STAFFING VENTURE CAPITAL FIRMS' INTERNATIONAL OPERATIONS

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Staffing Venture Capital Firms' International Operations

Abstract International staffing is relatively unexplored for service firms as much of the literature focuses on manufacturing firms. . We draw on the knowledge-based perspective to analyze three key issues related to venture capital firms' international staffing: composition of the international staffing pool, reasons for the deployment of expatriates, and the process through which staff co-ordinate international decision-making, respectively. These research questions are investigated in an exploratory study combining a survey and qualitative interviews. The results suggest that the recruitment of local executives is significantly more important than the deployment of expatriates, and expatriation is significantly more important for transferring knowledge than for other motives suggested in the literature. In VC firms, investment committees play a key role in international decision-making, which allows them to manage challenges that otherwise would require deployment of expatriates. Implications of these results for future IHRM research and for the management of venture capital firms are discussed.

Keywords International staffing; Knowledge-based view, International knowledge-sharing, Venture Capital firms

Introduction

A major stream of the international human resource management (HRM) literature analyzes the composition of the subsidiary staffing pool (Tung, 1982; Boyacigiller, 1990; Harzing, 2001). This literature distinguishes expatriates local managers and inpatriates as the key international staffing options. The pool of managers for key roles in subsidiaries thus includes parent-country nationals (PCN) serving as expatriates, third-country nationals (TCN) as expatriates or inpatriates, and host-country nationals (HCN) as local managers or inpatriates. Prior studies have investigated the motives and consequences of alternative staffing options, yet mainly for manufacturing firms, with few exceptions (Beaverstock, 2004; Boyacigiller, 1990.

However, practices of international staffing vary substantially across industries (Shen, 2006). In particular, service firms have distinctive features compared to manufacturing firms (Grönroos, 1990), while the heterogeneity of HRM practices within the sector is high (Cheng and Brown, 1998; Roca-Puig et al., 2005). Therefore, it is important to undertake analyses of specific service industries. The literature on international staffing practices of service firms offers mixed insights. On the one hand, unlike manufacturing firms, service firms often lack prior exposure to foreign markets through exports and hence are more likely to rely on expatriates especially in the early stages of business (Shen, 2006). On the other hand, services such as banking and insurance heavily rely on local managers for their links with the local business community.

In this paper, we seek to add to understanding of how the heterogeneity of industrial sectors influences international HRM. We thus address the need for industry-specific studies by investigating the international staffing practices in one selected industry, namely venture capital (VC) firms. These are professional investors of long-term, unquoted, risk equity finance in new firms where the primary reward is an eventual capital gain, supplemented by dividend yield (Wright and Robbie, 1998). VC firms compete to a large extent on the basis of human resources, which is likely to have implications for their international staffing strategy. The high degree of human content suggests economies of common governance arising from their ability to move people, money and information between different parts of the firm (Dunning, 1989). Likewise, individual executives' characteristics such as competence and ability to customize solutions are significant predictors of trust (Amit et al., 1998; Coulter and Coulter, 2003), and may impact firms' ability to customize solutions for their clients abroad. Yet, emerging VC markets, in particular, often lack appropriately qualified and experienced investment executives (Lockett et al., 2002), which may constrain staffing of international operations.

The paper investigates three issues related to VC firms' international staffing: the composition of the international staffing pool, the reasons for the deployment of expatriates, and the process through which staff co-ordinate international decision-making, respectively. As knowledge-based firms, VC firms may need to transfer the knowledge and capabilities of their personnel to other markets through expatriates (Bonache and Cervino, 1997; Boyacigiller, 1989; Swart and Kinnie, 2003). At the same time, foreign market entrants may need to develop institutional capital in the form of links with local government or regulatory agencies through local executives (Oliver, 1997; Bruton et al., 2005). While one motive for expatriation may be knowledge transfer, another reason may be to provide experience and expertise to clients seeking to internationalize their business (Iyer et al., 2006).

We adopt a knowledge-based perspective in the conceptualisation of VC firms. Knowledge is the main basis of competitive advantage in many service firms (Foss and Pederson, 2004). Yet, it is under-explored as a framework for understanding internationalisation strategies. We combine the literature on knowledge-based firms with that on international HRM and VC to design an exploratory survey and interview study to investigate our research questions.

The paper focuses on VC firms originating in the UK. With few exceptions (e.g., Delios and Björkman, 2000), studies on international staffing analyse US-based multinationals (Downes and Thomas, 2000). We thus help in broadening the empirical horizon of the staffing literature, while offering an empirical analysis of staffing practices. As Scullion (1994) points out, relatively few empirical studies document IHRM strategies and practices of international firms originating outside North America. In view of the novelty of the research topic and dearth of previous studies in the area, we have designed the analysis as an exploratory study.

Our results suggest that despite the international nature of business, local executives are more important than expatriates in VC firms' international staffing pool. Moreover, knowledge transfer dominates as a motive to deploy expatriates. These findings suggest that while VC firms can transfer their general human capital across markets, they need to acquire context-specific knowledge and experience in the local markets they enter. VC firms manage the integration of global and local knowledge primarily through decision-making in investment committees (ICs) that bring together key executives from the home country with local executives. In this way, they overcome the conventional 'parent-subsidiary' hierarchy typical of manufacturing firms.

In the next section, we outline the main components of staffing policy in international firms. This is followed by a brief discussion of the distinct features of VC firms. The key research questions in the staffing of VC firms are then outlined on the basis of the knowledge-based view of the firm. The subsequent section details our methodology for investigating these issues, followed by results of the preliminary quantitative and qualitative analyses. A discussion section sets these results in the context of the literature, before we conclude.

International Staffing

Multinational corporations (MNCs) use a range of options to staff their international operations, including expatriates and local executives. Expatriates are either parent-country nationals (PCN) (of the country where the firm is headquartered) who are sent by headquarters to foreign positions (Tan and Mahoney, 2006) or third-country nationals (TCN) that begin a career with a firm from anywhere in the world and are transferred to any posting (Perkins, 1997). Local managers or host-country nationals (HCN) are citizens of the country in which they work.

More recently, MNCs have also been experimenting with non-traditional options such as inpatriation (Tharenou and Harvey, 2006; Reiche, 2006). Inpatriation is a formalized process of transferring and/or hiring HCN or TCN into the parent organization on a semi-permanent to permanent basis (Harvey et al., 2001). Inpatriates provide a global frame of reference regarding the development of strategy given their intimate knowledge of subsidiary operations, markets and culture, while at the same time being socialized into the culture of the parent organization.

A key theme in the international staffing literature relates to the motives for deploying expatriates. Edstrom and Galbraith (1977) distinguish three main reasons for expatriation, a typology that has been adopted in subsequent literature (e.g.: Perkins, 1997; Boyacigiller, 1990; Delios and Björkman, 2000). First, expatriates are a means of modifying and sustaining firms' structure and decision-making processes. Second, expatriate assignments contribute to managers' personal development, which helps in preparing future leaders for positions of responsibility in international business. Third, expatriates are transferred to fill positions when local individuals are not easily available or trained. These expatriates would thus transfer knowledge that is not yet available locally.

The theoretical literature has thus focused on the role of expatriates as conduits of knowledge management and as decision makers (Harvey et al., 2001; Tan and Mahoney, 2006). The literature on knowledge creation and learning suggests that the organization and the expatriate are both bases of knowledge that by means of learning, develop the competitive position of an organization (Downes and Thomas, 2000). This can be expected to be of particular relevance to knowledge-based firms such as in the VC industry.

More recent research on network organizations focuses on the dispersed configuration of assets and differentiated assignment of roles and responsibilities in multinational enterprises (Birkinshaw and Hood, 1998). The role of resource flows throughout the network shifts attention from the conventional 'parent-subsidiary' distinction towards the co-ordination of decision-making across different parts of the firm. This may also be especially relevant to professional service firms such as VC firms that need to combine different types of knowledge and expertise in the course of investment decision-making.

VC Firms: Key Features and Internationalization

VC firms have recently become a global phenomenon as firms in developed markets seek new markets (Aylward, 1998; Patricof, 1989; Wright et al., 2005). They are distinctive from other professional service firms as they provide both finance and specialist advice. In contrast to banks and M&A advisors, VC firms specialize in identifying and financing risky ventures where asymmetric information problems are more severe than for established businesses. While VC firms are involved in post-transaction relationships with investees, unlike M&A advisors, this relationship is typically envisaged to have a limited life as an exit is sought to enable the VC to realize a capital gain. An extant literature examines the cross-country development of VC markets (e.g. Black and Gilson, 1998; Jeng and Wells, 2000) and the nature of VC firms' investment operations (e.g. Manigart et al., 2002; Sapienza et al., 1996; Wright et al., 2000).However, evidence on staffing of VC firms' international operations is yet to emerge, a gap that we seek to address in this paper.

VC firms may be conceptualized as knowledge-based entities (Grant, 1996) characterized by the distinctive application of their key assets, human resources, in their market relations with clients (Swart and Kinnie, 2003). A key feature of VC firms is their multi-stage sequential investment process including deal generation, screening and evaluation, deal structuring, deal monitoring, provision of value-added services, and exit (Wright and Robbie, 1998).

Unlike banks and credit institutions that provide a wide range of services (Jeng and Wells, 2000), VC firms specialize in distinct market niches based on organizational form or investment stage or sector focus (Robinson, 1987). VCs' stage preferences may be characterized by one or more of the multiple investment stages – seed / start-up, expansion / development, management buyouts (MBOs) / management buy-ins (MBIs), turn-around and secondary stage / replacements (Elango et al., 1995). These stages of investment may require different levels and types of expertise (Lockett et al., 2002; Knockaert, et al., 2006).

The 1990s have seen a rise in cross-border VC activity both into and within developed markets, and into less developed markets (Aylward, 1998; Patricof, 1989; EVCA, 2004; Wright et al., 2005). The UK VC industry took a leadership role. Accounting for over 50 per cent of the total European investment in 2004, the private equity market in the UK is significant and second in importance only to the US. Data from the European VC Association (EVCA) in 2004 show that 44 per cent of the total funds raised outside Europe and 32 per cent of the total funds invested in Europe was attributed to the UK. These figures are in comparison with the corresponding figures of 29 and 22 per cent, respectively, for the rest of Europe. Thus, the UK VC industry provides an appropriate field to study the pattern of business practices of the VC industry spreading outside its largest market, the USA.

International Staffing in VC Firms: A Knowledge-Based View

The knowledge-based view (KBV) of the firm focuses on the key challenge for internationalizing VC firms, namely, the transfer and combination of knowledge. VC involves different types of knowledge ranging from strategic and financial, on the one hand, to operational expertise on the other (MacMillan et al., 1988). The VC investment process involves considerable decision-making at all stages, which is grounded in the knowledge-base of investment executives. We thus use the KBV to formulate the research questions (RQs) for our exploratory analysis of VC firms' international staffing

The competitive advantage of knowledge-based firms is grounded in a variety of different types of knowledge residing at the individual, team and firms levels (Grant, 1996; Malhotra, 2003). This knowledge needs to be continuously combined and recombined in the process of problem solving and customizing solutions for clients on a project-to-project basis (Swart and Kinnie, 2003). These features, however, pose unique challenges to the staffing of firms' operations. The ambiguity surrounding outcomes makes it difficult to measure performance and hence assess employees' capabilities that are largely selected on the basis of prior experience. Often, culture is also a strong drive behind staffing practices for employees to 'fit' within the organization (Martin and Salomon, 2003).

Alternatively, knowledge-based firms also need to develop the specific knowledge and skills of individual managers as part of a team and for them to 'learn from the masters' (Swart and Kinnie, 2003). The knowledge of personal connections and relationships with potential clients and business partners is also critical, as is the knowledge of host countries (Grant, 1996; Malhotra, 2003). While these factors may lead to the recruitment of local people, the need to ensure a high and consistent quality of services for clients (Dunning, 1989) also necessitates training them in firm-wide procedures.

As knowledge-based firms, internationalizing VC firms may need to transfer the highly idiosyncratic and tacit knowledge of the investment process to foreign markets through expatriates (Downes and Thomas, 2000). Compared to other managers in the firm, expatriates are more likely to be involved in the knowledge-transfer process as they are likely to have stronger and longer-tenured social ties with managers at headquarters (Gupta and Govindarajan, 2000). At the same time, however, a home country perspective on investment opportunities may affect the quality of decisions in managing across borders (Rouzies et al., 2003). Locally recruited executives may be vital for their market-specific knowledge and experience, and their social and institutional capital in the form of links with local government or regulatory agencies (Oliver, 1997). The need to combine specialist knowledge and expertise from different parts of the firm in international decision-making may, moreover, necessitate close and frequent interaction between international members of staff. In the light of these arguments, we formulate three research questions (RQs) related to the staffing of VC firms' international operations:

RQ1: What is the composition of VC firms' international staffing pool?

RQ2: Why do VC firms deploy expatriates?

RQ3: How do VC firms co-ordinate international decision-making?

The following section outlines the research methods for exploring these research questions. This is followed by a summary of the results and discussion of the findings.

Methods

An exploratory approach is appropriate when entering a research field about which not much is known before (Eisenhardt, 1989; Geiger and Turley, 2005). It allows us to both identify the key issues and to understand the factors influencing them. We thus adopt a mixed method approach combining a questionnaire survey with qualitative interviews. The literatures on international HRM and on VC firms served as starting points for the design of our preliminary survey. We then conducted follow-up interviews to further investigate the key themes, and triangulate the quantitative findings. This approach allowed us to probe VCs to better understand the pertinent processes, gain further insights into the reasons for specific choices, search for possible patterns in the data and to identify issues that were not discernible from our quantitative data (Burgel et al., 2001; Creswell, 2003; Hitt et al., 2000).

A more conventional approach in exploratory research is to first conduct interviews, followed by surveys (e.g. Winsted and Patterson, 1998). This was not necessary in the present research in view of the availability of a large volume of literature in the areas of IHRM and VC on the basis of which the key research questions could be identified. The primary purpose of the follow-up interviews was to triangulate and expand upon the survey findings. While the survey answered the 'what' questions, the interviews helped answer the 'why' and 'how' questions and more clearly interpret the survey findings. The survey instrument comprised two sections. The first section asked questions related to firms' background such as ownership type, investment stage and sector preferences. The second section included Likert-scale questions based on a seven-point scale on each of the key research themes. Items related to these questions were drawn from the international staffing literature.

The survey instrument was pre-tested in two stages (Oppenheim, 1992). The main data collection process was then conducted in May-October 2002. For the interviews, nine firms were selected representing a broad spectrum of different international operations (Eisenhardt, 1989; Yin, 1994).

A cover letter stating the key research objectives and requesting participation was attached to each questionnaire and mailed to all firms in the base population (Oppenheim, 1992). For both survey and interviews, single respondents were used as key informants. We chose investment executives as appropriate representatives of their respective firms as they are the key decision-makers responsible for formulating decisions and planning courses of action in VC firms (Wright and Robbie, 1996).

Although the focus of this paper is on VCs that internationalise, it was not possible ex ante to identify VCs operating internationally. Therefore, we had to approach the population of VCs and ask them if they invested internationally or not; this also enabled us to comment on whether there were differences between international and non-international VCs. The British VC Association (BVCA) Bulletin, a directory of VC sources in the UK, was used to identify the population of 151 VC firms. The first wave of the survey was mailed to these firms in May 2002, with a second wave mailed in June 2002 with follow-up telephone calls. We obtained 75 responses relating to one response per VC firm, accounting for a response rate of approximately 53.7 per cent among the 140 active VC firms in the UK. However, only 68 of the 75 responses were usable, including 37 international and 31 non-international firms (Table I).

Table I about here

We have no reason to believe that the response rate from international VCs was less than that for non-international VCs. Indeed, given the focus of the survey, it may well have been greater. Moreover, we had to ensure that both the full sample (N = 68) and the sample of international firms (N = 37) are representative of the total population and the population of international VC firms, respectively. Tests of representativeness were thus conducted on several firm-specific characteristics available for the population from the BVCA directory (size of investment funds managed; number of investment executives; firms' minimum and maximum investment preferences). For the full sample, t-tests showed no significant differences between the respondents and non-respondents on these measures. For the sample of international firms (N = 37), t-tests showed a significant difference between respondents and non-respondents only in respect of minimum investment preferences (Table II). This result may reflect the possibility that larger VC firms may be more likely to internationalise and hence respond to the survey.

Table II about here

We also checked for non-response bias (Armstrong and Overton, 1977; Oppenheim, 1992) by comparing respondents that had initially returned the questionnaire with those that returned the questionnaire after the follow-up second mail round. We found no significant differences between respondents who replied in rounds 1 and 2 of the study, thus indicating the absence of potential non-response bias.

The average pool of investment funds managed by the 37 international firms equaled £1209.88m (Table III). The oldest VC firm in the sample was 57 years old and the youngest two years old at the time of the survey. There were, on an average, 35 investment executives per firm; the average number of people equaled 64. Also interesting to note are the significant differences between international and non-international firms in respect to key parameters, including fund size, the number of years they had been in operation, the number of employees in total, the number of investment executives, as well as minimum and maximum investment preferences.

Table III about here

The interviews followed the questionnaire and entailed personal visits to each of the nine London-based VC firms selected for an interview. They include two captives and seven independents, of the latter six were late-stage and one was an early-stage investor (Table IV). The fund size ranged from £18m to £12.8b, Firms A, G and H being the largest in terms of the total capital under management. The minimum current portfolio size was 9, and the maximum 2,900. The number of investment executives ranged from 7 to 414.

Table IV about here

Results

Composition of international staffing pool

An analysis of the survey responses indicates that VC firms tend to recruit experienced local nationals in the foreign market (mean = 5.61) (Table V). The second highest score (4.52) was attributed to the head of the foreign office being a local national. Also important was the need to recruit experienced foreign nationals from other firms (4.00). Inpatriation, whether to obtain benefits of local executives' market-specific knowledge or to train them prior to returning them to the head office, was relatively low in importance (3.50 and 3.61, respectively).

Table V and VI about here

The Wilcoxon Signed-Ranks Test and Paired Samples t-Test, respectively (Table VI), for the differences between expatriates and local executives suggest that VC firms were significantly more likely to recruit experienced local nationals in the foreign market than transfer investment executives from the home market, transfer investment executives with international experience in other markets, or recruit experienced foreign nationals from other firms, respectively. They were also significantly more likely to have a local national as head of foreign office than transfer investment executives with international experience in other markets.

Reasons for expatriation

Table VII outlines the results related to VC firms' reasons for the deployment of expatriates. The factor that received the highest score pertained to the transfer of firm-specific knowledge (mean = 4.86). Second in importance (3.95) was the need to provide international opportunities to executives. Recruiting expatriates to enable firms to establish operations in the early stages was rated third in importance (3.91). Foreign-country factors such as local expectations (3.14), legal requirements (3.00) and compliance with industry codes of conduct (3.55), respectively, seemed to be relatively much less important.

Table VII about here

The Wilcoxon Signed-Ranks Test and Paired-Samples t-Test, respectively, for the differences between the three key motives for expatriation further suggest that VC firms were significantly more likely to deploy expatriates to transfer firm-specific knowledge than to establish operations in the early stages, or to provide international opportunities for executives (Table VIII).

Table VIII about here

Interview Data Analysis

The significantly greater importance of experienced local executives relative to expatriates is a surprising result given the dearth of appropriately qualified and experienced VC executives especially in developing markets (Lockett et al., 2002). Likewise, the significantly greater importance of expatriation for knowledge transfer than for providing international opportunities to executives or establishing operations in early stages, respectively, is interesting in pointing to a greater emphasis on knowledge exploitation rather than augmentation (Swart and Kinnie, 2003). In the light of these results, follow-up interviews were conducted with VCs to understand the key reasons for these choices. Insights from the interviews are summarized below.

Composition of international staffing pool

Local Executives Respondents across all VC firms were unanimous in their preference for markets characterized by the availability of appropriately qualified and experienced local investment executives:

> ‘We would not think of trying to set up in Milan, with a Brit running the firm, for example. It would have to be somebody native. They’re nearly all locals. Everybody in Germany is either German speaking or German. Everybody in Italy is Italian and everybody in Spain is Spanish.’ [Director, Firm A]

Two key reasons were cited for VC firms’ preference for local executives. First, there were differences in national markets due to which it was important to work with local people with market-specific knowledge and experience (Firms C, D, E, F, H, J). For VC firms, experience and knowledge relevant to the home country were not particularly relevant to the foreign markets firms entered primarily because of the nature of private equity ‘that had to do with building relationships and communications and knowing people well’. The interviewees emphasized that local nationals had the networks, were familiar with the culture, spoke the ‘right’ language, and understood the market, legal & accounting systems. The following quote from the respondent at Firm E is illustrative:

> ‘Because we always believe that to be successful in a foreign market, you need to have people on the ground who can speak the language, in particular, and who understand the culture, and you have the network of contacts to attract the investment opportunities or to go and find them.’ [Director, Firm E]

Local executives were also essential to support investee companies at different stages of the investment process. Local executives’ networks of contacts with local parties and the ability to generate deals were identified as particularly valuable. The respondent at Firm J emphasized that the presence of local heads, in particular, facilitated communication with investee companies that were free to ‘call up any time’, which was also useful to finding good quality deals.

For early-stage investors, as the interviewees at Firms A and D pointed out, local people provided support to investee companies, especially during exit. Having locals with particularly relevant experience in the local markets was also important to assisting portfolio companies in their process of internationalization. At the time of exit, investees needed assistance with determining where to locate, their form of organization, their accounting systems, and finding appropriate facilities and service providers. The local heads in their foreign markets directly used their network of people to assist them in their role. They established relationships with specialists who understood, for example, how share-option schemes in the different countries could be integrated.

Second, although sparse, there was also some evidence of the importance of local executives for controlling foreign offices (Firms A, C, H, F). The respondent at Firm A contended that although they first set up their foreign offices in ‘a relatively small way’, it was important to later build them to suit to local market conditions, and the capabilities of the local people were key to the process of organic growth. Prior to establishing a presence in new markets, firms’ ability to attract and recruit local personnel capable of accumulating the relevant know-how and experience was vital to building local teams and hence establishing and controlling foreign offices (Firms C, H, F). As the following quote from the executive at Firm F illustrates, in view of the distance between London and some of the Asian markets in particular, it was more feasible for them to be locally controlled:

> ‘….they will be going to see the factories in Taiwan on a regular basis, but we can’t get from London to keep going to see them regularly. It makes sense in terms of the sheer distance between these entities, for them to be controlled locally.’ [Director, Firm F]

Inpatriation According to most respondents, bringing locals to the parent office did not seem to be a common practice in the VC industry (Firms E, C, G). This was either due to financial constraints, where firms were not ‘big enough’ to train people ‘in any way other than on the job’ outside of their own market (Firm E), or due to a reliance on modern technology and hence internal communications for managing foreign operations (Firm G). Respondents at most firms, moreover, emphasised the need to recruit executives that were experienced in one or more of the specialist areas, thus avoiding the need for training.

Reasons for expatriation and the process of co-ordinating international decision-making

The interviewees provided qualitative evidence for the deployment of expatriates for knowledge transfer, management development and establishing operations in early stages, respectively:

Knowledge-transfer Respondents at the VC firms identified the 'investment committee' (IC) as the core of investment decision-making in the VC industry. The IC comprised senior directors of investment funds from different geographic regions that led their respective teams on a deal at any given point in time. International executives' experience and expertise was pooled into the IC that sought new opportunities, reviewed and approved investments on a 'consensus basis'.

Unlike conventional expatriation, senior executives from the 'headquarters', therefore, met with those from outside of the region 'from time-to-time' in order for them to 'share their experiences' on a deal (Firm C). Every one or two weeks, people from the head office at Firm J similarly, 'officed-out'. This helped them interact more frequently, thus facilitating the exchange of knowledge. At Firm F, the global head's intervention in the investment process was essential to ensuring that his experience and expertise were available to the different investment committees and 'any lessons they learnt worldwide were shared firm-wide':

> '[Mr. X's] intervention is purely essential in terms of ensuring that his experience and expertise is available to those committees. Really to make sure that any lessons we've learned world-wide are shared.' [Director, Firm F]

The interviewees emphasized that because of the uncertainty involved in the investment process, private equity did not fall into an 'institutional-type' of activity. Unlike in other types of firm, the

VC investment process has a degree of ‘entrepreneurial flavor’ that requires flexibility, ‘working differently’, and ‘changing very quickly’ in response to evolving opportunities. It was imperative, therefore, that the specialized knowledge and experience of key executives in the home country was combined with the expertise and local knowledge of local executives in the foreign markets where they operated, and ICs were key to facilitating this process.

Management development Although management development was cited as one of the reasons for expatriation, related evidence was rather limited. At Firm G, the new recruits were put on a training program that ‘went around a number of countries’. This was important to ‘move people about’, give them different kinds of experience and develop their leadership capabilities, especially since they were based in several different locations round the world. International transfers helped executives ‘make friends’ and ‘do things together in different locations’. It was also noted that VC firms took a ‘partnership approach’ in conducting their operations because of which it was important to regard investment executives as more of permanent partners than in other types of large firms. This was also important for incentivising them to spend more time on generating deals..

Establishing operations in early stages The respondents stated that sending out people from the UK was important to successfully seeking and executing investment opportunities. Investment executives gauged market potential, kept track of new developments, talked to competitors, and ‘even went on outings’ to get a feel of the local culture. In some cases, they also recruited new people prior to establishing a presence. The respondent at Firm E noted that it was not necessarily the most senior person who was sent out from the UK, but someone who was familiar with the work in London because it 'helped' in the process:

> 'If we set up an office, obviously, somebody has to go to recruit the local people, and it may well be that you would put somebody into that office from London, not necessarily the most senior person, but somebody who has some familiarity with the work in London because it helps in the process.' [Director, Firm E]

At the same time, however, respondents in seven of the nine firms [A, C, D, E, F, G, and H] emphasized the need to recruit locals alongside expatriates as vital to establishing a foreign presence. As the respondent at Firm E noted, they did not have 'spare resources' in order to have people work outside their own market in London for two or three years.

Discussion

Three key findings emerge from our exploratory analysis of VC firms' international staffing: (a) the significantly greater role of local executives (HCN) relative to expatriates (PCN and TCN) in VC firms' staffing pool, (b) the significantly greater importance of knowledge transfer rather than management development or establishment of new operations as a motive for the deployment of expatriates, and (c) the importance of the investment committee (IC) in the process of international decision-making.

The importance of local executives in the VC industry contrasts with earlier research associating high levels of equivocality and hence judgmental forms of decision-making with the use of ‘socially similar others’ in foreign offices (Kanter, 1977). In particular, managers of the same nationality face fewer obstacles to communication in situations of high uncertainty (Leblebici and Salancik, 1981). This could also be expected of VC firms that function in conditions of high information asymmetries, yet our qualitative insights suggest that VC executives’ market-specific knowledge and experience are vital to assisting clients at different stages of the investment process and controlling local offices. Thus, the general VC skills relating to different stages of the investment process may be transferable across institutional contexts, while institutional differences necessitate the development of context-specific social and institutional capital (Bruton, et al., 2005) through the recruitment of experienced local executives. Therefore, local teams that intergrate internationally experienced executives and local experts may be best placed to advise their investees regarding entry into foreign markets.

Differences of skills and knowledge between local managers and expatriates are, however, fraught with the risk of different interpretations of local environments (Hoskisson et al., 2000; Kobrin, 1988; Wright et al., 2005), which may negatively affect performance, especially in situations of high uncertainty (Selmer, 2004). To what extent then, is the reliance on local executives feasible, and what steps do firms take to cope with the concomitant challenges?

A primarily polycentric orientation to staffing may also reflect VC firms’ relative lack of centralised control (Harvey et al., 2001; Shay and Baack, 2004; Tan and Mahoney, 2006). Higher degrees of autonomy of local executives may be attributed to the nature of VC firms’ international decision-making through ICs and the absence of a conventional ‘parent-subsidiary’ hierarchy. The scarcity of executives in typically small organizations like VCs that are available to work outside of the home market (Lockett et al., 2002) and to set up operations in the early stages, which emerged from the interviews, seems to reinforce this tendency.

This insight ties in with the recent research on network organizations that recognizes the differentiated assignment of roles and responsibilities in MNCs and hence the need for decision-making autonomy in the conduct of subsidiary activities (e.g. Birkinshaw and Hood, 1998). In particular, it illustrates the entrepreneurial culture in VC firms and the unpredictability inherent in the investment process (Fombrun and Wally, 1989). Rather than micro-managing local operations, internationalising VC firms may manage local executives by socializing them in the firm’s way of conducting business (Pruthi et al., 2003).

The relative lack of inpatriation in VC firms’ staffing composition may be surprising in view of the scarcity of VC personnel in developed markets and the potential role of inpatriates to manage across cultures (Harvey et al., 2001). Interviewees were of the view that financial resource constraints for training and the reliance on modern telecommunications discouraged inpatriation in the VC industry. More important, perhaps, firms preferred to recruit executives already experienced in the investment process, thus alleviating the need for training. Once again, this draws attention to the knowledge-intensive nature of the VC investment process: where it is difficult to assess employees’ capabilities based on performance, prior experience is use as an indicator of relevant industry specific competences (Swart and Kinnie, 2003). In view of the sparse evidence, however, further research is needed to explore this issue, for instance to explore variations across different types of VC firms.

The relatively low rating assigned to influences on expatriation that are external to the organization, such as foreign-country expectations, legal requirements, or industry norms, draws attention to the distinctive nature of VC investments as a key factor underlying their international staffing strategy. Where investments are conducted in a typical stage-wise procedure and characterized by risk and uncertainty as in VC firms, it is vital that the idiosyncratic, process-specific knowledge and lessons learnt from specific investments are transferred within the firm. This also highlights the fact that although local context-specific knowledge is vital, it needs to be combined with internationally transferable expertise in the conduct of investment operations (Meyer, 2007).

Unlike one-way knowledge flows from the 'parent' to the 'subsidiary' as recognized in much of the international staffing literature (e.g. Perkins, 1997), however, it is the sharing of executives' expertise and experience across the firm that is vital in the VC industry. The need to transfer knowledge through knowledge sharing also lends support to the result regarding the importance of management development as the second-highest rated motive for expatriation in the VC industry (Hocking et al., 2004). As the respondents pointed out, new recruits were sent to different locations within the firm to develop their capabilities and 'do things together'.

What is special for VC firms is the role of the investment committee (IC) that combines the expertise and experience of executives to search for new opportunities, and evaluate and approve investments on a consensus basis. Unlike conventional expatriation as analyzed in much of the international staffing literature, the role of senior directors in ICs seems to involve an ongoing diffusion of knowledge without long-term relocation to foreign markets. The continual intervention of top executives from the home market may be attributed both to the scarcity of VC executives for long-term transfers from developed markets (Lockett et al., 2002) and the persistent risk and uncertainty inherent in the investment process, necessitating timely intervention from top executives in different geographic regions of the IC. Further research is needed to investigate in more detail the factors influencing the composition of the IC and its role in the process of cross-border VC investment decision-making. For example, why do VCs raise region-specific funds necessitating separate ICs, rather than creating instead one global investment fund? What are the implications of such decentralized fund structures for the use of expatriates in managing the funds?

Conclusions

We have combined quantitative and qualitative methods to analyze three issues related to VC firms' international staffing that were raised in this paper: composition of the international staffing pool, reasons for the deployment of expatriates and the process through which staff co-ordinate international decision-making. Our main findings pertain to the significance of local executives in VCs' international staffing, knowledge transfer as a motive for expatriation, and the role of the investment committee in managing knowledge and conducting international operations, respectively. These results illuminate the role of both industry-specific and local, market-specific knowledge as important factors underlying international staffing in VC firms.

The paper adds to understanding of the heterogeneity of service industries and their implications for international staffing. We fill a gap in the IHRM literature by focusing on an industry that is very knowledge intensive and thus allows the application of the knowledge-based view (KBV) of the firm, a relatively under-explored framework for understanding internationalization strategies. Knowledge management is of increasing importance in a wide range of industries, which suggests that insights from our study may stimulate researchers investigating other industries, especially service sectors.

Moreover, the VC industry is interesting in its own right because of the rising significance of cross-border VC investments and the distinctiveness of VCs among service firms. Our contribution to the VC literature is particularly pertinent due to our focus on the UK, the second largest VC market in the world after the USA, where most research on IHRM strategies and practices of international firms is focused.

The findings have several implications for practitioners. For British VC firms aspiring to enter new foreign markets, the results suggest a need to invest in local executives. This may be vital to acquiring market-specific knowledge and building networks of contacts in foreign markets. Local executives may effectively substitute for local co-investors for internationalising firms seeking to invest in foreign markets through an independent, physical presence rather than relying on syndication with local investors (Maula and Mäkelä, 2003). In fact, the proportion of local executives in firms' staffing pools may be a useful marketing tool to potential clients in foreign markets. At the same time, however, given the shortage of appropriately qualified and skilled executives especially in new VC markets, firms entering these markets may need to expend special efforts on recruitment and retention.

Although the diffusion of VC firms' general human capital is important, firms need not necessarily require expatriates willing to accept long-term assignments in foreign markets. It may be possible to make the expertise of key people in the home country available to clients through investment committees and modern telecommunications. The recruitment of people of different nationalities in firms' staffing pools, however, suggests investing in mechanisms that facilitate the sharing of information. Rather than a structured formal mechanism, a more informal approach, for instance through the socialization of the decision-makers, may be more appropriate for sharing such knowledge. HRM practices and policies moreover have to create incentives for expatriate executives to make their skills and insights available to local executives (Cabrera and Cabrera, 2005), such as to facilitate the localization process (Selmer, 2004).

Several limitations of the study must be acknowledged. On the conceptual side, we have drawn upon the knowledge-based view (KBV) of the firm, which we suggest particularly pertinent to VC firms that compete to a large extent on the basis of tacit knowledge. Such knowledge, however, is part of the broader set of firms' resources that may also have a bearing on firms' internationalisation strategies. Likewise, external factors such as country characteristics are also shown to be important determinants of staffing patterns in the IHRM literature (Boyacigiller, 1990). Future research might adopt a complementary and integrated approach to the examination of VC firms' international staffing. Competency theory, for example, synthesizes the KBV with the resource-based view (RBV) of the firm and the associated idea of dynamic capabilities to understand the role of firms' competences on strategy (Foss and Knudsen, 1996). Future research may usefully draw upon this approach to analyse VC firms' international staffing.

As a first attempt into VC firms' international staffing, the findings of this study are preliminary. Although the survey captured a high response rate, only 37 VC firms were international and hence relevant for the quantitative analysis. As noted earlier, we have no reason to believe that the response rate for internationalizing VCs is low; indeed given the focus of the study it is likely to be relatively high. However, despite including questions on VC firm type in questionnaire design, it was not possible to use multivariate techniques for a fine-grained analysis of international staffing controlling for these factors. This limitation is a function of the relatively small size of the VC industry. Further research may need to replicate our questionnaire in other countries to create a larger dataset that would enable multivariate analysis.

The data for the study were collected in mid-2002. Although VC firms have continued to internationalise in the period since our data were collected, our period does pick-up on the current growth in internationalisation. We do include a range of VC firms that have been internationalised for some time as well as some that are more recent internationalisers. It may be useful to develop a longitudinal approach for further research in order to examine in more detail the process of international staffing, especially from the perspective of local offices. This may be especially appropriate given the continued growth in internationalization by VC firms. Such analysis might also usefully distinguish between the internationalization activities of early-stage versus late-stage [i.e. buy-out] investors, which require different types of expertise and thus, presumably, different needs to transfer executives from one context to another.

Further research may also usefully investigate the relationship between different elements of VCs' international strategy. The relatively high weighting of local executives in VC firms' staffing pool, for example, suggests an underlying multi-domestic strategy (e.g. Tarique et al., 2006). Finally, the present study is limited in its focus on British VC firms. It may be useful to extend it to other markets like the US, for instance, where a much larger sample size might be expected, which would permit multivariate analysis.

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Table I: Characteristics of International (I) (N=37) and Non-International (NI) Firms (N = 31)

	Ownership type			
	Captive	Independent	Public-sector	Other
I	12	25	-	-
NI	10	20	1	1
	Fund type			
	High-technology	Non High-tech		
I	5	31		
NI	8	20		
	Investment-stage preferences			
	Late-stage only	All-stage		
I	6	27		
NI	8	21		

Table II: Tests for Representativeness

		Full sample			Internationalising VCs		
		Mean	SD	T Statistic	Mean	SD	T Statistic
Size of investment funds managed (£m)	Respondents	702.88	1484.61	1.325	1209.88	1936.63	1.362
	Non respondents	364.91	893.19	(0.188)	607.85	1130.03	(0.179)
Number of investment executives	Respondents	22.37	62.89	0.715	35.32	83.48	0.661
	Non respondents	14.65	25.08	(0.476)	22.45	32.32	(.0551)
Minimum investment preference	Respondents	4.84	10.44	1.511	8.31	13.94	2.066**
	Non respondents	2.46	6.90	(0.133)	3.18	7.87	(0.042)
Maximum investment preference	Respondents	35.20	92.70	0.511	70.06	140.41	1.030
	Non respondents	25.23	103.37	(0.610)	33.73	119.93	(0.307)

Asterisks relate to results of t-test for differences between the two types of firm, where **P<0.05 level of significance.

Table III: Characteristics of International (I) (N=37) and Non-International (NI) Firms (N = 31)

Firm characteristics		N	Mean	SD	T Statistic	Mann-Whitney Z-statistic
Size of investment funds managed (£m)	I	33	1209.88	1936.63	0.000***	-4.025***
	NI	31	163.17	210.28	(0.004)	(0.000)
Number of years firm has been in operation	I	37	16.03	12.11	0.080*	-1.826*
	NI	31	11.19	7.62	(0.059)	(0.068)
Total number of people	I	37	64.16	160.35	0.022*	-4.151***
	NI	30	10.70	7.55	(0.073)	(0.000)
Number of investment executives	I	37	35.32	83.48	0.017*	-4.006***
	NI	31	6.90	4.26	(0.063)	(0.000)
Minimum investment preference	I	55	4.84	10.44	0.000**	-3.723***
	NI	28	1.50	2.69	(0.014)	(0.000)
Maximum investment preference	I	18	70.06	140.41	0.005**	-3.258***
	NI	27	11.96	15.86	(0.038)	(0.001)

*Significant at the 10 per cent level; **significant at the 5 per cent level; ***significant at the 1 per cent level

Table IV: Characteristics of the Interview Study Sample

Firm	Fund size	Portfolio size	Total no. of executives	Ownership type	Stage preferences
Case A	£7.6 b	330	160	Independent	Late-stage
Case B	£1103 m	105	37	Captive	Late-stage
Case C	£1.0 b	160	90	Independent	Late-stage
Case D	£2.0 b	9	16	Independent	Late-stage
Case E	£1.1 b	50	25	Independent	Late-stage
Case F	£1.5 b	100	80	Captive	Late-stage
Case G	£12.732 b	2,900	414	Independent	Late-stage
Case H	£3.116 b	60	60	Independent	Late-stage
Case J	£18 m	26	7	Independent	Early-stage

Table V: Composition of International Staffing Pool

Expatriates	Mean	S.D.
Transfer for a limited period of time investment executives from the home market (PCN)	3.61	2.15
Transfer investment executives with international experience in other markets (TCN)	3.22	1.78
Recruit experienced foreign nationals from other firms (PCN or TCN)	**4.00**	1.65
Local Executives (HCN)		
Recruit experienced local nationals in the foreign market	**5.61**	1.80
Head of foreign office must be a local national	**4.52**	2.15
Inpatriates (HCN or TCN)		
Bring to the head office, local nationals from foreign market to obtain benefits of their local knowledge	3.50	1.82
Bring to head office, local nationals from the foreign market, and train them prior to returning them to the foreign office	3.61	2.02
N	37	

Note: based on a 7-point Likert-scale where 7 = most important and 1 = least important

Table VI: Composition of International Staffing Pool (Non-Parametric Tests)

	Wilcoxon Signed Ranks Test		Paired Samples T-test	
	Z	Asym. Sig. (2-tailed)	T	Asym. Sig. (2-tailed)
Head of foreign office must be a local national Transfer for a limited period of time investment executives from the home market	-1.24	0.22	1.26	0.221
Recruit experienced local nationals in the foreign market Transfer for a limited period of time investment executives from the home market	-2.69	0.007***	3.15	0.005***
Recruit experienced local nationals in the foreign market Transfer investment executives with international experience in other markets	-3.35	0.001***	4.56	0.000***
Head of foreign office must be a local national Transfer investment executives with international experience in other markets	-1.80	0.072*	1.98	0.060*
Recruit experienced foreign nationals from other firms Recruit experienced local nationals in the foreign market	-3.47	0.001***	-4.34	0.000***
Head of foreign office must be a local national Recruit experienced foreign nationals from other firms	-1.50	0.134	1.39	0.180

*Significant at the 10 per cent level; ** significant at the 5 per cent level; *significant at the 1 per cent level

Table VII: Reasons for Expatriation

	Mean	S.D.
Organizational Development		
To enhance parent firm's reputation and image	3.14	1.59
To establish operations in the early stages	**3.91**	1.76
To maintain trust in foreign operation(s)	3.57	1.63
Parent firm's desire for control	3.24	1.37
Management Development		
To provide international opportunities for executives	**3.95**	1.53
Filling Positions		
To transfer firm-specific knowledge	**4.86**	1.59
Lack of availability of local staff	3.19	1.54
Inability to train and develop local executives at headquarters	2.81	1.25
Foreign-Country Factors		
Foreign country expectations that key executives be parent-firm nationals	3.14	1.59
Foreign country legal requirements	3.00	1.41
Compliance with Industry/ Professional Association codes of conduct	3.55	1.67
N	37	

Note: based on a 7-point Likert-scale where 7 = most important and 1 = least important

Table VIII: Reasons for Expatriation (Non-parametric Tests)

	Wilcoxon Signed Ranks Test		Paired Samples T-Test	
	Z	Asymp. Sig. (2-tailed)	T	Asymp. Sig. (2-tailed)
To transfer firm-specific knowledge To establish operations in the early stages	-2.40	0.02**	2.46	0.02**
To provide international opportunities for executives To establish operations in the early stages	-.191	0.85	0.12	0.90
To provide international opportunities for executives To transfer firm-specific knowledge	-1.86	0.06*	-2.03	0.06*

*Significant at the 10 per cent level; ** significant at the 5 per cent level