

Corporate Venture Capital and the International Intensity of Portfolio Companies

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Introduction

In 2000, more than \$100 billion in venture capital was disbursed, more than one-fifth by corporations.

The relationship between corporate investments and the degree to which the companies receiving venture capital funds pursue international activities is investigated in this study. The study examines the prior international experience of corporate venture capital providers and the existence of international marketing and operations capability as it relates to high levels of portfolio company international intensity. The purpose of the study is to understand how the characteristics of the funding firm influence the international growth and intensity of the portfolio company.

Overall Findings

Technology-based companies that receive corporate venture capital are larger, older, better funded and tend to be further along in their development than ventures that have not received corporate funding. The study finds a positive and significant relationship between the receipt of corporate venture capital and higher percentages of revenues earned from foreign sources. However, there is no conclusive evidence that either corporate international diversity or prior international investing experience is a mechanism by which this relationship exists.

Highlights

- The average number of venture capital rounds received from inception through 2003 is 3.4, with a maximum of 11 rounds.
- Companies that have received CVC compared with those that have not are farther along in their

development (13 percent at early stage vs. 21 percent), are larger (with 79 employees compared with 53), and are about five months older.

- The chances of a CVC-backed venture obtaining more than 10 percent of its revenue from foreign sources are almost 60 percent greater than the chances for a venture not similarly funded. That is, the companies backed by corporate venture capital had greater international intensity.

Scope and Methodology

The researcher used data from CorpTech to identify U.S.-based companies in the technology sector, and Thompson Financials to observe the venture capital activity of firms. A random sample of surviving privately owned technology-based companies was obtained from CorpTech and matched with those in Thompson Financial for the period 1997-2003. Data from the Directory of Corporate Affiliations identified the number of countries in which corporate venture capital operated in foreign operations as subsidiaries, affiliates, and joint ventures. Some of the variables of interest included founding date, percentage of foreign sales, sales revenue, industry, prior experience of a funding company, number of employees, company data, round data, and investor.

This study uses regression models to address potential selection bias, and the Heckman two-stage models deal with the fact that not all ventures in the study selected wanted to internationalize. The procedure first estimates the likelihood of a firm conducting international activities based on a set of characteristics (selection model), and then evaluates how specific factors relate to a high degree of international intensity (effects model), controlling for factors that may also relate to high intensity.

Note

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