

Exit Channels of Venture Capital

Cross-Border Venture Capital Investments and Globalization of Enterprises

Nao Nakatani

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ABSTRACT

Tampereen ammattikorkeakoulu
Tampere University of Applied Sciences
Degree Programme in International Business

NAO NAKATANI:
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The thesis was written to study the impact of the involvement of venture capitalists on young companies: especially on internationalization of young businesses, when the investments were done by venture capitalists with foreign backgrounds. This was done with primary aim of encouraging entrepreneurs to strategically select investors for their nascent business by analyzing what 'value-added' venture capitalists would possibly bring, other than the money they invest. Moreover, the thesis gave particular focus on the changes in exit channel of domestic investments and of cross-border investments. The outcome was essentially addressed to venture market in Finland, since the research was conducted with Finnish venture capitalists.

The theoretical framework included the symbolic value-adding activities of venture capital, geographic distance investments and the risk management methods of venture capital: specialization and diversification and such. The basics of venture financing and venture capital were also described in the paper.

The research took qualitative approach; interviews with Finnish venture capitalists were carried out. Data of annual flow of Finnish venture capital was provided by FVCA (Finnish Venture Capital Association).

The result of the research suggested no direct linkage between the presence of foreign venture capitalists in investments and the foreign exit of the portfolio companies. However, it supported the theory of accelerated market expansion of portfolio companies in foreign countries when it was backed by foreign venture capitalists because of the wider reach and advanced knowledge in those markets that foreign venture capitalists could provide. Additionally, the thesis raised a proposal of less defined concept or, weakening definition of cross-border investment especially in Europe.

Key words: venture capital, venture financing, internationalization, entrepreneurs, cross-border investment

CONTENTS

1	INTRODUCTION	4
1.1	Purpose and research objectives	5
1.2	Methodology	6
2	VENTURE CAPITAL INDUSTRY.....	8
2.1	How it works.....	8
2.1.1	Actors in venture financing cycle	9
2.1.2	Venture capital financing stage	11
2.2	Process	14
2.2.1	Sourcing	15
2.2.2	Screening	15
2.2.3	Contracting	16
2.2.4	Monitoring.....	17
2.2.5	Exit / Termination.....	17
2.3	Risk mitigation and value-added	19
2.4	Diversification and specialization	21
3	GEOGRAPHY OF INVESTMENT	23
3.1	Importance of geographical location	23
3.2	Syndication	25
4	SUCCESSFUL EXIT.....	27
5	TREND OF FINNISH VENTURE CAPITAL	30
6	RESEARCH DESIGN	34
7	ANALYSIS	38
8	CONCLUSIONS AND DISCUSSION	43
9	LIMITATION AND AVENUES FOR FURTHER RESEARCH.....	46
	REFERENCES	47

1 INTRODUCTION

The cluster of economic activity spurred by a sufficient volume of venture capital in a region, which was first modeled in Silicon Valley, has been capturing enthusiastic attention as a part of start-up ecosystem, and been installed in many European countries. The multiplier effect of venture capital (VC) seems to be unpredictable, and is almost far-reaching (NVCA, 2019 10).

Yet there is a significant difference in the size of venture capital industry among regions and countries. While the United States keep its status as the most affluent ground for venture capital investment to date, the size of the industry as a whole, in many senses (such as, the number of deals, of venture capital firms, and the euro amount of deals), has been growing also in Finland. Not only that, has it been reported that 4,000 of entrepreneurs, who proactively challenge the risks for success, start their business operations in Finland each year (Business Finland, n.d.). In this globalized generation where businesses seek opportunities in larger, border-less markets, many of those entrepreneurs may have potential to succeed in international market already in the early stage of their businesses.

Venture capital is identified with its value-added activities for portfolio companies; which is quite unique compared to other financial resources available to young businesses. This distinctive attribute of venture capital might have effect on investee companies' business plans, and their willingness to go global. Moreover, to choose the right venture capitalist who provides right value to the company, not the one who injects only financial capital, is of great importance (Gerken 2014, 200) for the entrepreneur's better performance, especially in venture capital deals. This means that an entrepreneur should strategically select an investor who is likely to add extra-non-financial value that suits the need of his company. If he plans to go international, it would be the smartest decision to have his business backed by the venture capitalist who can guide him to, or bridge his business to foreign markets.

The paper first begins with explaining what is done and how it is done with venture capital. It is introduced in as simple texts as possible, and as light volume as

possible. It is considered as necessary in order to get most out of the research, as a branch makes more sense when one sees it as a part of the tree. Next, in chapter 3 and 4, the paper takes a closer look at the branch: cross-border investment and VC's successful exit channels (M&A and IPO). The data of Finnish venture capital in 2018 is also introduced and examined. The idea for the research is fermented here. The research design and result are presented after, followed by conclusions and discussion. Limitation and ideas for future researches are given at very last of the paper.

1.1 Purpose and research objectives

The underlying purpose of the paper is to encourage entrepreneurs, particularly in Finland, to consider venture capital as an option when financing their nascent businesses, and to suggest them to strategically select most favorable investors for themselves. Great idea never comes under the spotlight unless it is sufficiently sourced. When seeking out funding, however, a smarter entrepreneur can work on it not only for financial capital, but also with his eyes on other possible benefits of getting financed by external party.

The question that the paper tackles on is how this strategic selection can be done by an entrepreneur accordingly with his business plan. To narrow it down the paper seeks the relationship between the participation of international investors in investments and business expansion of the companies in foreign markets. The research aims to find out contribution of cross-border venture capital in internationalization of entrepreneurships. The outcome is essentially Finnish industry-specific since the research is tackled by data analysis of Finnish venture capital and interviews with Finnish venture capitalists. The qualitative research is designed with focus on the lucrative exit of portfolio company in foreign market (i.e. foreign stock market listing); which accelerates market expansion of the company in abroad.

The findings would help entrepreneurs in selection of financial resource. Additionally, it encourages them to deepen the understanding of venture capital and

the scenes especially in Finland. While absence of venture capital in the area causes decreased entrepreneurs' demand towards venture capital, once the understanding about them spreads, it is shared among local business community, including bankers, lawyers and such in the region; it essentially activates venture capital cycle. (Colin 2007, 100, 108.) The paper would fulfill its highest hope if it increases anybody's interest in venture financing at any degree.

1.2 Methodology

First of all, the literature reviews on venture capital as broad subject were done to grasp the industry as a whole. This part plays a pivotal role in the paper, since soaking oneself into the world of venture financing is certainly a first step in preparing the ground for ultimate research question. General information about venture capital are collected from literatures; how it works and who are involved are introduced first.

Then further reviews of previous researches particularly in cross-border venture capital investments, syndication and exits were conducted intensively, in order to develop the question and the research design by filling the background with prevailing theories. These existing researches were found mostly on ScienceDirect.com, while some of them were specifically referred to by individuals during the thesis work. Furthermore, data of Finnish venture capital industry was obtained from Finnish Venture Capital Association (FVCA) through personal email inquiry. The data was visualized in charts and is shown in the paper, in order to understand the trend of current venture capital environment in Finland.

After that, the qualitative research was conducted with venture capitalists in Finland, in an in-depth interview style. Regarding the design of research executed for this paper, the detailed structure is provided in later chapter (see chapter 4). Qualitative approach was chosen because of: the limited resource of the research, the low expected response rate in order to carry out a quantitative research and extract a statistical conclusion in this occasion. Moreover, it is expected to exert

more powerful outcomes to hear from investors themselves, when one needs to know current venture capital scene in Finland.

2 VENTURE CAPITAL INDUSTRY

In order to aim the higher quality of outcome of the research, it is utterly important to have sound knowledge about how venture capital is dealt by whom in first place. The deeper and wider the understanding in the industry is, the clearer what the research result suggests becomes. Chapter 2 is presented for this reason. It introduces actors in venture financing, the financing cycle built on each business development stage, the venture capital investment cycle and, risks and controls that characterize the industry.

2.1 How it works

Venture capital falls into private equity sector (NVCA 2019, 59). Demaria (2010, 95-96) argues that private equity interventions have diversified, and it sometimes funds publicly listed companies with a particular aim. However, in the traditional sense of the term, private equity (PE) is deals that are negotiated with privately owned companies that do not have its shares traded on public stock exchange (NASDAQ n.d.; Demaria 2010, 3; NVCA 2019, 7).

Venture capital is conventionally deemed as a financial solution for early-stage companies (Demaria 2010, 78; Talmor & Vasvari 2011, 359). Because companies in the very beginning of their life often lack the revenue and are in need of financial support from external investors (Gregoriou, Kooli & Kraeusl 2007, 3), venture capital firms support most innovative and promising companies that cannot be financed with traditional bank loans (NVCA 2019, 7).

Fundamentally, venture capitalists are professionals with various backgrounds (Batterson & Freeman 2017, 105), who: pool money for a management fee (Allen 2009, 367); connect funds acquired from capital providers and entrepreneurs who need financial capital (Batterson & Freeman 2017, 3). They challenge risky, long-term investments for most talented entrepreneurs until it matures with successful exit events; that are, commonly, when a company either goes public (listed on

public stock exchange) or is acquired by other firms (M&A). Otherwise the investment yields little value for investors. (NVCA 2019, 7.)

To better capture the role of venture capital in growth of young companies, other financial resources available for entrepreneurs, particularly those actors that are often confused with venture capital firms and frequently mentioned together with them in the context of venture financing are introduced here, as well as the stage of business development in which venture capital firms are normally involved.

2.1.1 Actors in venture financing cycle

In venture financing community, and the literatures dedicated to it, business angels, or simply angels, and private equity firms are oftentimes remarked as key elements together with venture capitalists. Angels are affluent individuals (Gerken & Whittaker 2014, 132) who invest their own personal capital (Talmor & Vasvari 2011, 360), whereas venture capitalists are institutional managers (NVCA 2019, 7) and ultimately, are brokers; they raise funds from original investors such as, high-net-worth individuals or institutional investors, and invest it to companies with high growth potential (Plagge 2006, 8; Batterson & Freeman 2017, 3-6).

In many cases, angels are former or active entrepreneurs, or executives in their own businesses (Allen 2009, 351; Demaria 2010, 78). Responding to increasing number of this type of individual investors, angels facilitate groups or networks where they can collaborate with each other on their investments (Gerken & Whittaker 2014, 132).

Because of their quicker investment decision making (Allen 2009, 352) and their less-strict requirements imposed on potential investments compared to other external sources of finance, angel investors are typical solution for businesses in need of seed capital (Gerken & Whittaker 2014, 132). Moreover, angels generally focus on initial equity funding (Allen 2009, 351-352; Talmor & Vasvari 2011, 360; Batterson & Freeman 2017, 35), businesses younger than five years (Allen 2009,

351); which Gerken and Whittaker (2014, 132) addresses as speculative opportunities.

Private Equity (PE), the collective term for investments made in unlisted companies, is the term that is also used for investors distinguished from venture capitalists; and they work under different investment strategies (Gerken & Whittaker 2014, 108).

Private equity investment focuses on late-stage companies (Plagge 2006, 4), whereas venture capital normally invests in younger businesses. According to the definition set by FVCA (n.d.), private equity investors are to support the growth of more established companies. As Julianna Borsos (2019), CEO & founding partner of Bocap Private Equity Ltd. explains, high growth established companies normally have a minimum turnover of million euros. This is in contrast to venture capital, which the investee companies are not necessarily profitable. Private equity investments are structured to fit to needs of matured companies, thus the threshold and the size of investments are essentially high and large.

Gerken and Whittaker (2014, 108) shed light on the most common PE strategy, referring to leveraged buyout (LBO); that is the procurement of a majority of control in an existing company. However, the line between the different types of investments under the collective term of 'private equity' are remained relatively obscure (Demaria 2010, 75), and more ambiguous in Europe than in the United States (Landström 2007, 7).

Venture capital is to fill up the funding void lying between initial capital, that is accessible through business angels and the threshold of PE, capital markets or bank lending (Talmor & Vasvari 2011, 361). Complex enough, there are several different types of venture capital, add to independent private venture capital firms such as: public sector venture capital, where initial money comes from government (Luukkonen 2006, 2007; Luukkonen & Maunula 2007) and; corporate venture capital, which is typically founded by larger corporations with the aim of market share expansion or acquirement of stronger technical competitiveness

(Gerken & Whittaker 2014, 153). Corporate venture capital often takes a form of in-house venture corporate division (Talmor & Vasvari 2011, 360).

There are some more actors partaking in the financing cycle of nascent business and supporting its development. Given an insightful remark provided by Steve Blank, a consulting associate professor at Stanford University, these roles that are played by different actors in different stages construct layers of start-up ecosystem, encourage the de-centralization of access to finance (Gerken & Whittaker 2014, 27). This can be in harmony with what Luukkonen (2010, 3) notes in his discussion paper, suggesting the importance of sufficient number of risk takers in the financing cycle.

2.1.2 Venture capital financing stage

Depending on the stage of business development, venture financing is recognized as and identified with different needs of entrepreneurs and different degree of risks. Moreover, once an investment has been made, it is often followed by a series of follow-on investments called 'rounds'; which typically take place every year or two, involve several private equity investors (Morgan 2009, 4; NVCA 2019, 7, 57). These 'rounds' are usually associated with progress in business maturity because a company needs additional capital when it crosses over a bar to the next stage of growth. As Demaria (2010, 81) states, the infusion of further fund can be sustained in-between these successive rounds of financing if the venture fails to step up to the next stage of development.

Acknowledging the possibility of extensions and overlaps in stages as a result of different strategies and goals of individual venture capital firms, Gerken and Whittaker (2014, 109) present four stages as a common frame: seed stage, start-up stage, expansion stage and bridge (pre-public) stage.

Seed stage / seed financing

In this stage, an incorporation has just been occurred, the products are still in the development process (NVCA 2019, 58), and revenue is unlikely to be recognized

(Talmor & Vasvari 2011, 360). Investing in this phase is considered to be even riskier in generally risky venture investments due to the high uncertainty it essentially carries (Gerken & Whittaker 2014, 112). Because of the substantially low survival rate of business, seed capital is least favorite investment area for investors. However, it is of vital importance as it forms future companies. (Demaria 2010, 79.) Business angels often play the key role here (Demaria 2010, 78). Financing is typically less than \$500,000 (Gerken & Whittaker 2014, 110; Batterson & Freeman 2017,38; NVCA 2019, 60).

Start-up (early) stage / series A, B

This is where an initial concept of business and a management team are officially formed, and prototypes and marketable products are fully-tested and developed (Schertler 2006, 46; Talmor & Vasvari 2011, 360; Gerken & Whittaker 2014, 113). An introductory marketing campaign might be launched, the market feedback would be carefully examined (Schertler 2006, 46). Venture capitalists commonly join from this stage, taking over the seed-funding made by business angels (Talmor & Vasvari 2011, 360; Batterson & Freeman 2017, 39). Financing needs would be in the range from \$0.5 million to \$5 million (Batterson & Freeman 2017, 39).

Expansion stage / series B, C

In this stage, a business is seeking a capital to grow with the preliminary proven and accepted concept and products (Allen 2009, 345; Gerken & Whittaker 2014, 115). Considerable increase in revenue can be seen (NVCA 2019, 52); that drives a company to expand, causes additional capital needs in order to keep up with rising demands (Schertler 2006, 46; Batterson & Freeman 2017, 39). Financing needs vary widely in this round. However, typically fall into the range of \$5 to \$25 million. (Batterson & Freeman 2017, 40.)

Bridge stage / series D

The final stage before the exit. A company is aiming for successful exit or liquidity event for investors (Gerken & Whittaker 2014, 118-119). Private equity firms may join in this financing stage (Plagge 2006, 4).

Seed round, where a company is still at its very first stage of business, is the stage of highest risk because uncertainty is at its highest with many questions unanswered both in the business' potential-wise and the market-wise (Allen 2009, 369). In this phase, the volume of investments is expected to be small on average (Schertler 2006, 46). On the other hand, the risk of total failure and total loss are tremendously lower in later stage investments, while the money sought for an investment is quite large (Batterson & Freeman 2017, 40).

To put this simply, as shown in the figure 1, in general the earlier the financing stage, the greater the risk of total loss, so is the return potential (Gerken & Whittaker 2014, 204; Batterson & Freeman 2017, 41; NVCA 2019, 54).

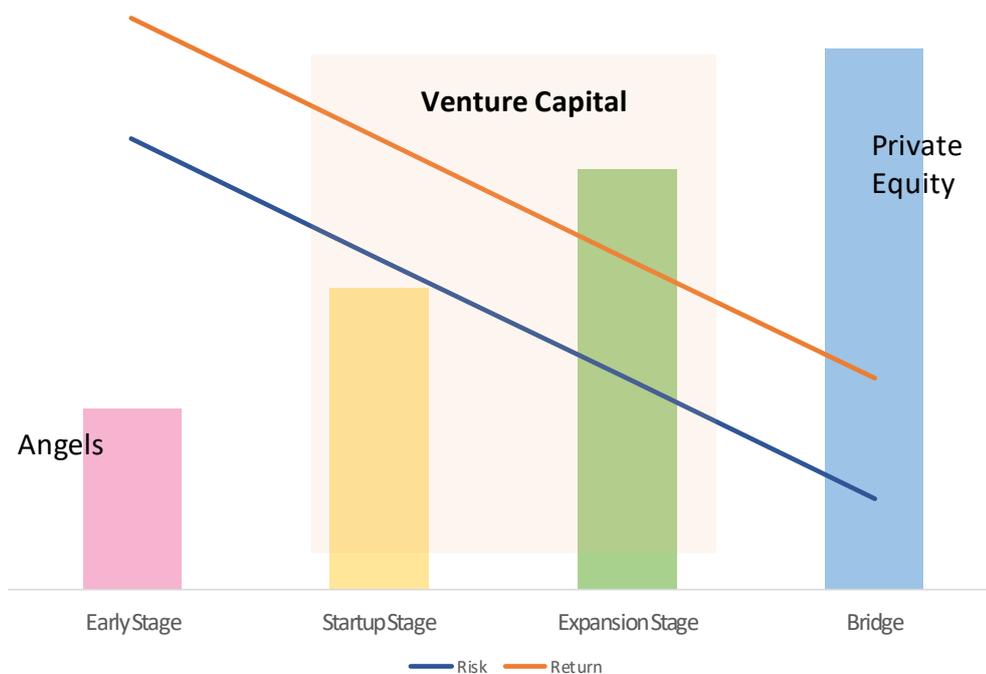


FIGURE 1. Investment risk and return by business development stages

This is because investors naturally demand a higher rate of return for an investment with greater level of risk (Allen 2009, 370). It should be noted as well that investments usually take longer to mature when it is made in earlier stage (Demaria 2010, 79); which indicates the higher illiquidity.

Most favorable financing stage for venture capital has been argued in many literatures, however, according to Batterson and Freeman (2017, 71), more traditional success formula is the investment made in companies with their potential being acknowledged by angels' financing, but before radical value escalation.

2.2 Process

As venture capital is a pool of capital (Allen 2009, 367), its investment cycle normally starts with fund raising, in which venture capitalists turn to outside institutional investors or wealthy individuals and ask for money to invest in young entrepreneurs (Plagge 2006, 8). Taking the guide to venture capital investment manifested by Gerken and Whittaker (2014) as an example, the process is divided into five broad steps in this paper: 1. sourcing; 2. screening; 3. contracting; 4. Monitoring and; 5. exit / termination. Figure 2 shows the flow of venture capital.

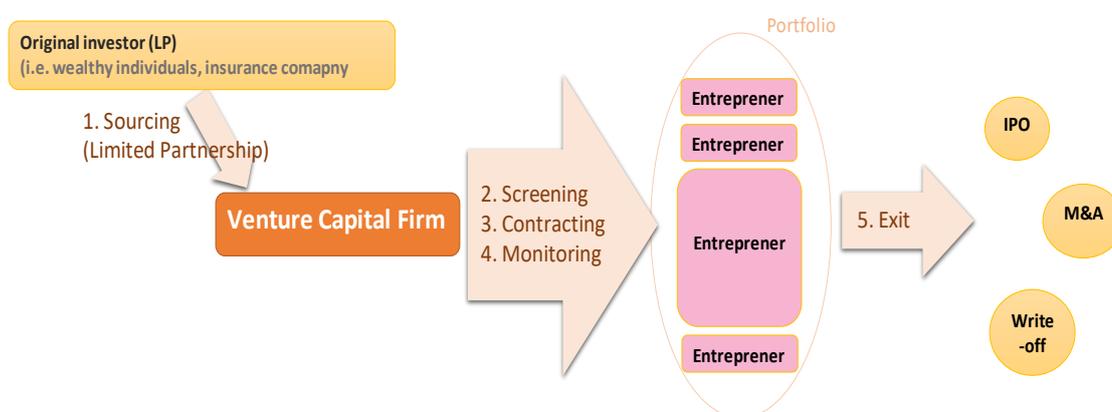


FIGURE 2. VC investment cycle

Each step is introduced in the following sub-chapters. Due to the complex nature of venture capital investment structure in which a venture capitalist plays a dual-role (as an investee and an investor), the identifiers are given as follows in order to clarify which role of venture capitalist is being discussed in the text: 1. in the relationship between initial investors who provide capital to venture capital firms and venture capitalists, initial investors are addressed as limited partners (LP) and venture capitalists are directed as general partners (GM); 2. otherwise the discussion is meant for venture capitalist-entrepreneur relationship.

2.2.1 Sourcing

The money that venture capital firms invest in nascent businesses comes from varied sources (Gerken & Whittaker 2014, 19). Commonly, it is brought by either financial institutions (e.g. banks, insurance companies, etc.) or other investors (e.g. wealthy families, endowment funds, universities, etc.) (Collin 2007, 92).

Limited partnership is the most frequently observed structure in the relationships between money sources and venture capital firms (Gerken & Whittaker 2014, 153; NVCA 2019, 8) with a pre-determined period of time around 10 years (Schertler 2006, 36; Cumming, Fleming & Schwienbacher 2007, 162; Gerken & Whittaker 2014, 153, 191). LP usually pays GP an annual management fee of around 2.5 % of the capital handled and carried-interests of around 20 % of the realized profits over the capital return (Schertler 2006, 37; Cumming et al. 2007, 162).

To fund venture capital firms is an attractive option for LPs, when GPs' superior abilities in investments outweigh LPs' resources and expertise to deal directly with start-ups (Colin 2007, 92). While LP would carefully evaluate GP's investment-associated skills (Gerken & Whittaker 2014, 182), prestigious GP might also set a bottom bar for fund he receives from LP (Batterson & Freeman 2017, 36) to eliminate small players.

2.2.2 Screening

The number of investment opportunities stumbling on an investor's desk is myriad (Allen 2009, 369; Gerken & Whittaker 2014, 172). Business plan is a primary tool that investors almost always check at very first phase. By looking at it, venture capitalists would eliminate candidates that do not meet their investment criteria, and only those that pass this process will be taken to meetings with investors, followed by due diligence. (Allen 2009, 369, 371.)

Criteria in candidate selection differ widely depending on individual venture capitalist's target, type of industry, financing stage, geographic location, and size of investment (Zacharakis & Shepherd 2007, 178).

Due diligence

It is a thorough check up on the business of candidate company and team, conducted by a venture capital firm (Allen 2009, 371; Gerken & Whittaker 2014, 180). In many cases, it is required by law to perform due diligence prior to contracting (Gerken & Whittaker 2014, 180). While acknowledging chronic lack of time of venture capitalists especially in a pursuit of high-quality investments, Batterson and Freeman (2017 102, 109) state that venture capital firms that do not conduct adequate due diligence should be avoided by entrepreneurs because the focus of such firms might be elsewhere but not to achieve large capital gains by supporting entrepreneurs in building successful companies.

2.2.3 Contracting

Term sheet is the starting line of investment negotiation in venture capital (Allen 2009, 371) and the basis for all other legal documents in the investment that ensures common understanding among involving parties, about responsibilities and expectations associated with the transaction (Gerken & Whittaker 2014, 205-206).

Terms used in the sheet are generally categorized as either economic or control (Gerken & Whittaker 2014, 205; Spencer 2017, 124). According to Spencer (2017, 124), economic terms are to define how the value of investee company is divided, whereas control terms are to rule decision making process in the company and who are responsible for the decisions.

2.2.4 Monitoring

Once the investment is made, venture capitalists monitor the portfolio company (Collin 2007, 99; De Clercq & Manigart 2007, 193; Klonowski 2010, 207). A Venture capitalist may use financial parameters including EBITDA or EBIT, also scan the industry in which the investee company operates, as well as macro environment (Klonowski 2010, 207), in order to ensure the growing profitability of the company. Furthermore, by monitoring the investee company, the venture capital firm as GP satisfies its trustee's responsibility to LP, keeping its eyes on behavior of participants in the investment (Gerken & Whittaker 2014, 212).

It seems to be the conventional understanding nowadays that venture capital firms provide not only financial capital, but also knowledge capital to investee companies (see for example, Plagge 2006; Talmor & Vasvari 2011). As a matter of fact, their hands-on participation in portfolio companies can be the definition of distinctive characteristic of venture capital (Klonowski 2010, 214). Plagge (2006, 5) states that only venture capital can generally assist the management of the portfolio company and infuse 'smart money'.

Importantly, Gerken and Whittaker (2014, 212) suggest that the true value-adding activities of venture capitalists mainly take place during monitoring and monetization (exiting) processes, and this is where investors with sophisticated skills are more appreciated.

2.2.5 Exit / Termination

The last stage of the venture capital cycle is significantly important because this is where the return on investment is finally realized (Schertler 2006, 76, 87; Gregoriou et al. 2007, 3). Exit mainly takes a form of either initial public offering (IPO), M&A (or trade sale), buyout, or write-off (Leshchinskii 2003, 77; Schertler 2006, 76; Demaria 2010, 14).

IPO is the method to take a portfolio company public by selling its shares that the venture capital firm holds through public stock markets (Plagge 2006, 10-11; Schertler 2006, 76; Demaria 2010, 14). As Allen (2009, 373) manifests, IPO has major advantages and it is the ultimate objective of many VC-backed companies; a substantial amount of money is raised through this path and it is hardly beaten by other exit channels. However, literatures also point out the extremely complex and effort consuming process of going public. For example, the transformation would possess tremendous change in the structure of the company. Moreover, appropriate underwriters and consultants need to be hired. (Bertoni & Giudici 2003, 209.) Therefore, it is usually costly (Bertoni & Giudici 2003, 209; Gerken & Whittaker 2014, 229).

M&A, where the shares of portfolio companies are sold to third party such as another company or private equity group (Plagge 2006, 10-11; Schertler 2006, 76; Demaria 2010, 14), is the main exit route also in overall PE sector (Demaria 2010, 14). This method is preferred because of its speedy and efficient transaction as well as lower legislative barrier (Gerken & Whittaker 2014, 228). Notwithstanding, it is expected to be difficult to execute in some sectors, depending on the size of active private equity market as a whole, or the sector-specific regulations; for example, foreign players in financial service sector often encounter legal obstacles (Demaria 2010, 14).

Buy-back is performed when a portfolio company turns out to be highly profitable (Demaria 2010, 14), and be able to secure sufficient resources by itself (Plagge 2006, 10). In this case, management of the company buys back the shares held by the investors, then sells or holds it within the company (Plagge 2006, 10; Schertler 2006, 76). This scenario rarely occurs in venture capital investment (Demaria 2010, 14).

Write-off is what happens in a case of failure. It is to simply cancel the involvement of venture capital firm in a portfolio company. (Schertler 2006, 76.) If a portfolio company exhausts its share capital (i.e. the money infused by venture capital firms), it has to either make extra profit or arrange additional funding (Gerken & Whittaker 2014, 226); otherwise it is bound to go bankrupt or winding up (Demaria

2010, 14; Gerken & Whittaker 2014, 226). It is possible that a venture capital firm prepares 'venture debt' for crumbling business, which is the money that the venture capitalist fetches from commercial banks. It comes with high interest rate and warrants, thus it is somewhat expensive option for companies. (Draper III 2011, 51.)

Exit is likely to occur when an investee company becomes profitable and attractive enough for public market or for other larger investors and when the market for exiting company is expected to be welcoming for them (Gerken & Whittaker 2014, 226). However, it is not that exit can be made whenever the investee company is ready; whether the exit can be lucrative or not highly relies on exit market condition. This point is given a closer look in later chapter.

2.3 Risk mitigation and value-added

Venture capitalists monitor the participants of the investments (i.e. portfolio companies) to ensure that their behavior do not harm the responsibility of GP to LP (Gerken & Whittaker 2014, 212). To achieve this, venture capitalists must capture the situation of investments clearly and accurately, avoid any risks that indicate failure.

The definition of risk covers a broad variation of possible consequences brought by an uncertain event, therefore the term is quite ambiguous. In the discipline of risk management, its characteristics are widely classified in two categories: pure risk and speculative risk. (Dorfman & Cather 2013, 4.) According to Dorfman and Cather (2013, 4), speculative risk refers to loss exposures possibly result either in financial suffering or a wealthier financial status or, the status unchanged. The risk that carried by venture capital investment seems to squarely fit in this category. Despite of its risky nature, venture capital firms are essentially risk averse (Allen 2009, 369); in order to assure the alignment of interests among stakeholders under 'win-win' situation (Klonowski 2010, 210), many risk mitigation techniques have been developed.

Most often cited risk in venture capital context would be asymmetry information (see for example, Schertler 2006; Klonowski 2010). It is a situation where one party has more information about underlying matter than another (Dorfman & Cather 2013, 100). It is oftentimes associated with superior information about the business that the management of portfolio company has over investors (De Clercq & Manigart 2007, 196-197; Klonowski 2010, 209).

This amplifies the risk of adverse selection (Schertler 2006, 51); the situation in which one party tells another distorted reality in order to pursue own benefits (Dorfman & Cather 2013, 100). De Clercq and Manigart (2007, 197) further describe it that an entrepreneur might seek his own wealth, jeopardizing wealth of his company; which would essentially harm objective of venture capitalists. Venture capital firms try to prevent such a scenario by, for instance, meticulous deal screening (Schertler 2006, 51-52; Spencer 2017, 121-122), and stricter sentencing in contracts (De Clercq & Manigart 2007, 197) as well as conducting monitoring.

Moral hazard is another harmful phenomenon that often discussed in literatures devoted to the world of venture capital. It is defined as behavioral activities that increase the odds or severity of losses (Dorfman & Cather 2013, 84). In venture capital context, Schertler (2006, 54) gives some examples, delineating the phenomenon as the harmful behavior of one party after signing a contract. That are: the management of portfolio company uses the venture capital money in riskier way than originally agreed on or; a venture capitalist weakens his management support for an investee company intentionally.

As Gerken and Whittaker (2014, 212) states, monitoring is one of the activities that the skills and value-added of venture capitalists are most appreciated. It seems to be safe to say that their value-adding activities and risk control are inextricably intertwined. Monitoring activities of entrepreneurs and guiding them to better future scenarios are the inevitable part of risk mitigation process (Schertler 2006, 54-55; Collin 2007, 99; Demaria 2010, 80).

Venture capitalists usually occupy a seat (or seats) of the boards of directors in their portfolio companies (Collin 2007, 99; Gerken & Whittaker 2014, 53, 205, 212); this can be seen as their efforts to eliminate the gap in interests among stakeholders, namely, LPs, GPs and the management of portfolio company.

As one of the boards of directors, venture capitalist provides strategic and operational assistance, expands the connection of the company with other investors and customers (NVCA 2019, 8). Entrepreneurs tend to rely on the value-added of venture capitalists, particularly in regard to business know-how, networks and experiences (Gerken & Whittaker 2014, 191; 214). Especially, investor's network appears to be a powerful source of external expertise and referrals for the entrepreneurs (Colin 2007, 90).

2.4 Diversification and specialization

Add to these risks introduced earlier, diversification is another technique to avoid the risk of failure in investments that is often brought up to the discussion in venture capital context. In risk management discipline, it is recognized as a method in which the financial loss of a member in a group is shared across a much bigger number of members in the group that are not affected by the loss. This heavily used strategy particularly in investments in general, would be most effective when the variables in the group are less linked to each other. (Dorfman & Cather 2013, 5, 51, 62-77.) Venture capital investment is not an exception and this technique is widely deployed.

However, the strategy that leads to completely opposite side of the realm, namely specialization, is also commonly taken. As Schertler (2006, 62) indicates, in venture capital context, diversification of portfolio refers to industry-wise and/or maturity-wise diverse characteristics of portfolio companies, whereas specialization refers to consistency in them.

There are many literatures comparing these two, portfolio specialization and diversification, discussing pros and cons of these strategies, and investors' intentions in choosing either one. It seems that, although diversification generally is a traditional risk hedging technique used in the field of risk management and investment, specialization in portfolios is beneficial especially in venture capital that identified with high degree of asymmetric information, asset intangibility and overall uncertainty (Schertler 2006, 43).

By specializing in one particular industry, an investor can deepen his knowledge around that specific sector; which would result in mitigation of information asymmetry (Schertler 2006, 63), and prevent potential misbehavior of entrepreneurs (De Clercq & Manigart 2007, 203). Moreover, venture capitalists' specialized knowledge in certain area can be valuable for sake of entrepreneurs as well. Entrepreneurs might encounter more effective assistance of venture capitalists and on-time resources delivered by them because of the investor's advanced understanding in the sector (De Clercq & Manigart 2007, 203-204).

Additionally, if a venture capitalist is stage-specialized, an entrepreneur might gain skills needed in stage-specific process through the venture capitalist. Furthermore, De Clercq & Manigart (2007, 203-204) claim that there is a positive correlation between investors' strategy of specialization and investee companies' performance.

3 GEOGRAPHY OF INVESTMENT

In this chapter, issues that are related to cross-border venture capital are introduced. Unlike pure financial investment, venture capital also provides intangible assets. Moreover, monitoring is the pivotal activity that venture capitalists play in order to mitigate the risks as discussed earlier. These cannot be done easily when the portfolio company is located faraway. The impact of distance between investor and investee on investments is analyzed here as well as a technique that can decrease the difficulty of long-distance investments.

3.1 Importance of geographical location

Although the money could fly the distance (Colin 2007, 97), the location of investee companies, according to literatures, seems to matter strongly because of the nature of venture capital cluster and the portfolio monitoring process of investors.

First of all, a business located inside ecosystem would appear to be the most favorable investment opportunity for investors because of well-structured investment infrastructure, including a pool of sufficient talents and easy access to professional services such as law firms (Gerken & Whittaker 2014, 30). Rich intellectual capital cultivated by universities and diverse industries in a region is a seed drill of investment opportunity (Batterson & Freeman 2017, 44). Researchers have found the geographical concentration of the location of private equity firms and their investments in a certain urban area in a country (Schertler 2006, 49-50).

Just as importantly, when a portfolio company is located nearby where its investor is, monitoring can be done more easily (Colin 2007, 99), be more flexible (Gerken & Whittaker 2014, 30) including personal encounters outside of the board (De Clercq & Manigart 2007, 206), with less cost (Schertler 2006, 49; Colin 2007, 99).

Monitoring is one of the most important activities that venture capitalists conduct in order to, mostly, mitigate the risk of information asymmetry, adverse selection

and moral hazard; essentially, they also transfer valuable knowledge to portfolio companies during this activity. Colin (2007, 97) points out the fact that is supported by many researchers; the repeated interaction and smooth information flow are crucially important for venture capital success, which is hard to keep from distance.

This suggests that venture capitalists fundamentally benefit from less geographical distance lying between investee companies and them; however, a great amount of venture capital is invested beyond distance (Colin 2007, 106). A 'relatively recent phenomenon (Gompers, Gornall, Kaplan and Strebulaey, 2016, 13)' of geographical expansion and globalization of venture capital industry is big in scale; and it is something to be remarked.

Add to commonly known cause of foreign direct investments (FDI), such as 'easier access to external resources that allows business's expansion', Schertler (2006, 130-131) suggests two distinctive driving forces behind the internationalization of European PE industry particularly. That are: 1. insufficient size of deal flow in Europe especially in high-technology market, where investors might have to choose either investing internationally in a few industries or investing in domestic market in various industries and; 2. the demand of advanced high-technology companies towards assistance from international investors in entering international markets.

Given these Schertler's suggestions, it can be explained that this globalization of venture capital is caused by push-pull motivation; insufficient size of deal flow forces investors to diversify their investments either market-wise or industry-wise (push motivation) and the demand from candidate companies for support in internationalization encourages venture capitalists to invest globally (pull motivation). Since knowledge capital is the emblematic feature of venture capital, the pull motivation is assumed to be especially strong for venture capitalists.

3.2 Syndication

According to Collin (2007, 101, 106), long-distance investments are typically made via syndication with local investors. Syndication is where investors from different firms team up with each other (Demaria 2010, 80), and make a collaborative investment in a single company. Under this method, one firm becomes a 'lead investor' and takes a lead in monitoring in the investee company, representing other investors. Lead investor is typically the one that infused the money as a first investor. (Schertler 2006, 60, 70.)

Syndicated investments are highly beneficial for both investors and investees. Investors' different expertise bring a broader variety of knowledge (De Clercq 2007, 205), a richer network, pool of competences (Demaria 2010, 80) and information (Leleux 2007, 237). Schertler (2006, 75) suggests the possibility of increased value-added in syndicated investments than stand-alone investments, therefore the increased performance of the portfolio companies. De Clercq (2007, 204) acknowledges that increasing number of researches has been addressing the importance of knowledge exchange among syndication partners.

Considering that a local investor is typically required to undertake the distance sensitive functions (i.e. monitoring) in syndication (Collin 2007, 106), it can be expected that: cross-border investments are normally syndicated with local investors and; syndication encourages investors to consider international investment deals. As a matter of fact, the study conducted by Tykvová and Schertler (2014) found out the evidence of eased difficulty that venture capitalists experience in cross-border investment syndicated with local investors.

Nevertheless, syndication is not the flawless tactic for some reasons: because of the difficulty in finding an appropriate partner and the potentially diverse interests among investors (Schertler 2006, 69). Gompers et. al. (2016) reported, as their research result, that 'past shared successes' turned out to be very important factor in choosing a syndicate partner, as well as reputation and track record of a

firm, while geographic location of the partner was seen as less important compared to these. This result signals a highly limited number of potential syndication partners for venture capital firms.

4 SUCCESSFUL EXIT

Exit market conditions heavily affect to the ability of venture capitalists in monetizing their investments; which would be reflected on both their performance and reputation (Chaplinsky & Gupta-Mukherjee, 2016). Chaplinsky and Gupta-Mukherjee's findings (2016) suggest that the condition of exit market has a significant impact on decision making of venture capitalists, providing the result of discouraged early stage investments during the period of weak exit market conditions.

The result of study done by Gompers et al. (2016) indicates that M&A is the most often occurred liquidation event (53%), and IPOs happens substantially less (15%). The study also proposes the possibility of disguised failures being reported as M&A, to reason the high rate of exit through trade sales and suggests that M&A may not be a legitimate measure of success.

As discussed earlier, many argues that IPO is the most lucrative exit scenario, and it seems to be almost a conventional wisdom (see for example, Plagge 2006; Allen 2009). It is called 'the most satisfactory form of outcomes' by Gerken and Whittaker (2014, 180). Leleux (2007, 241) points out that better performers amongst successful portfolio companies tend to experience IPO rather than trade sales, mentioning the study done by Gompers and Lerner (2001), that found higher return yielded in IPO than in M&A.

Yet, there are as many arguments that disagree with this belief. Plagge (2006, 66-75) holds quite skeptical attitude against it especially when statistics provide more frequent occurrence of M&A. The gap between actual number of IPO exits occurred and the belief of IPO being most lucrative could be reasoned to its difficulties in carrying out successfully; IPO is resource consuming (Bertoni & Giudici 2003, 209; Gerken & Whittaker 2014, 229).

According to Leshchinskii (2003, 73), M&A is less restrictive because it comes with less uncertainty and more swift cash flow compared to IPO. If the investment region offers rich and diverse industries, it can be even more reliable and quick

(Batterson & Freeman 2017, 45). IPO, on the other hand, is highly sensitive to condition and trends in market, which means it is not necessarily always the most favorable option (Allen 2009, 373). It can be even more crucial when considering that venture capital is an investment with a certain time frame to get return from due to investors' LP-GP relationships (Demaria 2010, 14) and the pressure that investors might feel because of that (Leshchinskii 2003, 73).

It seems that IPO is preferred mostly because it can be an effective advertisement of investors (Bertoni & Giudici 2003, 209; Leshchinskii 2003, 73; Schertler 2006, 80-81; Plagge 2006, 79). It signals high quality and rich experience of a venture capital firm and brings reputation to the firm that would help them in fundraising (Schertler 2006, 80-81).

There are reasons that entrepreneurs are expected to prefer IPO as well, especially in respect to the control on their own companies. Rasila (2004, 26-27), while acknowledging the pros of M&A, manifests that becoming part of a bigger corporation through M&A might lead to the death of entrepreneurship. Leshchinskii (2003, 73) encourages entrepreneurs to pay attention to the fact that the company might lose its independence, together with the possibility of undervalued selling price.

Moreover, the weight of each exit routes differs by countries. Schertler (2006, 77) reported that European venture capital scene is heavily relied on trade sales, while IPO turned out to be the popular exit channel in the United States. The reason for this could be the presence of highly active stock exchange markets like NASDAQ in the United States (Plagge 2006, 97; Demaria 2010, 81). No equivalent to NASDAQ in real sense can be found in Europe (Demaria 2010, 81); the absence of comparable stock market (as large and vibrant as NASDAQ) is normally considered as an obstacle in venture capital flows (Plagge 2006, 97). Plagge (2006, 66, 73) proposes a simple solution of taking companies public in another country, referring to the approach of the industry in Israel as examples; However, it is typical that a company gets underpriced in foreign stock market than in domestic market.

To sum up, both IPO and M&A have pros and cons. Successful IPO can raise significant amount of money, bring tremendous other outcomes such as reputation. However, it consumes large amount of time and other resources; and the exiting company is to go through a big transformation of its structure. It needs sophisticated knowledge and expertise to achieve, as well as good condition of active, highly liquid stock market.

On the other hand, M&A could be done faster and more simply than IPO, if the investment region has diverse industries; which can mean that it needs layers of bigger companies that are willing to purchase young innovative ideas. Additionally, entrepreneurs should be aware of the degree of control over the company and the possibility of underpricing. Investment-friendly environment is imperative for both exit routes in order to achieve fair monetization.

5 TREND OF FINNISH VENTURE CAPITAL

This chapter introduces and examines the flows of Finnish venture capital. The data is collected from FVCA and converted to graphs.

Figure 3 shows the number of venture capital investments made to Finnish companies, by Finnish firms and foreign firms. In Finland, it seems that venture capital flows actively within the country and the number of cross-border investments made in Finnish companies is not enormous.

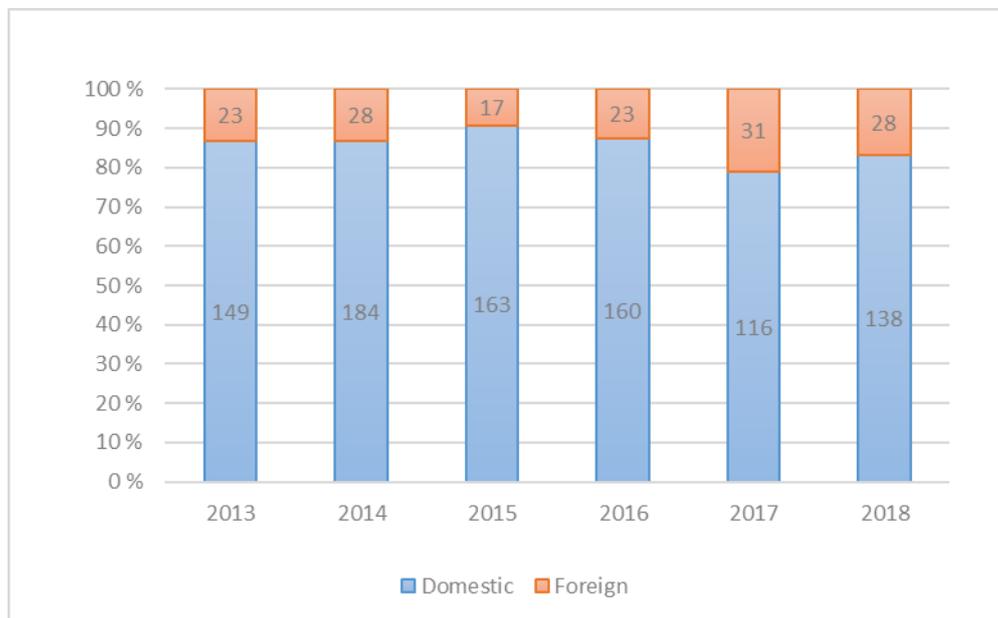


FIGURE 3. The number of investments made in Finnish companies

However, when looking at the amount of money invested to Finnish companies, it is obvious to the eyes how powerfully the cross-border venture capitalists play in the country. It even exceeds the money amount invested by Finnish venture capital firms (Figure 4). These figures signal the smaller size of each investment made by Finnish venture capital firms and cross-border investors' tendency of infusing large amount of money in each investment.

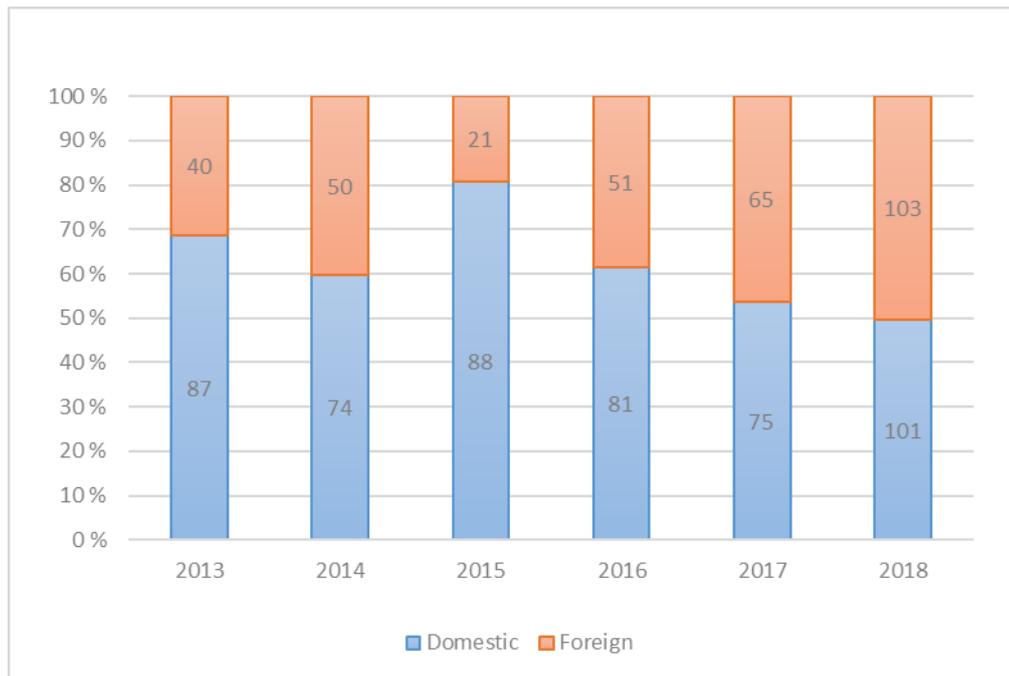


FIGURE 4. The euro amount (M€) of investments made in Finnish companies

As figure 5 illustrates, Finnish venture capital firms invest in foreign-based companies, too. It seems that they are not too international market focused, however, the weight of cross-border investment has been gradually increasing. The graph also shows the rate of use of syndication. The rate is a sum of syndication use in domestic investments and cross-border. The occurrence of syndication has been high over the years; it can be said that syndication is commonly used by Finnish firms regardless of investment characteristic, whether domestic or cross-border.

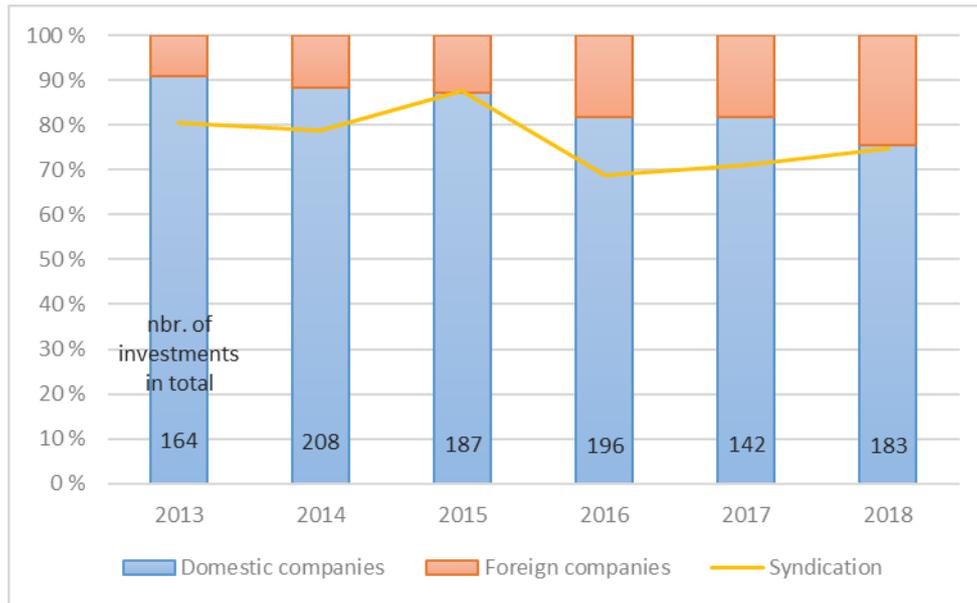


FIGURE 5. The number of investments that Finnish VC firms made, and their use of syndication

As Gompers et al. (2016) found out from their study, the higher rate of M&A than IPO can be well observed in Finnish venture capital industry, too; however, the gap is relatively narrow. Figure 6 shows the allocation of exit channels that Finnish venture capital firms have chosen in 2018 by number, while figure 7 casts in which route Finnish companies were exited (regardless of the origin of venture capitalists) by number in 2018.

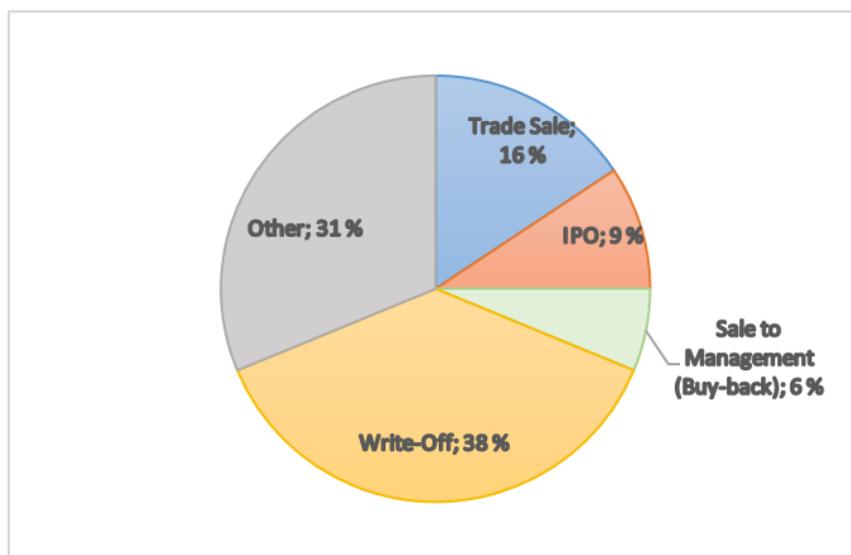


FIGURE 6. Exit channel of Finnish VC investments in 2018

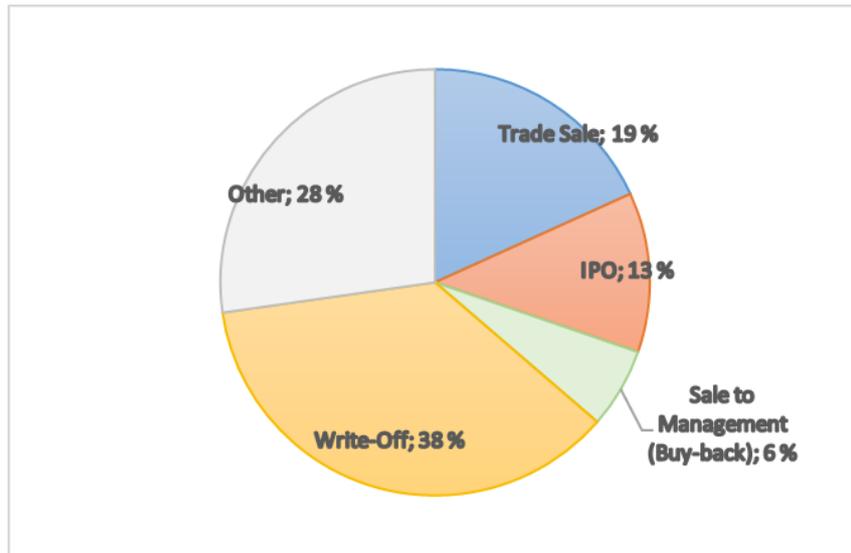


FIGURE 7. Exit channel of Finnish investee companies in 2018

The data available from FVCA does not show the markets in which these exits via IPO and M&A have been made. Trade sales and IPOs in these figures can be in Finland or foreign markets.

6 RESEARCH DESIGN

The ultimate question of paper is 'does cross-border venture capital investment encourage internationalization of portfolio company?'. By answering this question, the paper aims to see how entrepreneurs can carry out strategic selection of investors for themselves, especially when they plan to run their business internationally.

It is proposed that the globalization of private equity industry is caused by increasing demand of entrepreneurs for foreign investors' knowledge of international market (Schertler 2006, 130-131). If this is true, for venture capital industry, that is characterized by its value-added, this rising demand should be even stronger than other industries in PE sector. Furthermore, the proposal suggests the existence of positive relationship between globalization of entrepreneurship and participation of cross-border investors.

The question especially focuses on the changes in exit channels when foreign investors are involved. In this paper, foreign IPO is defined as IPO that a company makes in market that is not its home country (Hursti & Maula 2007, 835) and foreign M&A refers to a situation in which a company being purchased by a bigger company based in a country that is not home of the purchased company.

Previously, the study of Fernhaber and Li (2013) reported the strong positive correlation between international exposure and venture globalization; both foreign IPO and foreign M&A give a company more exposure to foreign market which essentially leads to the business globalization. Humphery-Henner and Suchard (2013) took an example of Moore's research in 2012 and used foreign IPO to measure venture internationalization, having considered the potentially expanded access to overseas customers and additional capital.

In this research, if the participation of foreign investors itself increases the chance of foreign exit is analyzed, add to the linkage between the commitment of foreign investors and accelerated venture internationalization.

The research takes qualitative method. Considering essentially high response rate required to carry on quantitative research, qualitative research is deemed to be more feasible for this occasion. Venture capitalists are generally known for their overloaded schedules, thus high level of non-response error and measurement error are expected under this pressure when using survey approach.

Additionally, the number of venture capital firms in Finland is quite limited. For these reasons, the research takes interview style. Basic of interview is semi-structured, which allows a smooth flow of questions and rooms for further discussion on a certain matter at the same time. Questions are structured based on three different scenarios, that are: 1, stand-alone or syndicated investment in Finnish company, without foreign venture capitalists; 2, syndicated investment in Finnish company with foreign venture capitalists; 3, stand-alone or syndicated investment in abroad (Figure 8).

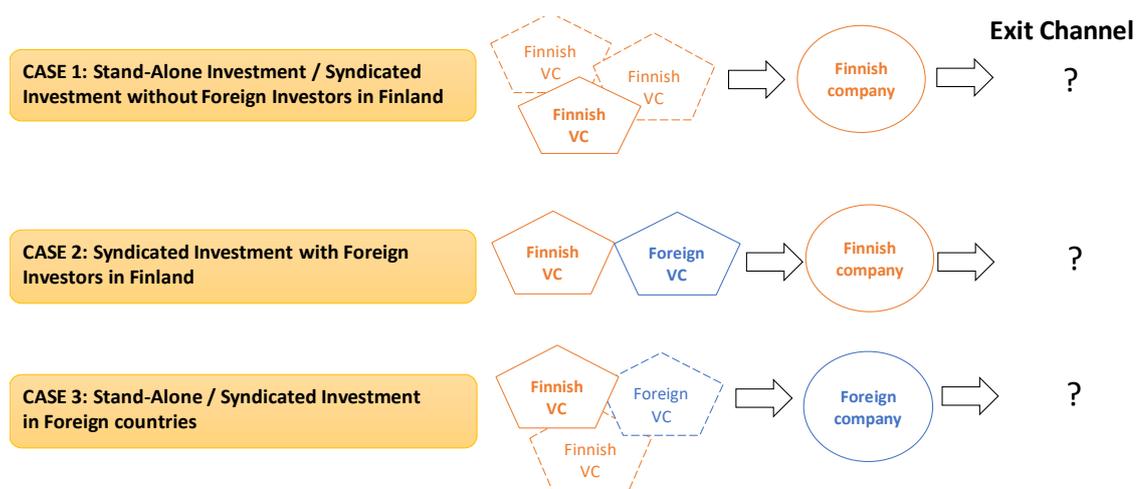


FIGURE 8. Investment scenarios hypothesized for research question

Both scenario 2 and 3 involve cross-border investment, in which a Finnish investor plays a role of either domestic investor (scenario 2) or a foreign investor in abroad (scenario 3). Both represent cross-border investment, where the relationship between foreign investor's involvement and venture internationalization can be observed, whereas in scenario 1, there is no foreign investor participated.

Add to possible influence of the participation of foreign investors, other motives of venture capitalists for choosing foreign exits routes are asked in the interview. It can provide hints for the ultimate question of the paper; how entrepreneurs can strategically select investors. Hursti and Maula (2007) conducted a research by using data of exits of European companies between 1991-2001 and addressed the determinants of foreign IPOs. Similarly, Moore, Bell, Filatotchev and Rasheed (2012) tackle with the issue by examining a dataset of foreign companies that made their IPO in stock market in the United States and the United Kingdom.

Both of researches were conducted with numerical data, with a focus leaning to the determinants of entrepreneurs in making foreign IPO. By including this question, the paper could take an advantage of the rare opportunity of interviewing venture capitalists, and better capture the real venture capital environment in Finland otherwise will not be obtained by dataset.

The expected driving force of foreign IPO or foreign M&A is shown in figure 9. The decision of investor is anticipated to be affected by three major factors: overall domestic market condition; willingness of portfolio company to exit in foreign market and; characteristic of management team of portfolio company. The external factor is expected to influence the exit route, considering what have been discussed in earlier chapters.

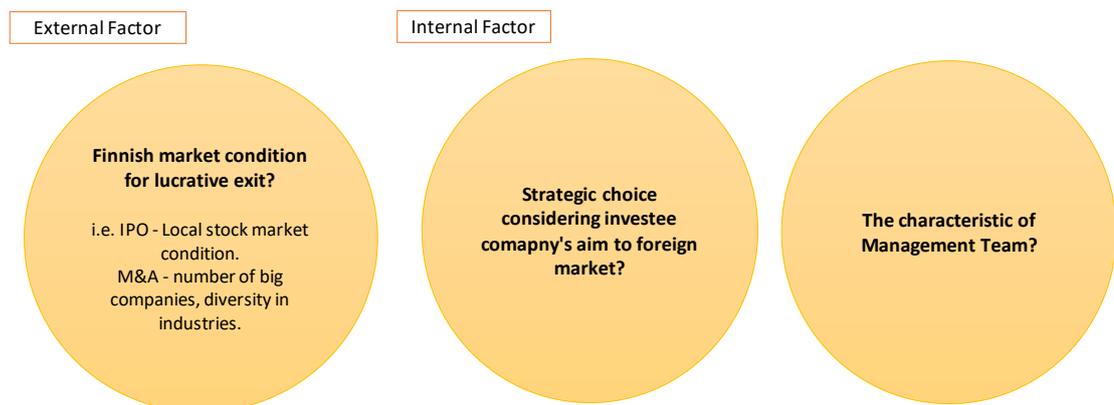


FIGURE 9. Expected driving force of investors' decision to exit in abroad

There are 67 venture capital and private equity firms altogether, listed as the member of FVCA as of June 2019. 12 firms are remained after eliminating private equity firms and young venture capital firms that did not satisfy the profile to be included in this research; the participating firms need to be running long enough and to have history of some exits. All 12 firms were contacted for the research, and two of them agreed to participate. Interviews were done with a venture capitalist from these two firms in May and June, 2019.

7 ANALYSIS

Participant A is from a relatively young venture capital firm, founded in 2012. The firm actively invests in early stage businesses, which is not necessarily profitable yet, in Nordic region. It has an office in Helsinki, also in Stockholm. It has invested around 60 young companies in its history. The firm of participant B is also early-stage-focused and specialized in fields of technology. Its current portfolio consists of about 100 tech companies. Their offices are located in Helsinki, Stockholm and Moscow.

The outcomes from two interviews agree to each other for the most part, although two interviewees stand for different opinions to some extent. A discussion here begins with venture capitalist's view of the impact of cross-border investors on portfolio companies, particularly in exiting activities; in which some degree of difference can be observed in answers from the two participants.

It has been explained by participant A that there is not a mentionable difference in investments caused by cross-border investors' involvement for the firm. The ratio of foreign exits to domestic exits is equal in the firm's portfolios; an exit channel is chosen depends solely on exit market condition. This answer denies the possibility of influence that brought by foreign venture capitalists on exit route selection, also all of the internal factors: 1. objective of portfolio company and; 2. characteristic of portfolio company.

Participant B agrees with the importance of market condition, demonstrating the importance of exit market condition at the time of investment monetization by giving a case of a Finnish pharmaceutical company; it existed in Sweden since there were higher accessibility to external investors (i.e. potential acquirers for the investment) that are specialized in pharmaceutical industry. These are well in line with what Chaplinsky & Gupta-Mukherjee (2016) propose: the significant impact of exit market condition on decision making of investors.

At the same time, the possibility of easier access to foreign market enhanced by foreign investors was suggested by participant B. The firm had several Finnish

companies in past that involved Swedish and Danish investors on the boards, and witnessed these businesses expanding in Swedish and Danish markets. It is explained as well that not only the wider network that foreign investors may have, their advanced and specialized knowledge in a particular market is highly appreciated, especially in scenario 3; when Finnish investors invest in abroad. This point follows what Tykvová and Schertler (2014) have found out; syndication with local investors when carrying out cross-border investments ease the difficulties that foreign investors would otherwise experience. Investors see the use of syndication highly crucial when investing in unfamiliar markets.

To simply put, the impact of cross-border investment on market expansion of portfolio company in foreign country is supported by one interviewee; however, its influence on exit channel selection has been denied or, not been clarified. The view of venture capitalists as a powerful source of networks, expertise and referrals seems to be almost undoubtful. This point has been discussed in many literatures as introduced earlier in the paper and has been confirmed by an interviewee. It is natural to presume that these values that brought by a venture capitalist with international background would be essentially foreign-based.

In other words, since the emblematic value adding activities of venture capital heavily involve investors' networks and their specialized knowledge, the participation of cross-border investors inevitably gives portfolio companies more exposures and widened connections in foreign markets to grow there.

The easier access to foreign market allowed by foreign investors that has been hinted by participant B and the researches that found out the correlation between foreign exit and business expansion in foreign markets (Fernhaber & Li 2013; Humphery-Henner & Suchard 2013) can lead the discussion to a possible explanation; there are two, separated key factors that encourage internationalization of young business. That are the involvement of cross-border venture capitalists and exit in foreign market. Nevertheless, it seems that the presence of a foreign venture capitalist does not necessarily cause the portfolio company to foreign exit.

During the interview, the small market size of Finland was emphasized by both participants, although the data from NVCA demonstrates active investing activities of Finnish firms within the country. As participant A described it, the limited size of industries and access to potential acquirers, together with little availability of finance options in the country determine where investments flow, regardless of investee companies' interests to go global. One of the firms that participated in the interviews had only two portfolio companies acquired by Finnish corporations in the past. The interviewee elaborated this as low interest and motivation toward startup acquisition among established Finnish companies. This is well in line with what Schertler (2006, 130-131) proposed; limited condition of the market forces investors to look at foreign markets.

Moreover, the less enthusiasm towards IPO in Europe (Schertler 2006, 77) seems to be true, at least in Finland. IPO in Finnish market (i.e. NASDAQ Helsinki) was described in the interview as 'able to be dealt', although the condition is always time-sensitive.

The exit market condition in Finland is relatively poor; the investors need to seek exit routes in other countries, thus use syndication quite commonly. Yet, the data of Finnish venture capital flows in startups in Finland shows somewhat high number; which indicates the existence of many potential young companies within the country.

Haunting condition in Finland seems to be more than sufficient, however, the exit market condition is limited. Although the firm where participant A belongs keep the equal ratio of domestic exit and foreign exit until the moment of the interview, it can be predicted that, in such environment, a majority of Finnish companies that backed by Finnish venture capital are expected: to have at least one investor with foreign background in the team because of syndication and; to experience exit in foreign market as long as the market condition in Finland remains as it is currently.

All internal factors that assumed to influence venture capitalists' decisions in exit channel selection were either denied or not particularly supported by interviewees.

The selecting process turned out to substantially rely on market condition and accessibility to potential acquirers at that time, and literatures also support this; which can be seen that the decision-making process is entirely investor-driven.

This contradicts to the findings of Hursti and Maula (2007). They found out that international experience of top management of portfolio company and pre-IPO ownership by foreign investors are the determinants of foreign IPO. They studied IPO of European companies from 1991 to 2001. This contradiction can possibly be reasoned that: 1. because Finnish exit market is highly limited, external factor is too powerful to recognize other factors as determinant in exit route selection of investors or; 2. because the industry is more globalized compared to the time their study was done and international experience has become a norm now, these determinants they found are no longer recognized. Whatever the case, the contradiction raises the possibility of different results from other European countries.

Especially point 2 can be linked to an interesting idea that has been brought during the interviews in addition to the matter that the paper is dealing with; that is the concept of cross-border investment. Both firms that participated in the research have overseas offices mainly in other Nordic countries, add to where they work in Helsinki. Opportunities are constantly sought after both domestically and internationally. In such a context, syndication with foreign investors seems to be a norm, which can be also seen in the data from FVCA.

Considering the small market size in Finland and relatively short history that Finnish venture capital scene has since it started, it seems to be difficult to keep positive money flow only within the country. One interviewee described the firm's view of investment market; it sees Nordic region as one market, and Finland is just a part of it. As a matter of fact, there are few venture capital firms that operate only in Finland.

As internationalization progresses, the concept of internationalization is less perceptible; and this seems to be what is happening currently, at least in Finnish venture capital scene. Moreover, this phenomenon is likely to occur more in Europe, where the market size in each country remains relatively small; and this

removal of borders in investments seems to be actively tackled at EU level, such as the Capital Market Union.

8 CONCLUSIONS AND DISCUSSION

The paper fundamentally aims to find out how entrepreneurs can conduct strategic selection of investors for their nascent businesses, particularly when they plan to expand in international markets in the future. The relationship between cross-border venture capital and internationalization of portfolio companies has been examined by conducting the interviews with two Finnish venture capitalists, as well as the literature reviews. The question in the research mainly focused on the impact of the participation of foreign venture capitalists in investments on exit channel selection.

The outcome of the research does not support direct relationship between the presence of foreign venture capitalists in an investment and changes in exit channel; foreign investor's participation cannot be directly linked to foreign exit of the portfolio company. The selection of exit channel rather depends on exit market condition: layers and diversity in industries, motivation of potential acquirers, activeness of stock market in the country. Notwithstanding, it should be borne in mind that the outcome of the research is Finnish industry-specific; the contradiction to research done in past raises the possibility of different findings being discovered if it is done in other country.

It has been confirmed that venture capitalists bring non-financial values to entrepreneurs, using their networks, reputation and expertise. Furthermore, it agrees that when a foreign venture capitalist takes part in an investment, it contributes to internationalization of the portfolio company with his network and knowledge.

As a result, the paper discovers no direct correlation between cross-border venture capitalist's presence in investment and the channel in which the portfolio company makes exit; however, it supports the positive correlations between: the participation of foreign venture capitalist in investment and accelerated internationalization of portfolio company and; foreign exit and expansion of the exited company in the market where the exit has been made.

Secondary, the research found out the high possibility of venture capitalists making exits in abroad more and more in the future, if the current exit market condition in Finland stays still. Despite of the high potential that young companies in Finland hold, the market condition for lucrative exit in the country is not in the most favorable state. In such a situation, the venture capitalists tend to make syndication with foreign venture capital firms, and to exit in other countries; which means that Finnish VC-backed companies are highly likely to encounter more commitment from foreign investors and to experience foreign exits.

Lastly, the concept of cross-border investment is not as established as it was before. Although Gompers et al. (2016, 13) calls it the 'relatively new phenomenon', the globalization of venture capital investment in Europe seems to be progressing rapidly. It is supposed that the reason for this rapidity is because of the limited size of the market in each country and the need of flowing over the borders.

To conclude, entrepreneurs in Finland are highly likely to have more exposure in foreign markets in the future, regardless of their intention of going global. Entrepreneurs should be ready for it, by acquiring as high competitiveness as possible. To achieve this, the strategic selection of investor might be even more important than it used to be before; entrepreneurs might need investors who can support them by providing right network and right expertise.

Many entrepreneurs do not have the experience of starting a business (Spencer 2017, 121). Most of them have a chance to participate in business creation only once in a lifetime, while venture capitalists are involved in many (Batterson & Freeman 2017, 5). It might help entrepreneurs to look up the portfolio companies that the venture capitalist has invested in past; it tells what industries and what business stages the investor has engaged in, and holds expertise in. It is a great benefit to have external investors, especially venture capitalists that are known for their value-adding activities; it can be even more advantageous when it is carefully chosen with a strategy.

While many of the researches related to venture capital have been conducted in quantitative methods, the approach that the paper took is valuable especially in

the way that it sheds light on investors' view of the venture capital scene in Finland, or Nordic region, in a larger scale. The interviews with local venture capitalists allowed the research to take a closer look on Finnish startup environment, and how commonly cross-border investments are used, especially within Nordic region; the region is considered as single market.

9 LIMITATION AND AVENUES FOR FURTHER RESEARCH

The lack of venture capital firms in Finland that have sufficiently long history to show a variety of exits in portfolios, as well as the small number firms in the country, were the biggest limitations for the research. As already explained, venture capital is the long-term investment that needs years before liquidation. The reason of the low response rate that the research encountered was also assumed to be the absence of materials that venture capitalists were able to associate with in order to participate the interview. However, an attempt was made; in order to widen the scope of the research, some active venture capital firms in Germany were contacted in the hope of correction of additional information to be compared to Finnish venture capital scene, and none of them gave a positive response. It seems that the Finnish firms are more welcoming and opened to such a request and becoming research participants than German firms can be. Given this reflection, the research could have had more Finnish firms as the research sample, thus more powerful outcomes, if it was conducted after these firms experienced more exits from investments.

It has been acknowledged that researches address to VC have a considerable impact on entrepreneurship literature, yet still vast field lies to be explored (Sapienza & Villanueva, 2007, 73-75). Many literatures and researches that can be referred to date are mostly written from investors' stand point. Moreover, these researches oftentimes take quantitative approach. More researches conducted by qualitative method and, particularly, with VC-backed companies, both successful ones and not, might raise new issues and aspects in the discipline. Moreover, the true disappearance of borders between countries in startup scene that has been hinted by the fact that the Finnish investors embracing whole Nordic region as single market, could attract a business schooler's interest. There seems to be less definite line of 'cross-border' in venture capital flow; yet, it is not certain if the border has been completely dissolved. Since the different characteristics are evidenced in between Finnish and German firms in terms of the openness to outside-approacher as mentioned earlier, it might be interesting to study what would matter to venture capitalist's reach to potential young entrepreneur, or vice versa, especially from cultural point of view.

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