower monitoring costs of local venture capitalists are both important in obtaining successful outcomes and backing by syndicates consisting of the two kinds of venture capitalists enable entrepreneurial firms to benefit from their strengths.

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Table 1: Summary Statistics of Venture Capital Backed Firms

This table reports summary statistics for venture capital backed entrepreneurial firms in emerging and developed nations. *Local VC dummy* is a dummy variable which equals one if all venture capitalists investing in the firm are located in the same nation as the entrepreneurial firm, and zero otherwise; *Local and international VC dummy* is a dummy variable which equals one if at least one venture capitalist investing in the entrepreneurial firm is located in the same country as the entrepreneurial firm and at least one venture capitalist is located outside the entrepreneurial firm's country, and zero otherwise; *US VC Dummy* is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy* is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. *Average Intl. VC distance* is the average distance, in thousands of miles, between the entrepreneurial firm's nation and the nation of each international venture capitalist investing in the entrepreneurial firm; *VC investment amount* is the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs* is the total number of venture capitalists that invest in the project; *VC age* is the average age of all venture capitalists investing in an entrepreneurial firm; *Number of rounds* is the number of the rounds of venture capital.

		Emerging Nations	Developed Nations	Difference
Local VC dummy	Mean	0.463	0.706	-0.242***
	Observations	1891	28180	
Local and international VC dummy	Mean	0.179	0.216	-0.036***
	Observations	1891	28180	
US VC dummy	Mean	0.390	0.813	-0.423***
	Observations	1891	28180	
UK VC dummy	Mean	0.037	0.098	-0.061***
	Observations	1891	28180	
Average Intl. VC distance	Mean	2.85	1.22	1.630***
(thousands of miles)	Median	0.729	0.000	0.729***
	Observations	1891	28180	
VC investment amount	Mean	12281.23	19881.70	-7600.47***
(thousands US$)	Median	2340.00	5999	-3659.00***
	Observations	1891	28180	
Number of VCs	Mean	1.617	3.278	-1.662***
	Median	1.000	2.000	-1.000***
	Observations	1891	28180	
VC age	Mean	6.561	9.211	-2.650***
	Median	5.500	9.000	-3.500***
	Observations	1891	28180	
Number of rounds	Mean	1.487	2.624	-1.137***
	Median	1.000	2.000	-1.000***
	Observations	1891	28180	

Table 2: Effect of International VC Syndication on the Probability of Exit

This table reports the results of logit estimation with a dummy as the dependent variable, which equals one if the entrepreneurial firm has a successful exit (i.e., IPO or M&A) and zero in the case of no exit. The independent variables are: *Local VC dummy*, which is a dummy variable which equals one if all venture capitalists investing in the firm are located in the same nation as the entrepreneurial firm, and zero otherwise; *Local and international VC dummy*, which is a dummy variable which equals one if at least one venture capitalist investing in the entrepreneurial firm is located in the same country as the entrepreneurial firm and at least one venture capitalist is located outside the entrepreneurial firm's country, and zero otherwise; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Number of rounds*, which is the number of the rounds of venture capital that the entrepreneurial firm receives; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
Local VC dummy	0.068	-0.156	0.084
	[0.093]	[0.138]	[0.092]
Local and international VC dummy	0.549***	0.174	0.008
	[0.130]	[0.144]	[0.124]
Firm country GDP	-2.085***	-0.390	-0.522***
	[0.388]	[0.692]	[0.166]
VC investment amount	0.293***	0.237***	0.308***
	[0.040]	[0.029]	[0.030]
Number of VCs	0.024	0.057**	0.040***
	[0.035]	[0.028]	[0.006]
VC age	0.000	-0.003	-0.005
	[0.032]	[0.017]	[0.006]
Number of rounds	0.001	-0.107***	-0.071***
	[0.030]	[0.024]	[0.014]
Stock market development	0.097	0.034	0.077**
	[0.352]	[0.127]	[0.035]
US VC dummy	-0.030	-0.064	0.136***
	[0.211]	[0.119]	[0.041]
UK VC dummy	0.495**	0.320***	0.203***
	[0.231]	[0.057]	[0.072]
Observations	1,872	9,065	28,157
Pseudo R-sq	0.127	0.160	0.168

Table 3: Effect of International VC Syndication on the Probability of Exit, Robustness checks

This table reports emerging nation sample results for 3 different regression specifications, multinomial logit estimation with the type of Exit (i.e., IPO, or M&A, with no exit as the base case) as the dependent variable (Columns 1 & 2), logit estimation with a successful IPO dummy as the dependent variable (Column 3), and logit estimation with successful exit (i.e., IPO or M&A) as the dependent variable and utilizing financing round data (Column 4). All independent variables are measured at the consolidated round level, with the exception of Column (4) where they are measured for each individual financing round. The independent variables are: *Local VC dummy*, which is a dummy variable which equals one if all venture capitalists investing in the firm are located in the same nation as the entrepreneurial firm, and zero otherwise; *Local and international VC dummy*, which is a dummy variable which equals one if at least one venture capitalist investing in the entrepreneurial firm is located in the same country as the entrepreneurial firm and at least one venture capitalist is located outside the entrepreneurial firm's country, and zero otherwise; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Number of rounds*, which is the number of the rounds of venture capital that the entrepreneurial firm receives; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

Effect of syndicate structure on exit probability (Emerging nations sample)		
	Logit, IPO exits	Logit, Round level data
	(1)	(2)
	IPO	Exit
Local VC dummy	0.153	-0.041
	[0.155]	[0.128]
Local and international VC dummy	0.816***	0.240**
	[0.176]	[0.115]
Firm country GDP	-2.412***	-0.914***
	[0.426]	[0.303]
VC investment amount	0.285***	0.334***
	[0.047]	[0.055]
Number of VCs	-0.036	0.010
	[0.038]	[0.038]
VC age	-0.010	0.000
	[0.037]	[0.032]
Number of rounds	0.109***	
	[0.037]	
Round number		0.060
		[0.058]
Stock market development	2.172***	-0.460
	[0.472]	[0.321]
US VC dummy	-0.111	-0.045
	[0.296]	[0.261]
UK VC dummy	0.538**	0.437
	[0.210]	[0.362]
Observations	1,872	2,533
Pseudo R-sq	0.156	0.125

Table 4: The Causal Effect of International Venture Capitalist Syndication on the Probability of Exit: IV analysis

This table reports the results of bivariate probit estimations for VC-backed firms in emerging nations. The dependent variables in Columns (1) and (2) are a dummy variable for successful exit (i.e., IPO or M&A) and a dummy for at least having one international venture capitalist in the syndication (*Intl. VC backing*), respectively. The dependent variables in Columns (3) and (4) are a dummy variable for successful exit (i.e., IPO or M&A) and a dummy for co-syndication of local and international venture capitalist (*Local and intl. VC syndication*), respectively. The independent variables are defined as follows: *Low foreign investment or Ownership regulation*, this is a dummy variable that is one if country has higher than median rating for regulatory controls limiting international; *Low capital controls*, this is a dummy variable that is one if country has higher than the median rating for capital controls on international investment; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Number of rounds*, which is the number of the rounds of venture capital that the entrepreneurial firm receives; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the first round of investment, firm financing stage, the firm's industry, and the firm's nation. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	The Causal Effect of International Venture Capitalists on Exit Rates		*The Causal Effect of Local and International Venture Capitalist Syndication on Exit*	
	(1)	(2)	(3)	(4)
	Intl. VC backing	Exit	Local & intl. VC syndication	Exit
Intl. VC backing		0.372***		
		[0.118]		
Local & intl. VC Syndication				0.988**
				[0.466]
Low foreign inv. or Own. regulation	0.351***		-0.387**	
	[0.126]		[0.173]	
Low capital controls	0.474***		-0.179	
	[0.163]		[0.373]	
Firm country GDP	1.006***	-1.343***	0.748	-1.536***
	[0.377]	[0.207]	[0.479]	[0.293]
VC investment amount	0.206***	0.143***	-0.094***	0.202***
	[0.053]	[0.017]	[0.034]	[0.033]
Number of VCs	1.274***	0.021	0.384***	-0.079
	[0.087]	[0.021]	[0.105]	[0.068]
VC age	0.081***	-0.009	-0.036	-0.000
	[0.008]	[0.019]	[0.025]	[0.027]
Number of rounds	-0.203***	0.015	0.076***	0.602*
	[0.074]	[0.026]	[0.028]	[0.365]
Stock market development	0.415	-0.014	-0.798***	-0.015
	[0.427]	[0.228]	[0.247]	[0.019]
US VC dummy		0.005	0.698***	-0.009
		[0.118]	[0.188]	[0.125]
UK VC dummy		0.240	0.091	0.247*
		[0.156]	[0.144]	[0.148]
Observations	1,747	1,747	971	971
Prob. > Chi sq.	0.000***		0.000***	

Table 5: The Causal Effect of International Venture Capitalist Syndication on the Probability of Exit: Natural Experiment

This table reports the results of successful exit dummy (i.e., IPO or M&A) logit regression in panel A and international venture capitalist participation logit regression in panel B. The sample is restricted to the set of emerging nation firms receiving venture capital financing in the six months before and seven months after terror attacks that have at least 50 casualties in major cities in India within our sample period. The independent variables are: *Post-attack period*India,* which is the interaction of the variable *Post-attack period* and a dummy variable for entrepreneurial firms located India; *Post-attack period,* which is a dummy variable that is one for entrepreneurial firms whose first round of VC financing lies in the time period of six months starting from 30 days after the terror attack, and zero otherwise; *Change in number of deals*, is the difference in the number of venture capital deals in a country in the post-attack period and the number of venture capital deals in the country in the pre-attack period; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Number of rounds*, which is the number of the rounds of venture capital that the entrepreneurial firm receives; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the first round of investment, firm financing stage, the firm's industry, and the firm's nation. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Exit regression relating Indian terror attacks at the time of investment to eventual exit probability

	Exit
Post-attack period*India	-0.784***
	[0.103]
Post-attack period	-0.079
	[0.096]
Change in number of deals	0.000
	[0.000]
Firm country GDP	-1.079***
	[0.248]
VC investment amount	0.282***
	[0.030]
Number of VCs	0.023
	[0.015]
VC age	-0.01
	[0.011]
Number of rounds	-0.117***
	[0.033]
Stock market development	0.192***
	[0.071]
US VC dummy	0.269*
	[0.154]
UK VC dummy	-0.019
	[0.153]
Observations	4,818
Pseudo R-sq	0.183

Panel B: The effect of Indian terror attacks on International VC participation in India

	Int. VC Participation
Post-attack period*India	-0.779***
	[0.285]
Post-attack period	0.072
	[0.092]
Change in number of deals	0.000***
	[0.000]
Firm country GDP	-0.345**
	[0.168]
VC investment amount	0.213***
	[0.036]
Number of VCs	0.289***
	[0.012]
VC age	-0.012
	[0.008]
Number of rounds	-0.026*
	[0.014]
Stock market development	0.124**
	[0.055]
US VC dummy	4.575***
	[1.680]
UK VC dummy	3.000**
	[1.283]
Observations	4,818
Pseudo R-sq	0.470

Table 6: Effect of International VC Syndication on Post-IPO Operating Performance

This table reports the results of an OLS Regression with the post-IPO operating income to assets as the dependent variable. The independent variables are: *Local VC dummy,* which is a dummy variable which equals one if all venture capitalists investing in the firm are located in the same nation as the entrepreneurial firm, and zero otherwise; *Local and international VC dummy,* which is a dummy variable which equals one if at least one venture capitalist investing in the entrepreneurial firm is located in the same country as the entrepreneurial firm and at least one venture capitalist is located outside the entrepreneurial firm's country, and zero otherwise; *Firm country GDP,* which is the one year lagged value of GDP of the entrepreneurial firm's country in trillions of dollars; *Assets*, which is the one year lagged value of the log of the US dollar amount of assets in the IPO year; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age,* which is the average age of all venture capitalists investing in an entrepreneurial firm; *Number of rounds*, which is the number of the rounds of venture capital that the entrepreneurial firm receives; *Stock market development,* which is the one year lagged value of the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy,* which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, number of years from IPO year, IPO year, firm financing stage, the firm's minor industry classification group, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1)	(2)	(3)
	Emerging Nations	Developed Nations (excl. US)	Developed Nations (incl. US)
Local VC dummy	-0.136	0.090	0.125**
	[0.150]	[0.064]	[0.056]
Local and international VC dummy	0.174*	0.100*	0.091*
	[0.089]	[0.060]	[0.055]
Firm country GDP	0.438***	-0.534	0.036
	[0.153]	[0.460]	[0.045]
Assets	0.031	0.078***	0.120***
	[0.020]	[0.016]	[0.014]
Number of VCs	0.122***	-0.010	0.001
	[0.040]	[0.009]	[0.005]
VC age	-0.013**	0.004	0.003
	[0.006]	[0.007]	[0.005]
Number of rounds	0.044	-0.024	-0.023***
	[0.028]	[0.020]	[0.008]
Stock market development	-0.095	0.042	-0.036***
	[0.090]	[0.065]	[0.011]
US VC dummy	-0.398**	-0.127*	-0.160***
	[0.191]	[0.069]	[0.054]
UK VC dummy	0.396***	0.039	-0.009
	[0.144]	[0.065]	[0.045]
Observations	157	561	1,699
Adjusted R-sq	0.505	0.462	0.349

Table 7: Effect of International Venture Capitalist Distance on the Probability of Exit

This table reports the results of logit estimation with a dummy as the dependent variable, which equals one if the entrepreneurial firm has a successful exit (i.e., IPO or M&A) and zero in the case of no exit. The independent variables are: *International VC distance*, which is the log of one plus the average distance, in thousands of miles, between the entrepreneurial firm's nation and the nation of each international venture capitalist investing in the entrepreneurial firm; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Number of rounds*, which is the number of the rounds of venture capital that the entrepreneurial firm receives; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
International VC distance	-0.230**	-0.014	-0.074***
	[0.093]	[0.051]	[0.014]
Firm country GDP	-2.019***	-0.360	-0.522***
	[0.381]	[0.686]	[0.164]
VC investment amount	0.293***	0.239***	0.307***
	[0.040]	[0.031]	[0.031]
Number of VCs	0.068*	0.069**	0.042***
	[0.035]	[0.031]	[0.008]
VC age	-0.003	-0.004	-0.005
	[0.032]	[0.015]	[0.005]
Number of rounds	0.009	-0.105***	-0.071***
	[0.029]	[0.025]	[0.014]
Stock market development	0.055	0.027	0.077**
	[0.359]	[0.127]	[0.035]
US VC dummy	0.453	0.162	0.164***
	[0.320]	[0.108]	[0.044]
UK VC dummy	0.677**	0.378***	0.211**
	[0.279]	[0.058]	[0.083]
Observations	1,872	9,065	28,157
Pseudo R-sq	0.124	0.160	0.168

Table 8: Effect of International Venture Capitalist Distance on the Probability of Syndication with Local Venture Capitalists

This table reports the results of a logit estimation with a dummy as the dependent variable, which equals one if the syndicate consists of international and local venture capitalists and zero if the syndicate consists of purely international venture capitalists. Each observation represents a unique firm round. The independent variables are: *International VC distance*, which is the log of one plus the average distance in thousands of miles between the entrepreneurial firm's nation and the nation of each international venture capitalist investing in the entrepreneurial firm; *International VC distance*^{2}, which is square of *International VC distance*; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
International VC distance	1.811***	1.041	5.626**
	[0.511]	[0.949]	[2.384]
International VC distance^2	-0.270*	0.006	-1.680*
	[0.165]	[0.314]	[0.911]
Firm country GDP	0.314	-0.043	-0.173
	[1.223]	[0.911]	[0.152]
VC investment amount	-0.265***	-0.226***	-0.061
	[0.049]	[0.037]	[0.073]
Number of VCs	1.094***	1.400***	0.652***
	[0.385]	[0.099]	[0.171]
VC age	-0.071**	-0.086***	-0.121***
	[0.033]	[0.024]	[0.022]
Round number	-0.133	-0.062	-0.035**
	[0.113]	[0.047]	[0.017]
Stock market development	-0.451	0.153	-0.056*
	[0.834]	[0.228]	[0.033]
US VC dummy	0.719*	1.078*	2.369
	[0.438]	[0.591]	[1.924]
UK VC dummy	0.222	1.210	1.771*
	[0.402]	[1.158]	[1.031]
Observations	1,390	8,635	22,204
Pseudo R-sq	0.329	0.458	0.580

Table 9: Effect of Local Syndication on the Relation between International Venture Capitalist Distance and the Probability of Exit

This table reports the results of logit estimation with exit success (i.e., IPO or M&A) as the dependent variable. The independent variables are: *International VC distance*, which is the log of one plus the average distance in thousands of miles between the entrepreneurial firm's nation and the nation of each international venture capitalist investing in the entrepreneurial firm; *Local and international VC dummy*, a variable which equals one if the syndicate consists of international and local venture capitalists and zero if the syndicate consists of purely international venture capitalists; *Intl. VC distance*Local and Intl. VC dummy*, which is *International VC distance* interacted with *Local and international VC dummy*; *International VC distance*^{2}, which is square of *International VC distance*; *Intl. VC distance*^{2}**Local and Intl. VC dummy*, which is the interaction of *International VC distance*^{2} and *Local and international VC dummy*; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
International VC distance	-0.795**	-0.349**	-0.017
	[0.395]	[0.164]	[0.104]
Local and international VC dummy	-0.324	-0.104	-0.071
	[0.547]	[0.094]	[0.055]
Intl. VC distance*Local and Intl. VC dummy	1.952*	-0.309	-0.065
	[1.007]	[0.271]	[0.240]
International VC distance^2	0.226	-0.014	-0.088
	[0.184]	[0.081]	[0.056]
Intl. VC distance^2*Local and Intl. VC dummy	-0.899**	0.213**	0.096
	[0.400]	[0.097]	[0.104]
Firm country GDP	-0.440	0.447	-0.184**
	[0.330]	[0.933]	[0.085]
VC investment amount	0.365***	0.221***	0.206***
	[0.053]	[0.027]	[0.018]
Number of VCs	-0.024	0.065**	0.019***
	[0.040]	[0.031]	[0.007]
VC age	-0.016	0.004	0.006
	[0.029]	[0.014]	[0.005]
Round number	0.026	-0.008	0.015
	[0.050]	[0.042]	[0.013]
Stock market development	0.057	0.170**	0.002
	[0.490]	[0.081]	[0.021]
US VC dummy	0.398	0.330**	0.075
	[0.267]	[0.152]	[0.086]
UK VC dummy	0.491	0.339***	0.163
	[0.357]	[0.084]	[0.100]
Observations	1,432	8,635	22,204
Pseudo R-sq	0.141	0.135	0.145

Table 10: Effect of International VC Syndication on the Financing of an Early Stage Entrepreneurial Firm

This table reports the results of logit estimation with the early stage dummy as the dependent variable, which equals one if entrepreneurial firm is seed or startup level firm in its first round of financing, and zero otherwise. The independent variables (based on first round data) are: *Local VC dummy*, which is a dummy variable which equals one if all venture capitalists investing in the firm are located in the same nation as the entrepreneurial firm, and zero otherwise; *Local and international VC dummy*, which is a dummy variable which equals one if at least one venture capitalist investing in the entrepreneurial firm is located in the same country as the entrepreneurial firm and at least one venture capitalist is located outside the entrepreneurial firm's country, and zero otherwise; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
Local VC dummy	0.622***	0.280**	0.268***
	[0.124]	[0.133]	[0.080]
Local and international VC dummy	0.480*	0.303***	0.202
	[0.271]	[0.111]	[0.124]
Firm country GDP	1.080	-0.481	0.037
	[0.918]	[0.836]	[0.084]
VC investment amount	-0.406***	-0.363***	-0.446***
	[0.039]	[0.048]	[0.032]
Number of VCs	0.023	0.036	0.133***
	[0.130]	[0.044]	[0.023]
VC age	0.008	-0.040**	-0.003
	[0.023]	[0.018]	[0.011]
Stock market development	-0.006	-0.011	-0.097***
	[0.867]	[0.216]	[0.033]
US VC dummy	0.454**	0.409*	0.157
	[0.224]	[0.214]	[0.106]
UK VC dummy	-0.458	-0.215	-0.161
	[0.628]	[0.135]	[0.128]
Observations	1,816	9,075	28,167
Pseudo R-sq	0.164	0.124	0.108

Table 11: Effect of International VC Syndication on the Number of Financing Rounds

This table reports the results of Poisson regressions with the total number of VC financing rounds as the dependent variable. The independent variables (based on first round data) are: *Local VC dummy*, which is a dummy variable which equals one if all venture capitalists investing in the firm are located in the same nation as the entrepreneurial firm, and zero otherwise; *Local and international VC dummy*, which is a dummy variable which equals one if at least one venture capitalist investing in the entrepreneurial firm is located in the same country as the entrepreneurial firm and at least one venture capitalist is located outside the entrepreneurial firm's country, and zero otherwise; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
Local VC dummy	-0.071***	-0.075	-0.020
	[0.026]	[0.046]	[0.026]
Local and international VC dummy	-0.103	-0.042	-0.053
	[0.068]	[0.041]	[0.033]
Firm country GDP	0.392***	0.079	0.051**
	[0.075]	[0.168]	[0.026]
VC investment amount	0.014*	0.045***	0.001
	[0.008]	[0.013]	[0.014]
Number of VCs	0.053*	0.049***	0.050***
	[0.028]	[0.010]	[0.004]
VC age	0.007**	0.010***	0.010***
	[0.003]	[0.002]	[0.001]
Stock market development	-0.194**	0.001	-0.028***
	[0.096]	[0.065]	[0.008]
US VC dummy	0.064	-0.087***	0.021
	[0.040]	[0.031]	[0.026]
UK VC dummy	0.070	-0.011	0.017
	[0.115]	[0.041]	[0.032]
Observations	1,891	9,088	28,180
Prob. > Chi sq.	0.000***	0.000***	0.000***

Table 12: Effect of Local Venture Capitalists' Prior International Syndication Experience on the Probability of Syndication with International Venture Capitalists

This table reports the results of logit estimations where the dependent variable equals one if the syndicate is composed of local and international venture capitalists and zero if the syndicate is composed purely of local venture capitalists. Each observation represents a unique firm round. The independent variables are: *High prior syndication dummy*, which equals one if the prior number of rounds over which the local venture capitalist has syndicated with international venture capitalists is greater than the sample median, and zero otherwise; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
High prior syndication dummy	-1.335***	-1.219***	0.255
	[0.504]	[0.136]	[0.442]
Firm country GDP	1.736	1.572	0.084
	[1.333]	[1.217]	[0.158]
VC investment amount	0.615***	0.612***	0.547***
	[0.085]	[0.062]	[0.030]
VC age	0.324***	0.261***	0.001
	[0.071]	[0.037]	[0.086]
Round number	-0.147*	0.016	-0.034***
	[0.085]	[0.055]	[0.009]
Stock market development	2.365	-0.730***	-0.070**
	[1.528]	[0.233]	[0.033]
Observations	1,414	9,669	62,811
Pseudo R-sq	0.375	0.338	0.187

Table 13: The Effect of Local Venture Capitalists' Prior International Syndication Experience on the Probability of Exit

This table reports the results of logit estimation with exit success (i.e., IPO or M&A) as the dependent variable. The independent variables are: *Local VC dummy*, which is a dummy variable which equals one if all venture capitalist investing in the entrepreneurial firm are located in the same country as the entrepreneurial firm, and zero otherwise; *High prior syndication dummy*, which equals one if the prior number of rounds over which the local venture capitalist has syndicated with international venture capitalists is greater than the sample median, and zero otherwise *Local VC dummy***High prior syndication*, which is the interaction of *Local VC dummy* and *High prior syndication dummy*; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
Local VC dummy	-0.668**	-0.252	0.006
	[0.317]	[0.168]	[0.058]
High prior syndication dummy	-0.044	-0.123	-0.031
	[0.224]	[0.128]	[0.060]
Local VC*High prior syndication	0.841***	0.393**	0.123*
	[0.161]	[0.162]	[0.067]
Firm country GDP	-2.128***	-0.415	-0.109
	[0.290]	[0.953]	[0.076]
VC investment amount	0.350***	0.278***	0.258***
	[0.085]	[0.036]	[0.006]
Number of VCs	-0.055	0.033	0.027***
	[0.114]	[0.030]	[0.002]
VC age	0.005	0.011	0.006**
	[0.051]	[0.010]	[0.003]
Round number	0.110	0.012	0.013**
	[0.069]	[0.043]	[0.006]
Stock market development	-2.007**	-0.027	0.029
	[0.876]	[0.253]	[0.022]
UK VC dummy	0.495	0.140	0.103*
	[0.473]	[0.132]	[0.059]
US VC dummy	-0.199	-0.077	0.123***
	[0.517]	[0.189]	[0.042]
Observations	1,652	10,815	64,622
Pseudo R-sq	0.185	0.158	0.156

Appendix (Not to be published)
Additional tests and results

1. Country, Year, and Industry Distributions of Venture Capital Investments

Panel A of Table A reports the distribution of countries of entrepreneurial firms in our sample that receive venture capital financing. The distribution is reported separately for entrepreneurial firms from emerging and developed nations. Nations are classified as emerging or developed using the World Bank classification of high income nations based on the 2008 real GNI per capita.[1] The statistics in Panel A of Table A indicate that while the majority of venture capital backed entrepreneurial firms in our sample are in the US, there are a significant number of venture capital backed entrepreneurial firms in other countries. Not surprisingly, the BRIC countries (Brazil, Russia, India, and China) constitute the largest share of venture capital backed entrepreneurial firms in emerging nations. India and China have the highest levels of venture capital investment with roughly 46 percent and 21 percent of the total emerging nation venture capital investments, respectively. Other emerging nations with significant venture capital investments are Poland, Thailand, and Malaysia. Among developed nations, the US is the largest venture capital market followed by UK (5.84 percent of all developed nation venture capital investments), South Korea (4.99 percent), France (2.96 percent), Canada (2.8 percent), and Australia (2.17 percent). Panel B of Table A displays the distribution of the nations of venture capitalists, which is reported separately for entrepreneurial firm investments in emerging and developed nations. US venture capitalists are the most frequent investors in both emerging and developed nations: they invest in 69.02 percent of entrepreneurial firms in emerging nations and in 42.9 percent of entrepreneurial firms in developed nations. The second most frequent investors in developed nations are from the UK (12.69 percent) while the second most frequent investors in emerging nations are from Hong Kong (8.33 percent).

Panel A of Table B reports the yearly distribution of entrepreneurial firms receiving first round venture capital financing in the various emerging and developed nations in our sample. The figures in this panel indicate the following. First, there is considerable disparity in the level of investments in developing and emerging nations. In 2008, 1563 entrepreneurial firms in

[1] The World Bank classifies economies according to the GNI per capita, calculated using the World Bank Atlas method. According to this definition, high income nations are those that had a 2008 GNI per capita of $11,906 or more. We classify all high income nations (as defined above) as developed nations and non-high income countries as emerging nations.

developed nations received venture capital financing compared to just 116 entrepreneurial firms in emerging nations. Second, the rate of growth in venture capital investments in emerging nations is considerably higher compared to that in developed nations. In particular, the growth of venture capital investments in emerging nations over the time period from 1998 to 2008 is 59 percent compared to the almost 2 percent *decline* for developed nations over the same time period. Given the differences in the level of venture capital activity between emerging and developed nations, the higher growth rate in emerging nations is expected. Overall, these patterns suggest that there may be significant unsatisfied demand in emerging nations for venture capital financing and venture capital in these nations may have significant room to grow. Panel B of Table B reports the industry distribution of entrepreneurial firms at the time of their first round of venture capital financing within our sample. We see a large extent of venture investment in computer software and services and internet specific industries in both emerging and developed nations. However, firms in the biotechnology industry form a smaller fraction of the venture-backed firms in emerging nations than in developed nations.

2. The Effect of Cultural Distance between the International Venture Capitalists' Country and the Entrepreneurial Firm's Country.

Do our results on the negative association between geographic distance and exit probability reflect the effect of cultural differences between the country of the venture capitalist and that of the entrepreneurial firm? To address this question, we introduce additional variables in our exit regressions to control for cultural differences between the country of the venture capitalist and that of the entrepreneurial firm. Specifically, we obtain data on whether the major religion, language, and legal origin (civil or common law) are different for the entrepreneurial firm's country and the venture capitalists' country. Data on religion, language, and legal origin is obtained from the CIA World Factbook. Using this data, we define dummy variables that equal one if these culture proxies (i.e., religion, language, and legal origin) are different for the entrepreneurial firm's country from the country of at least one international venture capitalist that backs the firm.

In addition, we use the average Hofstede cultural distance measure. This measure has been used in the Management, International Business, and Psychology literatures extensively (see, e.g., Kirkman, Lowe and Gibson (2006) and Chakrabarti, Gupta-Mukherjee and Jayaraman

(2009)). Researchers have used the Hofstede measures to calibrate the different dimensions of a society's culture and then used the difference in these measures to capture the idea of "cultural distance." This measure, based on Hofstede (1980), uses four dimensions of cultural differences between countries: *Power distance* focuses on the degree of equality, or inequality, between people in the country's society. Societies with strict hierarchies (e.g., Japan) exhibit greater power distance. *Individualism* refers to the extent the society reinforces the individual versus the collective achievement and interpersonal relationships. The US, for instance, is more individualistic than Italy. *Masculinity* reflects the degree to which the society reinforces, or does not reinforce, the traditional masculine-work role model of male achievement, control, and power. If a society rewards assertiveness and aggressiveness more, it is a more masculine society. It also relates to the strictness of the gender role. Japan, for example, is one of the most "masculine" countries in this regard while Scandinavian countries are the least "masculine." *Uncertainty Avoidance* captures the society's attitude towards uncertainty and ambiguity (i.e., unstructured situations). The cultural distance measure is then calculated as:

$$\text{Cultural distance} = \frac{\sqrt{\sum_{i=1}^{4}(C_{VC,i}-C_{Firm,i})2}}{4}$$, where

$C_{VC,i}$ is the cultural score on dimension i for the VC's country, and $C_{Firm,\ i}$ is the cultural score on dimension i for the entrepreneurial firm's country. The international VC cultural distance is thus measured as the average cultural distance of all international venture capitalists investing in the firm.

In Table C, we report the results of our geographic distance logit analysis after controlling for cultural and legal differences between the country of the entrepreneurial firm and that of the venture capitalist. Since cultural distance and geographic distance are zero for entrepreneurial firms backed by only local venture capitalists, there is a high level of correlation between these variables when we use the entire sample. Therefore, we restrict our attention to the set of entrepreneurial firms that have at least one international venture capitalist backing them. We find that our international VC distance measure has a statistically significant negative coefficient estimate, consistent with our earlier results. This is true for both the emerging nations and the developed nations with the US samples. The different religion dummy has inconsistent coefficient estimates across different types of nations: venture capitalists' from a country having a different religion than that of the entrepreneurial firm are associated with a positive effect on

exits in emerging nations and a negative effect on exits in developed nations. Language differences are negatively associated with the probability of exit in developed nations (including the US) while legal differences are positively associated with the probability of exit in developed nations (excluding the US). Further, the cultural distance variable based on Hofstede cultural characteristics has a negative relation with the probability of exit in developed nations (excluding the US). This result is opposite to that found by Hazarika, Nahata and Tandon (2009), possibly because we control for entrepreneurial country fixed effects, whereas they do not. However, even after controlling for these culture measures, the negative effect of geographic distance on exit probability in emerging nations continues to exist.

3. Robustness Checks

3.1 Other Geographic Proximity Effects

One possible concern that our results may be driven not by distance between the venture capitalist and the entrepreneurial firm but by other geographic characteristics such as sharing of a border or being located on the same continent. In particular, the distance results that we find may reflect the possibility that countries which are located in the same continent or share borders will have greater levels of familiarity with each other. Thus, investments made by international venture capitalists in countries that share a border with their country or are in the same continent as their country may have a greater probability of investment success. We address this issue in our analysis in Table D. We redo our distance analysis by including dummy variables for whether or not the entrepreneurial firm's nation and the international venture capitalist's nation share a border and whether or not the entrepreneurial firm's and the international venture capitalist's respective nations are located on different continents. These two dummy variables are then averaged across all investing international venture capitalists. If our distance results are solely driven by one or both of these variables we would expect that the negative relationship between geographic distance and investment success will disappear once we control for them. In Table D, we find that the addition of these controls for shared borders and different continents does not diminish the negative association between the international venture capitalist distance and the propensity of the entrepreneurial firm to succeed. We also find a positive association between exit probability in developed nations and the share a border dummy. Further, the different continent variable is positively related to exit probability in developed nations. We find that this result is driven by US venture capitalists. In unreported results, we find that the positive

effect of the different continent variable disappears once we remove US venture capitalist backed entrepreneurial firms in the developed nations sample.

3.2 City to City Distance

One potential concern could be that nation to nation distance measures may introduce additional noise and potential biases into our tests. As a robustness check, we conduct our distance analysis with a city level distance measure. We use city location data from VentureXpert (where available) to calculate a city level distance measure between international venture capitalist and the entrepreneurial firm. The results of these tests are reported in Table E. These results are largely consistent with our prior tests, i.e., the negative association between international venture capitalist distance and the probability of exit in emerging nations exists even if we use a city level distance measure.

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Table A: Venture Capital Investments in Emerging and Developed Nations

This table reports the distribution of venture capital financed firms by the venture capital backed entrepreneurial firm's nation (Panel A) and by the investing venture capitalist's nation (Panel B). The frequencies and respective percentages are tabulated separately for emerging and developed nations. We categorize emerging nations as all non-high income nations and developed nations as all high income nations, as classified by the World Bank. The World Bank classifies economies according to the GNI per capita, calculated using the World Bank Atlas method. According to this definition, high income nations are those that had a 2008 GNI per capita of $11,906 or more.

Panel A: Venture-Backed Entrepreneurial Firm's Nation

Emerging Nations	Frequency	Percentage
Argentina	15	0.79
Brazil	154	8.14
China	400	21.15
India	878	46.43
Indonesia	22	1.16
Malaysia	79	4.18
Mexico	14	0.74
Nigeria	12	0.63
Philippines	20	1.06
Poland	81	4.28
Romania	34	1.80
Russia	55	2.91
South Africa	39	2.06
Thailand	76	4.02
Vietnam	12	0.63

Developed Nations	Frequency	Percentage
Australia	611	2.17
Austria	71	0.25
Belgium	180	0.64
Canada	790	2.80
Croatia	10	0.04
Czech Republic	31	0.11
Denmark	151	0.54
Finland	166	0.59
France	833	2.96
Germany	543	1.93
Greece	10	0.04
Hong Kong	138	0.49
Hungary	58	0.21
Iceland	19	0.07
Ireland	188	0.67
Israel	389	1.38
Italy	106	0.38
Japan	433	1.54
Luxembourg	18	0.06
Netherlands	143	0.51
New Zealand	72	0.26
Norway	101	0.31
Portugal	86	0.31
Singapore	168	0.60
South Korea	1,407	4.99
Spain	271	0.96
Sweden	317	1.12
Switzerland	133	0.47
United Kingdom	1,645	5.84
United States	19,092	67.75

Panel B: Venture Capitalist's Nation

VCs Investing in Emerging Nations	Frequency	Percentage
Argentina	2	0.08
Australia	1	0.04
Austria	1	0.04
Canada	3	0.12
China	2	0.08
Czech Republic	32	1.23
Denmark	44	1.7
Estonia	4	0.15
France	7	0.27
Germany	18	0.69
Greece	15	0.58
Hong Kong	216	8.33
Hungary	2	0.08
India	2	0.08
Israel	3	0.12
Japan	20	0.77
Luxembourg	1	0.04
Malaysia	3	0.12
Mauritius	38	1.47
Netherlands	6	0.23
Norway	5	0.19
Philippines	3	0.12
Poland	9	0.35
Russia	1	0.04
Singapore	91	3.51
South Africa	1	0.04
South Korea	10	0.39
Spain	1	0.04
Sweden	1	0.04
Switzerland	4	0.15
Taiwan	163	6.29
United Kingdom	77	2.97
United States	1,789	69.02
Utd. Arab Em.	12	0.46

VCs Investing in Developed Nations	Frequency	Percentage
Argentina	8	0.03
Australia	533	2.27
Austria	30	0.13
Bahrain	26	0.11
Belgium	365	1.55
Bermuda	24	0.10
Brazil	10	0.04
Cameroon	1	0.00
Canada	1,035	4.41
Cayman Islands	20	0.09
China	64	0.27
Czech Republic	32	0.14
Denmark	224	0.95
Estonia	3	0.01
Finland	149	0.63
France	785	3.34
Germany	1,408	6.00
Greece	5	0.02
Hong Kong	289	1.23
Hungary	8	0.03
Iceland	8	0.03
India	145	0.62
Ireland	103	0.44
Israel	1,089	4.64
Italy	61	0.26
Japan	848	3.61
Kuwait	2	0.01
Luxembourg	51	0.22
Malaysia	23	0.10
Mauritius	12	0.05
Netherlands	500	2.13
New Zealand	64	0.27
Nigeria	1	0.00
Norway	188	0.80
Philippines	18	0.08
Poland	37	0.16
Portugal	14	0.06
Romania	12	0.05
Russia	40	0.17
Singapore	545	2.32
South Africa	16	0.07
South Korea	136	0.58
Spain	28	0.12
Sweden	241	1.03
Switzerland	659	2.81
Taiwan	557	2.37
Thailand	1	0.00
Ukraine	1	0.00
United Kingdom	2,979	12.69
United States	10,073	42.9
Vietnam	5	0.02

Table B: Venture Capital Investments by Year and Industry

This table reports the distribution of venture capital backed entrepreneurial firms by their first round investment year (Panel A) and by their reported Industry in the first investment year (Panel B). The frequencies and respective percentages are tabulated separately for venture backed firms in emerging and developed nations. We categorize emerging nations as all non-high income nations and developed nations as all high income nations, as classified by the World Bank. The World Bank classifies economies according to the GNI per capita, calculated using the World Bank Atlas method. According to this definition, high income nations are those that had a 2008 GNI per capita of $11,906 or more.

Panel A: Year Distribution of VC-Backed Firms

	Emerging Nations		Developed Nations	
Year	Frequency	Percentage	Frequency	Percentage
1989	4	0.21	552	1.96
1990	3	0.16	388	1.38
1991	23	1.22	276	0.98
1992	35	1.85	405	1.44
1993	25	1.32	337	1.20
1994	42	2.22	398	1.41
1995	55	2.91	880	3.12
1996	86	4.55	1,314	4.66
1997	85	4.49	1,388	4.93
1998	73	3.86	1,599	5.67
1999	126	6.66	2,951	10.47
2000	354	18.72	5,075	18.01
2001	169	8.94	2,281	8.10
2002	123	6.50	1,299	4.61
2003	137	7.24	1,191	4.23
2004	121	6.40	1,343	4.77
2005	121	6.40	1,569	5.57
2006	94	4.97	1,643	5.83
2007	99	5.24	1,727	6.13
2008	116	6.13	1,563	5.55

Panel B: Industry Distribution of VC-Backed Firms

	Emerging Nations		Developed Nations	
Industry	Frequency	Percentage	Frequency	Percentage
Biotechnology	42	2.22	1,712	6.08
Communications and Media	143	7.56	2,590	9.19
Computer Hardware	77	4.07	1,082	3.84
Computer Software and Services	209	11.05	5,534	19.64
Consumer Related	212	11.21	1,810	6.42
Industrial/Energy	182	9.62	1,520	5.39
Internet Specific	333	17.61	6,029	21.39
Medical/Health	93	4.92	2,710	9.62
Other Products	468	24.75	3,308	11.74
Semiconductors/Other Elect.	132	6.98	1,885	6.69

Table C: The Effect of Culture and International Venture Capitalist Geographic Distance on the Probability of Exit

This table reports the results of logit estimation with exit success (i.e., IPO or M&A) as the dependent variable. The independent variables are: *International VC distance*, which is the log of one plus the average distance in thousands of miles between the entrepreneurial firm's nation and the nation of each international venture capitalist investing in the entrepreneurial firm; *Different Religion dummy*, which is a dummy variable that equals one if at least one international venture capitalists' home country major religion is different from that of the entrepreneurial firm's home country, and zero otherwise; *Different Language dummy*, which is a dummy variable that equals one if at least one international venture capitalists' home country major language is different from that of the entrepreneurial firm's home country, and zero otherwise; *Different Legal Origin dummy*, which is a dummy variable that equals one if at least one international venture capitalists' home country legal origin is different from that of the entrepreneurial firm's home country, and zero otherwise; *Int. VC Cultural Distance*, which is the Hofstede cultural distance measure averaged across all international venture capitalists; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
International VC distance	-0.895**	-0.089	-0.135**
	[0.448]	[0.107]	[0.063]
Different Religion dummy	1.974***	-0.711**	-0.212**
	[0.437]	[0.303]	[0.090]
Different Language dummy	0.323	-0.235	-0.142*
	[1.496]	[0.177]	[0.077]
Different Legal Origin dummy	-0.301	0.464***	0.104
	[0.269]	[0.178]	[0.107]
Int. VC Cultural distance	0.006	-0.014*	-0.005
	[0.022]	[0.008]	[0.003]
Firm country GDP	-1.555***	-0.725	-0.680***
	[0.487]	[0.597]	[0.137]
VC investment amount	0.229***	0.223***	0.269***
	[0.030]	[0.031]	[0.038]
Number of VCs	0.060	0.057**	0.026*
	[0.038]	[0.027]	[0.015]
VC age	-0.025	-0.011	-0.009
	[0.029]	[0.016]	[0.010]
Number of rounds	0.007	-0.121***	-0.086***
	[0.044]	[0.024]	[0.021]
Stock market development	0.829**	0.249**	0.178***
	[0.375]	[0.109]	[0.056]
US VC dummy	0.728***	0.474***	0.201
	[0.210]	[0.090]	[0.131]
UK VC dummy	0.740	-0.014	0.059*
	[0.687]	[0.114]	[0.031]
Observations	949	4,791	8,215
Pseudo R-sq	0.136	0.154	0.162

Table D: Effect of International Venture Capitalist Distance on the Probability of Exit with Continent and Border Dummies

This table reports the results of logit estimation with exit success (i.e., IPO or M&A) as the dependent variable. The independent variables are: *International VC distance*, which is the log of one plus the average distance in thousands of miles between the entrepreneurial firm's nation and the nation of each international venture capitalist investing in the entrepreneurial firm; *Different continent*, this a dummy variable that equal one if the VC and the entrepreneurial firm do not share the same continent, averaged over all international VCs; *Shares a border*, this a dummy variable that equal one if the VC and the entrepreneurial firm nations share a border, averaged over all international VCs; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
International VC distance	-0.714**	-0.279	-0.183**
	[0.357]	[0.221]	[0.082]
Different continent	0.025	0.465*	0.273*
	[0.244]	[0.266]	[0.145]
Shares a border	0.436	0.751***	0.651***
	[0.529]	[0.209]	[0.189]
Firm country GDP	-1.653***	-0.650	-0.672***
	[0.391]	[0.602]	[0.133]
VC investment amount	0.273***	0.230***	0.273***
	[0.042]	[0.030]	[0.038]
Number of VCs	0.057	0.065**	0.028*
	[0.036]	[0.025]	[0.015]
VC age	-0.025	-0.013	-0.010
	[0.030]	[0.016]	[0.010]
Number of rounds	-0.018	-0.122***	-0.087***
	[0.046]	[0.023]	[0.020]
Stock market development	0.797***	0.031	0.081*
	[0.289]	[0.102]	[0.049]
US VC dummy	0.666***	0.480***	0.224
	[0.228]	[0.098]	[0.142]
UK VC dummy	0.568	0.000	0.058*
	[0.698]	[0.116]	[0.030]
Observations	1,006	4,821	8,286
Pseudo R-sq	0.135	0.153	0.161

Table E: Effect of International Venture Capitalist City to City Distance

This table reports the results of logit estimation with exit success (i.e., IPO or M&A) as the dependent variable. This table explores the effect of venture capitalist distance on the probability of a successful exit. The independent variables are: *Intl. VC city distance*, which is the log of one plus the average distance, in thousands of miles, between the entrepreneurial firm's city and the city of each international venture capitalist investing in the entrepreneurial firm; *Firm country GDP*, which is the GDP of the entrepreneurial firm's country in trillions of dollars; *VC investment amount*, which is the log of the total amount of venture capital invested in the entrepreneurial firm, in thousands of US dollars; *Number of VCs*, which the total number of venture capitalists that have invested in the project; *VC age*, which is the average age of all venture capitalists investing in an entrepreneurial firm; *Round number*, which is the actual observation specific financing round number; *Stock market development*, which is the entrepreneurial firm nation's total stock market capitalization in trillions of US dollars; *US VC Dummy*, which is a dummy variable that equals one if at least one US venture capitalist invests in the firm, and zero otherwise; *UK VC Dummy*, which is a dummy variable that equals one if at least one UK venture capitalist invests in the firm, and zero otherwise. Fixed effects are included for the year of the investment round, firm financing stage, the firm's industry, and the firm's nation. The regression is also separately estimated for investments in emerging nations, developed nations excluding the US, and developed nation including the US. Heteroskedasticity corrected robust standard errors, which are clustered on the firm's nation, are in brackets. The regression is estimated with an intercept term. ***, **, and * represent statistical significance at the 1, 5, and 10 percent levels, respectively.

	(1) Emerging Nations	(2) Developed Nations (excl. US)	(3) Developed Nations (incl. US)
International VC city distance	-0.275*	-0.026	-0.072***
	[0.152]	[0.136]	[0.013]
Firm country GDP	-3.156***	-0.556	-0.651***
	[0.542]	[0.966]	[0.171]
VC investment amount	0.244***	0.230***	0.318***
	[0.049]	[0.034]	[0.026]
Number of VCs	0.326***	0.150**	0.044***
	[0.117]	[0.059]	[0.006]
VC age	0.024	0.002	-0.002
	[0.026]	[0.018]	[0.005]
Number of rounds	0.072	-0.063	-0.055***
	[0.067]	[0.045]	[0.010]
Stock market development	0.687	0.120	0.109***
	[0.518]	[0.143]	[0.040]
US VC dummy	0.563	0.215	0.181
	[0.373]	[0.336]	[0.131]
UK VC dummy	0.760**	0.393***	0.144
	[0.369]	[0.087]	[0.100]
Observations	1,225	5,288	23,430
Pseudo R-sq	0.150	0.159	0.174