

**Venture Capitalist's intervention and the internationalization of  
International New Ventures (INVs) – Portuguese Case Study**

## **Abstract**

The internationalization process is widely believed to be one of the most relevant dimensions in companies across countries. Nevertheless, operate abroad might not be easy for new ventures. This study approached the Venture Capitalists (VC)'s intervention in this kind of firms. It provides empirical data that VCs might take a decisive role, supporting International New Ventures (INVs) in their international path, through their capabilities, resources or international networks. Using a sample of Portuguese VCs, this study's results suggest that industry knowledge, prior international experience, syndicated investments or "social status" are some examples of the VC's important characteristics within foreign markets. VC-backing might be especially useful, in terms of the involvement in the new venture's board, networks and international activities.

## **Introduction**

Nowadays, economic development is a strong necessity. It is extremely important to find the society's well-being and prosperity as well. Actually, there are some different ways to reach that objective. One of those ways is related to measures to promote the economic growth (Alesina & Rodrik, 1991). It has been noticed that most of the world governments are trying to execute measures, in order to improve people's conditions, such as employment creation or exports growth<sup>1</sup>. It is necessary to develop ways to promote the innovative entrepreneurship and that job has been done. The program "2020 European strategy" is a very clear example of that. These kind of projects are trying to renew domestic economies, supporting their companies and providing them some benefits or special conditions.

The financing takes an important role in the economic growth. In fact, in order to be more efficient, economies need a solid financing system. This study intends to present a different approach about one type of financial support: the venture capital. The venture capital market is important all over the world. For example, some American companies were founded by venture capital, such as Intel, Oracle or Sun Microsystems. In the opposite side of the world, it happens in the same way. China and Taiwan are very clear examples of that. Quanta, the well-known notebook producer and Asustek, the motherboards maker, were supported by venture capital funds (Kenney *et al.*, 2004). However, this support is not just about money. It is more than that. In some cases, the strategic part is one of the most relevant ones. Hence, the study is focused on studying the interesting relation between venture capitalists (VCs) and International New Ventures (INVs), in the internationalization process. Actually, it aims to analyze and reach pertinent conclusions about the influence of VC's support in the internationalization of this kind of firms. In other words, it is important to clarify whether that support is effectively relevant and find out which are their main dimensions.

INVs, which are companies developing international activities since their inception (Oviatt & McDougall, 1994), are well-known as "born global" firms because, for them, the internationalization is a short-term plan and is viewed as a priority (Rennie, 1993).

There are a lot of financing types, depending on the backed company characteristics. The main purpose is to study this relation within the "early stage", when already exists a product, ready to be commercialized. Within this first-stage of financing, the INV starts growing and some expenses are coming up (Bachher & Guild, 1996).

There are a lot of specific characteristics that are different from one investment project to the others. Usually, VCs decide to integrate the INV's share capital, providing it some work conditions, in order to make the business grow successfully. Both parts (VCs and backed firms) make efforts, sharing the INV's management (Gerasymenko *et al.*, 2015).

Traditionally, in their first stage, small firm's managers are worried about the domestic investment and just after some time they start working abroad. However, this stepwise growth may be the cause to lose interesting opportunities and develop international activities (Rogers, 2004). The success of operate abroad is strongly associated to the managerial expertise and firm networks (Chandler & Hanks, 1994). Actually, VC's networks and connections are likely to enlarge over time (Sorenson & Stuart, 2001) and INVs might take very important benefits from the venture capital investment.

Cooper and Daily (1996) stated that "entrepreneurial teams are at the heart of any new venture". According to this evidence, VCs might take a relevant strategic role in the INV's management, for example, in terms of their professionalization (Hellmann & Puri, 2002), improving their international competitiveness.

---

<sup>1</sup> Commission, E. (2010). Europe 2020: a strategy for smart, sustainable and inclusive growth.

Within the early stage, there is a high risk level and the investment necessities are crucial (Howell, 2015). This study's approach will focus on the venture capital investments including INVs and VCs from Portugal. Usually, in Portugal, this process is divided in two types of support: financial and strategic. The first one may be provided by financial institutions and the second one by incubators or similar organizations. Actually, VCs provide both types of support and they might be aware of the INV's conditions. Indeed, they know which kind of support the INV needs and when is the right time to execute it. With VCs, it is possible to join both parts above indicated. If the INVs are aware of the performance from previous venture capital investments (and their influence within foreign markets), more partnerships will be successfully developed. Hence, being aware of this type of knowledge might be an important step for this type of new ventures, in terms of the internationalization path, and it can turn this international process into an easier one.

## **Review and synthesis of literature**

According to the internationalization characteristics of INVs, they might face some constraints operating abroad and VCs can take an important role, supporting them, in order to overcoming these international barriers. This section aims to provide an overview about the dimensions, in which VCs may benefit new ventures in the internationalization path. The analyzed dimensions were the informational, functional and marketing intervention.

New ventures might take their decisions, under a heuristic basis, which generalizes limited knowledge and it may be a problem for those ventures. In the first stage, VCs may be an important partner dealing with strategic issues, since INVs are involved in many activities and it might be difficult to limit their scope to the more strategic tasks of top management. Thus, VCs not only possess important knowledge, but they also have important specific-industry ties, which may be useful to promote the development of dynamic capabilities (Arthurs & Busenitz, 2006).

### Informational intervention:

VCs are able to analyze foreign markets in order to minimize the INV's informational problems. Some of them are crucial and they deserve some attention, in terms of new market's entry. Guler and Guillén (2010b) gave special attention to the legal protection of investor's rights. They approached the relationship between those rights and another factors within foreign markets. For example, legal systems of foreign markets or financial markets. Further, VC's intervention and support will depend on those conditions. According to this evidence, VCs may be able to anticipate any kind of change in important regulation, such as the property right's protection. In reality, VC's mission is to clarify the influence of these policies in the foreign market's political/regulatory stability, since it might be an essential factor, concerning the investment in those countries (Guler & Guillén, 2010b). However, VCs may be an important partner through another point of view: their experience. Sorenson and Stuart (2001) highlight the VC's prior international investment experience as an important factor reaching new markets and enlarge their future international scope, supporting INV's activities across borders. Prior experience may help VCs overcoming more obstacles. Delineate contract's characteristics or evaluate business opportunities abroad are some examples of that. Actually, the VC's international networks increase over time, with the internationalization of the venture capital industry. Additionally, syndicated investments abroad also contribute to a raise of international knowledge, which is significant in order to identify new business opportunities abroad (LiPuma, 2014).

Networks within home country deserve some attention, too. Home country partners may possess some relevant information about the firm, which can be useful for foreign market's stakeholders (Guler & Guillén, 2010a). These partners can contribute to assure the firm's reliability within foreign markets. Without that support, the firm could face some problems, in terms of signal its reliability (for example, showing foreign stakeholders that it is trustworthy). It can reduce the venture's foreignness liabilities. Indeed, the "VC's social status" is an important characteristic and it can easily influence the stakeholder's perceptions about the new venture's qualities and outputs. In fact, according to Stuart *et al.* (1999), this partner's characteristic might have an important influence attracting the attention of important stakeholders, such as customers, suppliers, business media or business analysts.

In order to reduce the informational constraints, VCs may also stage their investments. According to LiPuma (2014) such problems are more likely to occur with a greater geographical distance. Thus, if there is a large distance between investors and new ventures, VCs are likely to use more stages of funding with shorter

durations between them, in order to develop an efficient monitoring. However, on average, VCs prefer to be near the ventures in which they invest, in order to oversight their activities as well as maintain narrow connections with venture's founders (Sorenson & Stuart, 2001).

Sorenson and Stuart (2001) also approached the VC's networks coming from venture capital environments (from participants in this process). These networks might have a decisive role, in terms of accessing the international information, which might be important to reach new markets. The VC's reach is likely to enlarge over time, due to some networks effects. Effectively, it may be considered the social and geographic reach, since the successive investments allow them to reach different contacts and it may enlarge their networks (Sorenson & Stuart, 2001). Connections can be established with another VCs, experts or new entrepreneurs. Those are commonly established within the same industry. Actually, the VC may be investing in the same industry for a long period, which can bring some important connections, from different parts of the globe (Sorenson & Stuart, 2001).

Personal networks (previously known) have a crucial importance, in terms of the efficiency (resource's saving) and performance (Ellis, 2000). These type of networks are likely to turn the internationalization path into an easier path. In fact, personal networks are easily accessible and they might save INV's resources (for example, time and money), instead of take a different option, such as the market research (Ellis, 2000).

The VC's type might also be a relevant point, within the internationalization path. According to Schildt *et al.* (2005), corporate venture capital (CVC) is likely to possess more international networks, for example, in terms of potential foreign customers. CVC investors possess a higher level of reputation and legitimacy than independent venture capitalists (IVCs), within foreign environments, since they commonly have internationally known multinationals as parent companies (LiPuma, 2014).

Syndicate investments may be another activity, which can bring some important connections between VCs. This type of venture capital investment might also have some advantages, such as the risk diversification or the second opinion in the decision making process (Gompers & Lerner, 2001). VCs will enlarge their networks, every time they syndicate investments with another VC, since new associations will be created. Further, VCs with many syndicated investments are likely to possess important networks and they access to a high amount of information, either in terms of industries or geographic regions (Sorenson & Stuart, 2001). Nevertheless, the existence of a local syndicate partner might increase the likelihood of a successful exit (LiPuma, 2014).

#### Functional intervention:

Functional dimension might be an essential dimension, in which VCs can be important for backed firms. According to Fernhaber and McDougall- Covin (2009), there is some correlation between VC's international knowledge/resources and INV's international process. Reputation is also an important point and these authors consider that the VC's international knowledge is most noticeable, when the VC is also reputable, which might facilitate the new markets entry, overcoming functional barriers. Moreover, a partnership with an external institution may be important, in order to exploit intangible resources, since it may achieve a greater dimension with this type of support. Additionally, this VC's international knowledge may have crucial importance reaching larger scale strategies, such as the internationalization process (Fernhaber & McDougall- Covin, 2009).

Arthurs and Busenitz (2006) developed an approach comprising a relationship between backed ventures and non-backed ventures, and the VC's influence on their activities. They found greater dynamic capabilities in the first ones, in terms of the product and management development. Additionally, Fried *et al.* (1998) focused their analysis in the post-IPO era, since this stage requires different and new skills, due to the transition from entrepreneurial teams to the professional management. Backed ventures might have an important advantage, since their boards show a greater involvement in the strategy's development and monitoring, than non-backed

ones. Further, Fried *et al.* (1998) found that the board's involvement have a positive influence on the backed-firm's performance.

According to Arthurs and Busenitz (2006), there is a valuable support provided by VCs, in the early stage. At this stage, a competent management team is a crucial necessity.

Hellmann and Puri (2002) developed an analysis focused on the characteristics of the venture's management, after the VC's intervention. This evidence brings the idea that VCs develop their activities, in order to "professionalize" the firm, which is likely to be a faster process in venture-backed firms (Hellmann & Puri, 2002). This professionalization might consist in hiring new management teams and some positions may be switched, including the replacement of the CEO. However, after the replacement, some of the former CEOs remain involved in some firms' operations after the arrival of new CEO. These former CEOs may take a position in the board or develop other activities, such as chief technology officer, business developer or another position. Actually, this evidence considers that VCs provide a range of ancillary services, which may support the venture's professionalization and their establishment in the marketplace (Hellmann & Puri, 2002).

The changes within the management teams are likely to appear through four main dimensions, which are the recruitment practices, the human resources policies, the stock options planning and the recruitment of vice president of marketing and sales (Hellmann & Puri, 2002). Stock options, "which give the recipient the right to buy a share of stock at a pre-specified exercise price for a pre-specified term" (Hall & Murphy, 2002, p. 1), is an option to manage the human resources and compensate managers. This is an important mean, since valuable human capital might be attracted, and VCs provide incentives in order to retain them. In terms of these stock options, Hellmann and Puri (2002) found a strong relationship between obtaining venture capital and adopting a stock options plan. Actually, backed-firms possess more than twice of the likelihood of having such plan, comparing with non-backed ones. In terms of the vice president of marketing and sales, it happens in the same way: a vice president of marketing and sales is more likely to be appointed with the intervention of VCs. Hellmann and Puri (2002) also found that VCs have a significant role in the human resources planning, defining policies according to their knowledge. Specifically, one dimension was deeper analyzed, which is the recruitment process. Backed-firms are more likely to use networks, in order to hire some type of human resources, such as the sales, marketing, administrative and managerial personnel. Specifically, the aforementioned networks are business and professional contacts. The use of networks within the recruitment process is one indicator about the firm's level of professionalization, in terms of their relationship with its business environment (Hellmann & Puri, 2002). Actually, through this analysis, it is possible to understand the VC's intervention in the human resources management.

Some financial aspects were included in the functional ones, in terms of the VC's intervention, such as the shortage of working capital to invest. Actually, financing is an important part of the venture capital investment. According to Hellmann and Puri (2000), VCs possess business knowledge and they are aware of industry's conditions, that is why they may be able to choose right firms to invest in, those with high future potential. This evidence brings the idea that VCs are likely to be aware of the right time to execute the rounds of financing, since they possess expertise not only about venture's features but also about their market. However, financial issues must be carefully analyzed, due to the different types of venture-backed firms. Innovative ventures (innovators) are less likely to present financial needs, compared with imitators. Hellmann and Puri (2000) collected information about this subject. In fact, they analyze the amounts of capital that ventures raise up to the moment of their product launch. They found that, with VCs, ventures increase their amount of funds raised, if they are imitators. However, it does not happen in the same way with innovators. Hence, these findings support the idea that VCs provide different means to INVs. For example, while VCs may have an important financial role for imitators, they are more likely to be important for innovators, through other dimensions, such as product market aspects (Hellmann & Puri, 2000).

Marketing intervention:

Venture's marketing needs are related to some factors, such as the product, price or distribution and VCs might be likely to take an important role, supporting new ventures overcoming those constraints within international markets.

In terms of the product ones, VCs possess assets that are likely to reduce the time to market. Time to market is considered as the "time from the birth of the company to the date of first product sale" (Hellmann & Puri, 2000, p. 15). According to Hellmann and Puri (2000), venture capital is considered as being decisive to accelerate the venture's product launch, since those ones have a faster time to market with VC's support. Nevertheless, it depends on the venture's strategy. For example, innovators are more likely to take benefits from VC's support since this association is especially strong for them. Contrarily, it seems that firms with non-innovative profiles are not so affected by VC's support, in order to reduce their time to market. In other words, their time to market does not decrease significantly with venture capital backing (Hellmann & Puri, 2000). Innovators may possess first mover advantages and it is likely to require shorter times to market. Thus, this findings might be important to support the idea that these innovators are more likely to choose venture capital within their early stages (Hellmann & Puri, 2000).

Adapt the venture's product might be difficult, in order to reach new markets and meet their specific requirements. This task is associated to a high level of uncertainty and it is important to analyze the VC's influence overcoming this type of marketing constraints. Arthurs and Busenitz (2006) developed an approach based on the relation between ventures with a product related risk factor and the VC's influence on it. Venture capital backing appears as being important for INV's product development. It seems that "the market perceives that venture capitalist-backed ventures are better able to address product-related weaknesses and threats" (Arthurs & Busenitz, 2006, p. 207). This product constraint may be minimized through the right choice about the management. Actually, VCs are likely to have close connections with important managerial expertise, assuring the INV's quality. For example, VCs might convince senior managers with high industry experience to integrate the venture's project (Arthurs & Busenitz, 2006). This type of "dynamic capabilities" might contribute to explain the reason why the markets value VC-backed ventures, comparing with non-backed ones, when there are high product-related risks (Arthurs & Busenitz, 2006).

In line with the first section, the inexistence of economies of scale may be an important constraint within foreign markets. According to Fischer and Varga (2002), inter-firms cooperation/networks might have an important role achieving economies of scale, reaching new markets, or accessing new technologies. Those economies of scale may come up through an alliance with R&D and/or producing institutions. Zeng *et al.* (2010) approached the relationship between different types of networks and innovation, which requires scale, of small and medium enterprises (SMEs) in China. Their findings point out a high importance of different types of cooperation: inter-firm cooperation, cooperation with intermediary institutions and cooperation with research institutions. These types of organizations are crucial to the small firms innovative performance. Furthermore, Zeng *et al.* (2010) found a higher importance of vertical connections with customers, suppliers or other firms, comparing with the horizontal connections with research institutions. As approached within this section, VCs may be able to reach (socially and geographically) this type of vertical connections, since VC's networks enlarge over time (for example, through the contact with another VCs, experts or new entrepreneurs) (Sorenson & Stuart, 2001). Additionally, the literature's review also shows the VC's importance, reaching potential foreign customers and suppliers (Gorman & Sahlman, 1989; Schildt *et al.*, 2005). Thus, taking into account the VC's networks reaching these stakeholders, it is noticeable that new ventures may benefit from venture capital backing. Actually, these networks might be important to achieve economies of scale, which are important to be competitive within the international environment.



## **Methodology**

### Sample and data collection method:

In order to obtain a broader knowledge about the VC's intervention in backed firms, it was chosen a qualitative methodology. This is an approach, which is likely to explore a single or multiple case, through an in-depth data, based on some specific sources of information and it is likely to achieve case-based themes (Creswell *et al.*, 2007). Usually, data collection methods are questionnaires or interviews and the evidence is qualitative (words). One of the objectives of this type of data collection is to provide a description about the subject (Eisenhardt, 1989) and this study intends to be a descriptive analysis.

In line with Yin (2015), institutional responses may be studied through this type of qualitative data. Actually, the collected data were provided by a group (8) of Portuguese VCs (view Table 1-Appendix). However, twenty-four VCs were contacted, in order to have the opportunity to collect different and complementary perceptions about VC-backing and its importance for the new venture's internationalization. The answer rate was 58.3%. However, just eight of them had a positive feedback, in terms of the availability for meetings and all of these ones were interviewed. In these meetings, VC's members (mainly managing partners and business analysts) were interviewed. The main purpose of the interviews was to compare the Portuguese VC's intervention with the literature's evidence, in terms of the international VC's approach, supporting their backed firms abroad.

### Interview's structure:

Each interview was supported by a script (view Table 2-Appendix), in order to approach the most important aspects in the literature's review. Similarly to the literature, the approached aspects, throughout the interviews, were related to the main three dimensions of the venture capital investment: informational, functional and marketing intervention. Specifically, the interview's questions were divided in 4 main parts: i) study's presentation; i) VC's presentation; iii) VC's standard intervention in their INVs; iv) VC's international intervention in their INVs. However, these interviews had an exploratory direction and the interviewed had the total freedom of add some relevant aspects, in order to illustrate its reality supporting their backed firms, operating abroad. Additionally, outcomes from previous interviews (view Table 3-Appendix) were being questioned in the subsequent interviews, in order to find out their relevance for this study.

### Outcome's analysis method:

Seven of the interviews were recorded and transcribed. Then, all of them were organized, through the software NVIVO. Similarly to Creswell *et al.* (2007), the transcripts from the 7 interviews were analyzed and the most significant statements, sentences or quotes were highlighted. However, each of them fitted a specific meaning units. One of the interviews was analyzed through a note-taking method, but it was also included in the software NVIVO. Actually, the information was analyzed and classified, according to the aforementioned method (literature's evidence and interviews additional information, in terms of the informational, functional and marketing intervention).

With the chosen methodology, the researcher are likely to collect data from a variety of sources and aggregate them to illuminate the case (Baxter & Jack, 2008). Thus, it was possible to identify how many VCs ("sources") mentioned each item and the content of the emerging information about each one of those items ("references") (view Table 3-Appendix). In fact, through this analysis, it was possible to develop an overview about the most relevant aspects and the existence or inexistence of any relationship with the literature's aspects.

## **Interview's general outcomes**

### Emerging aspects from interviews

The interviews provided some additional information, comparing with the approached aspects in the literature's review. Similarly, these aspects were related to the functional, informational and marketing VC's intervention in the backed firm's internationalization. The interview's number is available in the Table 1 (Appendix) and the NVIVO's outcomes in the Table 3 (Appendix).

The VC's involvement in the backed firm's board is one of them. Generally, VCs are likely to appoint 1 or 2 members for the backed firm's board, developing activities as NEDs (4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> and 8<sup>th</sup> interview). This aspect was referred in 4 interviews. However, one of the interviews revealed a different approach about the backed firm's control, which is the CEO's appointment for just one year (6<sup>th</sup> interview). Additionally, most of the VCs usually take minor positions, in terms of the share capital (pointed out in 4 interviews – 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> interview).

Another emerging aspect from interviews was the services provided by VCs, in order to approach the international path. VCs are likely to improve the internal information/reporting systems, in order to make the backed firm's communication easier and more efficient between their members (1<sup>st</sup> and 5<sup>th</sup> interview). However, according to the interviews there is another emerging point in terms of services provided. This activity is related to the definition of pricing models to reach any specific type of foreign customers (8<sup>th</sup> interview).

VC's networks are also an important aspect in terms of the venture capital investment. In the interviews, some VCs are likely to recruit venture's members, based on their networks. One of the referred activities were the introduction of industry experts to the backed firms and this members may take a position in the board (8<sup>th</sup> interview).

According to the interviews' information, VCs are likely to invest in industries related to the academic background or professional experience of their members. In fact, according to this aspect, industry knowledge might be strengthened by VC-backing (3<sup>rd</sup> interview).

VCs might also have an important role searching for investors to support the backed firm's project (4<sup>th</sup> and 8<sup>th</sup> interview). New investors can improve the foreign market's approach. National VCs may syndicate investments with foreign VCs from foreign markets, which can bring some advantages in the international path. With this kind of activities, VCs are able to bring not only international funds, but also international knowledge and local important networks (e.g. connections with customers, suppliers, distributors...) (4<sup>th</sup> interview).

Additionally, VCs might find other institutions to syndicate investments, such as banks or private investors (5<sup>th</sup> and 6<sup>th</sup> interview), which might bring several advantages such as the board's heterogeneity or compliance mechanisms, in order to oversight the activities related to the backed firm.

Foreign markets analysis is another activity, in which VCs can be very important. For example, VCs are likely to develop some international activities, such as the international visits to know the main local stakeholders (2<sup>nd</sup> interview) or they might search for the most valuable groups of foreign customers in the market (1<sup>st</sup> interview). However, VC's international experience might turn the international path into an easier one. Actually, prior investments within foreign markets might benefit future investments in the same countries (2<sup>nd</sup>, 3<sup>rd</sup>, 7<sup>th</sup> and 8<sup>th</sup> interview).

Finally, VCs are likely to examine some opportunities to acquire firms, in the national market or abroad. This activity might be a relevant one, since international firms can provide some industry or market knowledge to the backed firm (2<sup>nd</sup> interview).

### Literature's aspects supported through the interviews

Some of the literature's aspects were supported in the interviews. In fact, some of those aspects were previously referred in the literature and, somehow, approached again in the interviews with VCs.

According to the interview's outcomes, VC's geographic reach is likely to enlarge with syndicated investments (6<sup>th</sup> interview). Sorenson and Stuart (2001) considered the same aspect through a different

perspective, which is that VCs are able to enlarge their social and geographic reach, due to the effects of successive investments. For example, they might establish connections with some actors in the venture capital market (entrepreneurs, other VCs, experts...), from different countries.

Industry knowledge from the ongoing investments in the same industry was also pointed out by the literature's review (Sorenson & Stuart, 2001) and supported by VCs (1<sup>st</sup> interview). Indeed, both sources considered this kind of investments as an important mean to establish some valuable ties within the industry (e.g. suppliers or customers).

In terms of the local connections, it is important to highlight the existence of a local syndicate partner. Although its advantages were recognized by the interviewed VCs (2<sup>nd</sup> interview) and LiPuma (2014), the empirical data deepened this aspect, exploring the usefulness of these local partners.

Concerning the foreign market's analysis, regulatory aspects might be relevant and they were approached either in the literature or the empirical data. Actually, according to Guler and Guillén (2010b), VC's may be able to anticipate any kind of regulatory change within foreign markets, such as the property right's protection. Thus, this kind of foreign market's study might be useful, in terms of its analysis. In the empirical data, the same trend was supported. According to the 3<sup>rd</sup> interview, some industries and markets have stronger regulatory conditions and VCs might be able to analyze it, for example, through a comparison with other backed firms operating within the same markets.

Regarding the board's involvement in the backed firm's strategy and monitoring, there is also a correspondence between empirical data and literature. In fact, Fried et al. (1998) considered that boards from backed firms are likely to present greater involvement in the strategy's development and monitoring. The interviews (4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> and 8<sup>th</sup> interview) are likely to corroborate this theory, since most of the VCs might appoint 1 or 2 members for the backed firm's board (as NEDs), in order to support the development of the backed firm's strategy as well as its monitoring.

The backed firm's teams are likely to change with the venture capital intervention. This evidence was brought from the literature (Hellmann & Puri, 2002), with the appointment of new management teams. Actually, this evidence was supported by empirical data (2<sup>nd</sup>, 5<sup>th</sup> and 6<sup>th</sup> interview), since there is the possibility of switching the management teams, especially, in "C-level positions" (CEO or CFO, mainly).

Human resources policies were also referred previously in the literature (Hellmann & Puri, 2002) through two main examples: the adoption of a stock options plan or the recruitment process, based on VC's networks. In the empirical data, this evidence was corroborated, since VCs might be important either in the recruitment process (1<sup>st</sup> interview) or in the implementation of some human resources policies, illustrated with an adoption of a stock options plan (8<sup>th</sup> interview).

The recruitment process and changes of management teams deserve some attention, too. In the literature, Arthurs and Busenitz (2006) approached the possibility of VCs bring senior experienced managers (experts) to the venture's board. Actually, this fact was referred in the interviews (8<sup>th</sup>) and it might give some expertise to the venture's board, in terms of the industry knowledge.

Syndicated investments with another VC might also represent a relevant aspect, in terms of the advantages in the decision making process. In fact, firstly, Gompers and Lerner (2001) referred the importance of having a second opinion in the decision making. In reality, the empirical data (6<sup>th</sup> interview) took a position in the same direction and revealed that the information sharing between investors might be important in the backed firm's success.

#### Interviews' most referred aspects

Some aspects assumed a higher importance, since they were mentioned more times than the others. Although these points has not been mentioned in the same way, they are likely to present complementary ideas, concerning the same subject.

In terms of the backed firm's control and board's involvement, it was possible to conclude that most of the VCs are likely to take a minor position in the share capital (3<sup>rd</sup>, 4<sup>th</sup> 5<sup>th</sup> and 6<sup>th</sup> interview) and appoint 1 or 2 members for the backed firm's board, as NEDs (4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> and 8<sup>th</sup> interview).

Prior international investments were considered as an important characteristic in the literature. However, the interviews went further and they considered that prior investments within foreign markets are likely to benefit future investments in the same markets (2<sup>nd</sup>, 3<sup>rd</sup>, 7<sup>th</sup> and 8<sup>th</sup> interview).

VC's networks (personal and professional) were deeply analyzed in the interviews, through some different perspectives. Mainly, these connections were approached through 3 main dimensions, which are their usefulness: i) to appoint some industry experts for the backed firm's board, as NEDs (1<sup>st</sup> interview); ii) to support another firms in the same industry (7<sup>th</sup> interview); iii) to reach foreign VCs, in order to syndicate investments with them (4<sup>th</sup> interview). However, VC's personal connections were also one of the most referred points (1<sup>st</sup>, 4<sup>th</sup> and 7<sup>th</sup> interview). Actually, these personal connections are likely to benefit backed firms abroad, essentially, reaching foreign stakeholders.

VCs might be likely to develop activities within foreign markets and they might assume a high importance, with many purposes. For example, VCs are likely to visit foreign markets, in order to explore their opportunities and have a better perspective about the main local stakeholders (2<sup>nd</sup> interview). Additionally, VCs might go along with the management of the backed firms, in order to support them in international meetings (3<sup>rd</sup> and 7<sup>th</sup> interview).

#### Literature's non-referred aspects (in the interviews)

In this section, empirical data is analyzed, in order to find out the relevant literature's aspects (in terms of the VC's intervention in backed firms), which were not approached in the interviews.

One of these aspects were the influence of Corporate Venture Capitalists (CVCs) in the internationalization of their backed firms. According to Schildt et al. (2005), CVCs are likely to possess more international networks (for example, in terms of potential foreign customers) than IVCs. LiPuma (2014) also considered that this type of VCs might be more likely to possess a higher level of reputation and it may benefit backed firms abroad, in terms of the market knowledge. Nevertheless, CVCs were just approached once in the empirical data (8<sup>th</sup> interview). This interview just approached the CVC's industry-related knowledge, since CVCs are likely to support backed firms within the same industry.

In line with the literature, home country partners might have a high importance in the backed firm's international path, since they may possess relevant information about the backed firm and it can be useful for stakeholders within foreign markets (Guler & Guillén, 2010a). Actually, according to this evidence, home country partners may facilitate the backed firm's international approach through the minimization of informational lacks, but this trend was not referred in the empirical data.

Geographic proximity between VCs and backed firms was also approached in the literature. Sorenson and Stuart (2001) considered that VCs are likely to be near the backed firms to oversight their decisions and maintain close connections with their founders. However, this point was not supported by the empirical data, since international VCs might be involved in the investments (4<sup>th</sup> interview). In fact, the geographic distance were not considered as a decisive point in the empirical data.

Product development was not deeply approached by empirical data. According to Hellmann and Puri (2000), VCs are likely to reduce the backed firm's time to market, since they might possess assets which can make the product launch faster. Nevertheless, this aspect was not approached in the interviews. In fact, most of the VCs highlighted their influence on strategy-related aspects, instead of product-related aspects.

In the literature's review, the achievement of economies of scale was one of the identified small firm's constraints operating abroad. Zeng et al. (2010) referred that inter-firms might give easier access to the economies of scale, which might come from an alliance with R&D and/or producing institutions. Thus, this type of actions could be taken by VCs but this point was not approached in the empirical data.

## **Conclusions and discussion**

Concerning the interview's outcomes, VCs are likely to develop some important activities, supporting their backed firms within foreign markets. It was possible to perceive that the VC's intervention is likely to come up through some transversal backed firm's dimensions, such as (for example) the VC's connections, their international activities or their involvement in the venture's board. Hence, it is essential to present the most significant aspects from the interviews and establish a comparison with the previous literature related to those subjects.

Board's involvement was considered a relevant point by this study. Actually, Fried *et al.* (1998) highlight this subject and this investigation's outcomes point out the same direction. According to Fried *et al.* (1998), backed firm's boards are likely to present a greater involvement in the strategy's development and monitoring than non-backed firms. In terms of the approached VCs, although most of them take a minor position in the share capital, they are likely to appoint 1 or 2 members for the backed firm's board, as NEDs. In line with Hellmann and Puri (2002), with the VC's intervention, the venture's management teams may be switched. This evidence was supported, not only through the appointment of NEDs, but also through the VC's influence (in some cases), appointing some of the "C-level positions" in the backed firm's board (CEO or CFO, mainly).

Prior international investments were another point with an important relevance in this study's results. In the literature, prior international investments are likely to enlarge the VC's networks and scope. Actually, some obstacles may be easier to overcome in foreign markets, such as the negotiation constraints (Sorenson & Stuart, 2001) and the informational lacks may be reduced. Although the empirical data have agreed with this evidence, it went further. Prior investments within foreign markets are likely to benefit future projects in the same markets.

VC's professional and personal networks were also approached through the empirical data in three main dimensions, which were their usefulness: i) supporting firms in the same industry; ii) appointing some industry experts for the backed firm's board, as NEDs; iii) reaching foreign VCs, in order to syndicate investments with them. Arthurs and Busenitz (2006) considered that VCs might be able to bring senior experienced managers to collaborate in the venture's project and these members may be recruited, through the VC's partners networks (personal connections). In fact, according to the 1<sup>st</sup> interview, VC's connections may be useful through this way and they can make the venture's board more valuable, in terms of the industry knowledge. Additionally, industry knowledge might also be improved by VC's backed firms in the same industry. This interaction with other backed firms might be important, in order to share experiences or obstacles and the international path may be easier for new ventures. Syndicated investments were also approached in this study. Actually, the international syndicated investments were highlighted as another example, in which VC's networks may be important, either in terms of industry knowledge or market knowledge. Czinkota and Ronkainen (2001) considered that backed firms must be aware of cultural assumptions within foreign markets, such as the necessity of formal or informal procedures within each stage of negotiation. Indeed, syndicate investments with foreign VCs may be a useful method (coming from VC's networks), in order to be aware of this specificities of foreign markets. Nevertheless, VC's personal connections might also be important through more points of view, such as reaching foreign stakeholders, such as customers or suppliers.

With the purpose of reaching a better understanding about foreign market's characteristics, VCs can develop some activities, within those markets, where their backed firms will operate. In the literature, VCs present a high importance reaching foreign potential customers and suppliers (Gorman & Sahlman, 1989; Schildt *et al.*, 2005). Indeed, the empirical data brought some relevant information, concerning this internationalization process of new ventures. VCs are likely to visit foreign markets, with the purpose of exploring their business opportunities and know the main local stakeholders. Additionally, VCs might be with the management team in international meetings.

In short, VCs are likely to have an important role in the international path of their backed firms, mainly, in terms of the involvement in the new venture's board, networks and international activities. In reality, new ventures might have some important advantages with VC-backing, operating internationally.

This study presents some limitations, which may be referred, in order to obtain a better understanding about the venture capital market, analyzed through the study. Actually, the sample (interviewed VCs) was not perfectly homogeneous. Some of these Portuguese VCs have a different scope, in terms of their backed firm's profile. Some of those firms were not within their first stage of development. However, all of the VC's information might be valuable, since the VC's intervention may be useful in different occasions with different backed firms.

Additionally, the VCs had different purposes, since their portfolios had different characteristics between each others. In other words, the VCs were likely to invest in different sectors and different type of support may be provided. Indeed, this aspect may be relevant since the sample might be considered as a non-homogeneous one through this way and the VC's intervention and knowledge might be biased by the backed firm's sector.

Another limitation is the origin of the VC's funds. Some of them might come from different proveniences and the VC can be "obliged" to develop some specific type of activities, according to the will of those resource providers. In these situations, the VC's intervention (for example, in terms of the international activities) and their decisions may be shared with different players or investors.

## References:

- Alesina, A., & D. Rodrik. (1991). Distributive politics and economic growth: National bureau of economic research.
- Arthurs, J. D., & L. W. Busenitz. (2006). "Dynamic capabilities and venture performance: The effects of venture capitalists". *Journal of Business Venturing*, 21(2), 195-215.
- Bachher, J. S., & P. D. Guild. (1996). "Financing early stage technology based companies: investment criteria used by investors". *Frontiers of Entrepreneurship Research*, 996.
- Baxter, P., & S. Jack. (2008). "Qualitative case study methodology: Study design and implementation for novice researchers". *The qualitative report*, 13(4), 544-559.
- Chandler, G. N., & S. H. Hanks. (1994). "Founder competence, the environment, and venture performance". *Entrepreneurship: Theory and Practice*, 18(3), 77-90.
- Cooper, A. C., & C. M. Daily. (1996). *Entrepreneurial teams*: Krannert Graduate School of Management, Purdue University, Institute for Research in the Behavioral, Economic, and Management Sciences.
- Creswell, J. W., W. E. Hanson, V. L. Clark Plano, & A. Morales. (2007). "Qualitative research designs: Selection and implementation". *The counseling psychologist*, 35(2), 236-264.
- Czinkota, M. R., & I. A. Ronkainen. (2001). *Best practices in international business*: Harcourt College.
- Eisenhardt, K. M. (1989). "Building theories from case study research". *Academy of management review*, 14(4), 532-550.
- Ellis, P. (2000). "Social ties and foreign market entry". *Journal of international business studies*, 31(3), 443-469.
- Fernhaber, S. A., & P. P. McDougall-Covin. (2009). "Venture capitalists as catalysts to new venture internationalization: the impact of their knowledge and reputation resources". *Entrepreneurship Theory and Practice*, 33(1), 277-295.
- Fischer, M. M., & A. Varga. (2002). "Technological innovation and interfirm cooperation: an exploratory analysis using survey data from manufacturing firms in the metropolitan region of Vienna". *International Journal of Technology Management*, 24(7-8), 724-742.
- Fried, V. H., G. D. Bruton, & R. D. Hisrich. (1998). "Strategy and the board of directors in venture capital-backed firms". *Journal of Business Venturing*, 13(6), 493-503.
- Gerasymenko, V., D. De Clercq, & H. J. Sapienza. (2015). "Changing the business model: Effects of venture capital firms and outside CEOs on portfolio company performance". *Strategic Entrepreneurship Journal*, 9(1), 79-98.
- Gompers, P., & J. Lerner. (2001). "The venture capital revolution". *The journal of economic perspectives*, 15(2), 145-168.
- Gorman, M., & W. A. Sahlman. (1989). "What do venture capitalists do?". *Journal of Business Venturing*, 4(4), 231-248.
- Guler, I., & M. F. Guillén. (2010a). "Home country networks and foreign expansion: Evidence from the venture capital industry". *Academy of Management journal*, 53(2), 390-410.
- Guler, I., & M. F. Guillén. (2010b). "Institutions and the internationalization of US venture capital firms". *Journal of international business studies*, 41(2), 185-205.
- Hall, B. J., & K. J. Murphy. (2002). "Stock options for undiversified executives". *Journal of accounting and economics*, 33(1), 3-42.
- Hellmann, T., & M. Puri. (2000). "The interaction between product market and financing strategy: The role of venture capital". *Review of Financial Studies*, 13(4), 959-984.
- Hellmann, T., & M. Puri. (2002). "Venture capital and the professionalization of start-up firms: Empirical evidence". *The Journal of Finance*, 57(1), 169-197.
- Howell, S. T. (2015). "Financing constraints as barriers to innovation: Evidence from R&D grants to energy startups". Available at SSRN 2687457.
- Kenney, M., K. Han, & S. Tanaka. (2004). "Venture Capital Industries". *Global change and East Asian policy initiatives*, 391-427.
- LiPuma, J. A. (2014). "Venture capital and international entrepreneurship". *The Routledge Companion to International Entrepreneurship*, 186.
- Oviatt, B. M., & P. P. McDougall. (1994). "Toward a theory of international new ventures". *Journal of international business studies*, 25(1), 45-64.

- Rennie, M. W. (1993). "Born global". *The McKinsey Quarterly*(4), 45-53.
- Rogers, M. (2004). "Networks, firm size and innovation". *Small business economics*, 22(2), 141-153.
- Schildt, H. A., M. V. Maula, & T. Keil. (2005). "Explorative and exploitative learning from external corporate ventures". *Entrepreneurship Theory and Practice*, 29(4), 493-515.
- Sorenson, O., & T. E. Stuart. (2001). "Syndication networks and the spatial distribution of venture capital investments 1". *American journal of sociology*, 106(6), 1546-1588.
- Stuart, T. E., H. Hoang, & R. C. Hybels. (1999). "Interorganizational endorsements and the performance of entrepreneurial ventures". *Administrative science quarterly*, 44(2), 315-349.
- Yin, R. K. (2015). *Qualitative research from start to finish*: Guilford Publications.
- Zeng, S. X., X. Xie, & C. M. Tam. (2010). "Relationship between cooperation networks and innovation performance of SMEs". *Technovation*, 30(3), 181-194.



## Appendix:

Table 1: VC's presentation

Interview's number	VC's name	Interviewed	Date	City	Description
1	Vallis Capital Partners, SGPS, S.A.	Francisco Seixas (Analyst)	16/03/2017	Porto	Vallis Capital Partners is located in Porto. Its founders still maintain 100% of the share capital. One of its premises is to develop an active role supporting the backed firms, since the team of Non-Executive Directors (NEDs) show a large business experience. Vallis invests in some different industries, such as genetics, IT or construction.
2	Inter-Risco - Sociedade De Capital De Risco, S.A.	João Amaro (Managing Partner)	03/03/2017	Porto	Inter-Risco was created by the Portuguese bank "BPI", as a bank subsidiary, in order to support entrepreneurs to expand their businesses (growth capital). At that stage, BPI had 100% of the Inter-Risco's capital. Currently, shareholders have 51% of the capital and BPI the remaining (49%). Inter-Risco invests in some different industries, such as oil and gas, accounting or engineering and industrial maintenance.
3	x)*	x)*	17/03/2017	Porto	This VC support startups (most of them innovative firms) in the early stage. It has a great experience financing this type of firms, since the backed firm's sectors are similar between each others. The management team of the backed firm is important and some joint efforts are made, in order to turn these ideas in successful businesses.
4	2Bpartner - Sociedade de Capital de Risco S.A	Ana Rangel (Business Manager)	23/03/2017	Braga	Located in Braga, 2BPARTNER was founded in 2007. Currently, it belongs to DST group, supporting startups within the early stage and most of them operating abroad since their inception. Most of 2BPARTNER's investments are associated to the technology development.
5	BCP Capital - Sociedade de Capital de Risco S.A	Pedro Pintassilgo (Director)	01/03/2017	Lisbon	BCP Capital belongs to the Portuguese bank "Millenium BCP". After the financial crisis of 2008, Portuguese banks joined, in order to support Small and Medium Enterprises (SMEs), which were affected by the crisis, with difficulties obtaining financing.
6	Change Partners Capital - Sociedade de Capital de Risco S.A	Mário Pinto (Chairman)	27/02/2017	Porto	Change Partners was founded in 1989. This VC shows is a large experience in the venture capital market. It keeps syndicated investments in some different fields, such as the software development or life sciences.
7	Explorer Investments, Sociedade de Capital de Risco, S.A.	Pedro Valente (Analyst)	07/03/2017	Lisbon	Explorer Investments is a VC, which operates through 3 main dimensions: private equity, growth capital and tourism/real estate. It was founded 13 years ago and, currently, it keeps 3 private equity funds under management ("Explorer I", "Explorer II" and "Explorer III"). In terms of tourism/real estate, there is the "Discovery" fund and in the growth capital, the "Fund Revitalizar Norte" (FRN) stands out. There is a strong position in Portuguese and Spanish markets.
8	Novabase Capital - Sociedade de Capital de Risco, S.A.	Henrique Gomes (Investment Analyst)	01/03/2017	Lisbon	Novabase Capital is the Novabase's Corporate VC arm. It was founded in 1993. It was the investment arm of the first Portuguese incubator. Its investments are aligned with the NOVABASE's core business, which is associated to the development of new technologies.

x)\* This VC asked for confidentiality of the provided information.

Source: Own elaboration

Table 2: Interviews' script

Interviews' script
<b>1. Investigation subject:</b> This investigation project aims to analyze the venture capital market in Portugal. Specifically, the intervention of Venture Capitalists (VCs) in the new ventures' development, in the early stage.
<b>II. Questions</b>
3. VC-related questions: <ul style="list-style-type: none"> <li>• Age;</li> <li>• Volume of supported investments;</li> <li>• Portfolio;</li> <li>• Backed firms' sectors;</li> </ul>
4. Which are the projects' selection criteria? Do these ones influence the future intervention?
5. Which are the (financial and strategic) services, provide by _____ (VC's name) for the backed firms with this kind of characteristics?
6. How can these services be useful for the backed firms within their early stage?
7. In terms of the internationalization process, which part can make the decision of operate abroad?
8. Which are the most important _____'s (VC's name) advantages, supporting this kind of firms?
<b>III. Additional question</b>
9. Are the syndicated investments with another VC common? If so, in your opinion, which are the most important advantages for backed firms, in terms of their internationalization path?

Source: own elaboration

Table 3: Interview's outcomes from NVIVO

Name	Description	Sources	References
<b>Build-up strategies</b>	Sometimes, VCs acquire different companies, in order to generate a bigger one, which is capable of compete abroad (economies of scale)	1	1
<b>Functional</b>	It is related to the INV's human resources, after the VCs intervention. For example, the VC's involvement in the strategy with new human resources.	0	0
Board's involvement in the strategy's development and monitoring	The shared decision-making between VCs and backed firm.	8	24
Board observers	Sometimes, VCs choose a NED (non-executive director), which is the board member, but there are more VC's members, developing a monitoring role in the backed firm (board observers).	1	1
Debt	Sometimes, the VC's financial support is not just about equity. Some of the VCs may help their ventures, in terms of debt.	2	2
Geographical proximity of the board's members of INVs	With the VC's intervention, the INV's board may be different and new members can be added. Thus, this item is about their geographical proximity.	0	0
Services provision	Some ancillary services may be provided, in terms of the INV's professionalization.	6	10
Group Synergies	Sometimes, the VC belongs to some economic group. Thus, those economic groups may possess other firms (e.g. marketing and communication), which can provide some ancillary services for backed firms.	1	2

*Venture Capitalist's intervention and the Internationalization of International New Ventures (INVs)-Portuguese Case Study*

Name	Description	Sources	References
Outsource services based on VC's connections	Some ancillary services may be provided by VC's well known firms.	1	1
VC's hiring of new management teams	With the VC's intervention, the INV's board may be fired or maintained. Are they frequently maintained?	3	5
Recruitment based on VC's personal connections	Sometimes, the recruitment process in the backed firms may be supported by VC's partners or shareholders connections.	1	1
<b>Informational</b>		0	0
Connections with another VCs, experts or new entrepreneurs within the same industry	Relationships/connections with other players in the backed company's industry. It may be important improving the VC's knowledge about that industry in the foreign markets.	5	11
Existence of a local syndicate partner.	Share an investment with another VC, using a local partner to turn the internationalization process into an easier one.	1	2
International connections	VCs may have important and valuable connections with some institutions/human capital, which can take a decisive role, reaching new markets, due to their valuable information about foreign markets (e.g. AICEP)	5	7
Investments in the same industry for a long period of time	It is related to the prior experience in the same industry, i.e. supporting businesses in the same industry, more than once.	2	3
VC's members background	Sometimes, VCs invest in some kind of industries, in which their members/shareholders (human capital) have some knowledge or experience, since there is a better understanding about the business characteristics.	1	2
Looking for new investors	The backed firm may be looking for more financial funds and VCs can help them reaching new investors.	3	4
Personal international connections	Sometimes, VCs use their personal connections, in order to reach foreign markets. This situation may be even more important for the internationalization path.	4	5
Syndicated investments with another VC	Share investments with another VC.	6	9
Syndicated investments with international VCs	Share an investment with international VCs may have an important role, either in terms of financing or in terms of the range of networks abroad.	1	4
Syndicated investments with other institutions	Shared investments with other players, such as banks, business angels...	4	6
VC's horizontal connections (competitors)	VCs may have any kind of important connections with potential competitors, which may be useful for backed firms, in order to have a better perception about the main characteristics of that market.	0	0
VC's prior (international) investment experience	VCs may have prior investments with other backed firms, which may benefit the current backed firms. These prior investments may give the VCs the chance of learning from past experiences.	5	7
<b>Marketing</b>	The most noticeable VC's capabilities in the international markets, in terms of marketing intervention (for example, product, distribution or communication)	0	0

Name	Description	Sources	References
International activities	Some VCs support their backed firms, giving them the chance to participate in some international events, such as international fairs (e.g. NOVABASE CAPITAL). Additionally, there are more activities in which VCs can go along with backed firms, such as international meetings (VC's negotiation skills)	4	9
Market analysis - selecting markets	Some VCs used to support their backed firms, studying the foreign markets, in which those backed firms will be operating (e.g. potential groups of customers, potential partnerships, etc.)	4	6
Regulatory problems and adaptation	VCs may be useful for INVs, helping them with the regulatory constraints (e.g. health sciences sectors)	1	2
Social Status	Reputation and "social status" may be important, in the international path. For example, the backed company's credibility may be strengthen, due to the VC's social status, e.g. attracting the attention of important stakeholders such as customers, suppliers.	3	4
Time to market with VC's support	Is the time to market faster with venture capital backing? If so, why?	2	2
VC's connections to enhance the product development	In the foreign markets, it can be difficult to develop the firm's product. Thus, the VC's relations may be important, within home countries or abroad. For example, close connections with important with HR with managerial expertise and high industry experience.	2	4
<b>Mergers, acquisitions or International partnerships</b>	VCs may help their backed firms, dealing with these kind of processes.	3	3
Acquisitions	Sometimes, it is common to buy other companies, in order to enlarge the production capacity to obtain economies of scale, for example. Thus, VCs may support backed firms, studying the market and analyze which are the most interesting firms to acquire.	1	2
International partnerships	VCs may have an important role, establishing the international partnership's terms and conditions.	1	1