Is Venture Capital a Local Business?
A Test of the Proximity and Local Network Hypotheses

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ABSTRACT

Venture capital (VC) investment has long been conceptualized as a local business, in which the VC’s ability to source, syndicate, fund, monitor, and add value to portfolio firms critically depends on their access to knowledge obtained through their ties to the local (i.e., geographically proximate) network. Consistent with the view that local networks matter, existing research confirms that local and geographically distant portfolio firms are sourced, syndicated, funded, and monitored differently. Curiously, emerging research on VC investment practice within the United States finds that distant investments, as measured by “exits” (either initial public offering or merger & acquisition) out-perform local investments. These findings raise important questions about the assumed benefits of local network membership and proximity. To more deeply probe these questions, we contrast the deal structure of cross-border VC investment with domestic VC investment, and contrast the deal structure of cross-border VC investments that include a local partner with those that do not. Evidence from 139,892 rounds of venture capital financing in the period 1980-2009 suggests that cross-border investment practice, in terms of deal sourcing, syndication, and performance indeed change with proximity, but that monitoring practices do not. Further, we find that the inclusion of a local partner in the investment syndicate yields surprisingly few benefits. This evidence, we argue, raises important questions about VC investment practice as well as the ability of firms to capture and lever the presumed benefits of network membership.