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**VENTURE CAPITALISTS IN ASIA:  
A COMPARISON WITH THE U.S. AND EUROPE**

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**VENTURE CAPITALISTS IN ASIA:  
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## EXECUTIVE SUMMARY

The venture capital industry began in the U.S. and expanded from there to Europe and latter to Asia to become a worldwide industry. While the industry has developed a critical mass in different regions of the world, it is unclear if the values and actions of venture capitalists spread out in a uniform manner from the U.S. base. This study utilizes an institutional theory framework to examine venture capitalist's behaviors in the U.S., Europe, and Asia.

This research examines venture capital professionals in three distinct regions of the world (Asia, U.S., Europe) and finds reasonably consistent views around the world on the relative importance various venture capitalist roles. For example, consistent across the three continents is the finding that the most important roles are strategic roles; support roles are viewed as moderately important, while interpersonal roles are relatively unimportant. Thus, there is general support for a similarity of the perception of the various roles of the venture capitalist.

However, it also finds that how those roles are implemented is shaped by cultural institutional influences in the given region. Specifically, Asian venture capitalists, despite sharing similar views on the relative importance of a variety of roles, differ in how the roles are enacted. Thus, the time spent with the CEO of a funded venture does not decline for time as it might in the West, since monitoring the investment is only part of the concern in Asia. The Asian venture capitalist is also concerned about building and nuturing the relationship with the CEO of the funded firm. Thus, we attribute the differences found to the greater emphasis in Asia on the importance collective action.

Increasingly, Asian business schools have begun to establish separate courses in "Asian Management." This trend reflects a belief that management practice in Asia is different from practice in the West. To successfully compete in such an environment venture capitalist, and in general all managers, must seek to understand both the differences and similarities between management practices in different parts of the world and change their behaviors accordingly.

## **ABSTRACT**

This research utilizes an institutional perspective to examine the behavior of venture capital professionals in three distinct regions of the world (Asia, U.S., Europe). Based upon a mail survey, we find reasonably consistent views around the world on the relative importance of various venture capitalist roles. However, we find that how those roles are implemented is shaped by cognitive institutional influences in the given region. We find that a model developed in the U.S. to predict the amount of venture capitalist/CEO interaction is not valid in Asia. Further, Asian boards have much greater insider representation than do U.S. or European boards. We attribute these difference to the greater emphasis in Asia on the importance of collective action.

## **VENTURE CAPITALISTS IN ASIA: A COMPARISON WITH THE U.S. AND EUROPE**

Whether it be Hong Kong's new joint Cyberport project with Microsoft or Taiwan and Singapore's national programs to build domestic high technology firms, there are wide-spread efforts in Asia to emphasize the development of high technology firms. It has been widely recognized that venture capital plays a critical role in the development of high technology ventures in the United States (U.S.) (Black & Gilson, 1998). To date our understanding of the behavior of venture capitalists in Asia is very rudimentary. Such knowledge must be built before venture capital can be utilized to its maximum benefit in the development of indigenous high technology in Asia.

It is recognized that the cultural systems present across multiple nations create institutional structures that impact organizational behavior (Friedland & Alford, 1991) and firm strategy (Peng, 2000). There are indications that entrepreneurial behavior is similarly impacted (Busenitz, Gomez, & Spencer, 2000). But to date, the impact of cultural institutions on the actions of venture capitalists in Asia has not been examined. This is consistent with the oft-lamented fact that the theoretical development of management in general (Doktor, Tung, & VonGlinow, 1991; Hofstede, 1990) and entrepreneurship in specific (Giamartino, McDougall, & Bird, 1993) has not examined issues from a multinational perspective.

The venture capital industry began in the U.S. and expanded from there to Europe and later to Asia to become a worldwide industry. While the industry has developed a critical mass in different regions of the world, it is unclear if the values and actions of venture capitalists spread out in a uniform manner from the U.S. base. Prior research has shown that the venture capital industry has similarities between the U.S. and Europe (Sapienza, Manigart, & Vermeir, 1996). Culturally the two regions have strong similarities. On the other hand, Asian culture is significantly different. Institutional theory would predict that the local culture should impact venture capitalist behavior in regions with strong cultural norms. However, this prediction is yet to be examined.

Scott (1995b) argues that there are three different types of institutions that shape the behaviors of individuals in subtle but pervasive ways: normative, regulatory, and cognitive. He

sees normative and cognitive institutional influences as the more critical to professionals. Broadly, normative institutional forces are the codes of behavior that develop for individuals while cognitive institutional forces are behaviors that become so ingrained that they are taken for granted. Therefore, our research examines the impact of normative and cognitive institutional forces on the venture capital industry in the Asia, contrasting Asian venture capitalists with their U.S. and European counterparts. The result will offer insight not only on the nature of venture capitalist behavior in Asia, but also on the viability of institutional theory in international management research.

## **BACKGROUND**

### **Venture Capital Industry – in the U.S.**

The principal rationale that motivates the U.S. venture capital industry is the desire to do as well as financially possible (Sahlman, 1990). The industry started very small and had to find means to control the risk associated with financing startup ventures. In order for venture capitalists to diversify their investment risk while maximizing return, when the industry was beginning venture capital firms often syndicated their investments with other venture capitalists (Reiner, 1989). For such relationships to work strong interconnections and relationships among venture capitalists had to be developed (Bygrave, 1987).

The number of venture capitalists in the U.S. today has greatly expanded, and the average venture fund is much larger. As a result, American venture capitalists are less likely to syndicate investments. However, despite the lessening of the financial interconnections that come from syndication, strong interconnections among U.S. venture capitalists continue. For example, it continues to be common practice for a venture capitalist in the U.S. to seek advice from venture capitalists at other firms (Fried & Hisrich, 1994), or to cooperate in monitoring of investments (Fried, Bruton, & Hisrich, 1998).

Fried and Hisrich (1995) highlighted the role of these interconnections in the development of similarities among venture capitalists. They called these similarities the industry's dominant logic. This dominant logic produces similar values among the venture capitalists in the U.S. (Fried & Hisrich, 1995). To illustrate, it has been shown that venture

capitalists have common values about what they perceive their roles to be in their interactions with funded firms (MacMillan, Kulow, & Khoylan, 1989). Beyond the provision of capital, the roles have been alternatively depicted as including strategic, interpersonal, and support dimensions (Sapienza, 1992) or described as value-addition through management assistance, monitoring and control, and reputational capital (Black & Gilson, 1998). In any case, prior theorists have generally assumed that values, roles, and activities are relatively uniform among venture capitalists.

These similar values are reinforced by a strong trade association in the industry. The National Venture Capital Association was formed in 1973. In addition to supporting public policy initiatives, the Association provides continuing education and industry research services. A major thrust of the organization is the promotion of “professional behavior”. The Association has written professional standards with which members agree to comply. Despite being a strictly voluntary organization with relatively expensive membership fees (e.g. \$8,000 per year for a venture firm with \$100 million under management), over half of all American venture capitalists are members. Thus, in the U.S. there is wide spread acknowledgement that practitioners in the industry share many similar values and implement those values in similar ways.

### **Venture Capital Industry – Outside of the U.S.**

There is also evidence that norms of behavior and the institutional configurations of U.S. venture capital firms have been exported to other parts of the world (Manigart, 1994). For example, Sapienza, Manigart, & Vermeir (1996) examined venture capitalists in both Europe and the U.S. and found high similarities in the emphasis venture capitalists placed on various roles and how they implement those roles. However, Europe and the U.S. are culturally quite similar.

Asian culture is very different from that of the U.S. or Europe. To date, the behavior of Asian venture capitalist has largely been ignored in academic research. However, it cannot be presumed that venture capitalists operate in Asia as they do in the West (Bruton, Dattani, Fung, Chow, & Ahlstrom, 1999). For example, in the West the strong financial performance of the venture capital industry is assumed to be due to the extensive control and oversight of the firm in which the venture capitalists invest (Zider, 1998). This strong level of control may be inspired



by the agency relationship present between the venture capitalist and the CEO of the funded firm (Bruton, Fried, & Hisrich, 1998). However, Asian businesses, in general, are characterized by far greater emphasis on the group rather than on individuals (Hofstede & Bond, 1988). There are indications that agency concerns, such as exists in the U.S., may not be present in Asia (Bruton et al., 1999). The Asian emphasis on the group may result in the venture capitalists' viewing their relationship with the CEO of the firm not as an arms-length agency relationship but as part of a relational contract (Bruton et al., 1999).

Black and Gilson (1998) also perceive significant differences between the U.S. venture capital industry and that elsewhere; however, they see capital markets, not culture, as the primary cause of the difference. In brief, they argue that the presence of a well-developed market for IPOs and a norm of relatively rapid exit by venture capitalists in the US creates a vibrant industry that motivates greater intensity of involvement and development of expertise in the U.S. than in Germany, Japan, and other places where public markets for high-risk companies are weak. Thus, while their view includes an element of institutional forces (i.e., norms of implicit expectations of venture capitalist exit), they focus on the impact of capital markets on differences in industry structure and behavior. Thus to date, no quantitative, empirical investigations have concretely established the nature and causes of differences and similarities in venture capitalist behavior in Asia and the West (U.S. and Europe).

### **Institutional Perspectives**

The use of institutional theory in management literature is growing. However, there are wide variances in how researchers view institutional theory. For example, some researchers have built institutional theory conjectures on organizational action from economic perspectives such as game theory (Schotter, 1981), and transaction cost economics (Coase, 1937; Williamson, 1985). In contrast, others have viewed institutional theory through an organizational theory perspective (DiMaggio & Powell, 1991). These different lenses have led to some disagreement as to the institutional elements that may impact a firm's behavior.

Scott (1995a) seeks to bring some consistency to the analysis of institutional theory. He recognizes that various theoretical lenses emphasize different institutional forces and that the

institutional forces emphasized could be grouped together into three categories: normative, regulatory, and cognitive. Each rests on a different assumption about the nature of social action (Scott, 1995a: 49).

The first of Scott's forces are normative; these pressures help define what behaviors and values are expected of individuals (Selznick, 1949; March, 1981; Scott, 1995a). For example, in educational institutions there are strong norms against the development of romantic relationships between teachers and their current students. Regulatory forces, the second category, include the laws and political power that regulate individual and organizational action (Scott, 1995a). For example, insider trading laws proscribe the use of certain information for individual or company gain. The third category consists of cognitive institutional influences that develop over time through social interactions among participants (Berger & Luckmann, 1967). Such cognitive processes shape individuals' views of what is possible and what actions should not be considered (Scott, 1995b).

Scott's categories are not without controversy, nor are the lines that demarcate between the various categories always clear (Hirsch & Lounsbury, 1997). However, Scott's categories have received wide use in the general management literature, and more specifically have been employed in the limited research that has used institutional theory in international entrepreneurial settings (i.e., Busenitz, et. al., 2000).

As noted before there is evidence of consistency in the behavior of venture capitalists in the U.S., and some evidence exists as to how similarities have developed. For example, Suchman (1995) found that legal terms in venture capital agreements that were routine in Silicon Valley were less common the farther a firm was from Silicon Valley. Over time, however, the routine spread from Silicon Valley to the rest of the country. While this consistency in behavior has been pointed to as support for the use of institutional theory to analyze the industry (Fried, Bruton, & Hisrich, 1998), its actual use as a theoretical framework in venture capital is quite limited.

## **Regulatory Institutions in Asia**

Black and Gilson (1998) argue that the differences in venture capital between countries are based on whether the given country's capital market is bank centered or stock market centered. Asian capital markets are bank centered, while the U.S. is stock market centered. European markets lie in between with the United Kingdom more stock market centered and Continental Europe more bank centered. One of the reasons for a nation being bank or stock market centered is the regulatory scheme employed by that nation. Bank centered markets traditionally have been encouraged in Asia by regulators allowing banks to own equity in customers firms and to serve on the board of directors of those firms. American regulators in contrast have strongly opposed such behaviors.

Further, Asian regulatory control is less supportive of stock markets. Financial reporting is often far less transparent (Backman, 1995) and shareholders have significantly fewer protections (Allen, 2000). These various factors point to the fact that the regulatory institutions in Asia are far different than in the West. However, it is generally considered that normative and cognitive institutions are more critical to professionals such as venture capitalist (Scott, 1995).

## **Normative Institutions in Asia**

Normative influences develop through shared interactions that ultimately lead to behaviors that are taken-for-granted over time and which ultimately constrain the potential actions of professionals in an industry (Berger & Luckman, 1967; Jepperson, 1991). These interactions and the roles of professionals are determined initially by economic efficiency concerns. However, later entrants to an industry respond more to the isomorphic forces present (Kalbers & Fogarty, 1998). Among the isomorphic forces that encourage this consistency in behavior are strong trade and professional associations within the industry (Oliver, 1996). These groups' commonly held beliefs about what conduct is expected of participants in the industry shape later entrants' behaviors (March, 1981).

Evidence of the presence, and power, of normative factors in a professional setting is evident in the U.S. in the development of human resource programs (Barron, Dobbin, &

Jennings, 1986), affirmative action programs (Dobbin, Edelman, Meyer, Scott, & Swidler, 1988), and the establishment of audit committees (Kalbers & Fogarty, 1998). In each of these cases professionals that follow the originators tended to replicate what the others had done, whether or not it was economically rational to do so.

Institutional theory suggests that strong normative institutions in the venture capital industry lead to similarities in the perceived roles of the venture capitalists around the world. The strong professional associations present in the U.S. are also present in other regions of the world such as Europe and Asia. Additionally, there are strong personal inter-linkages between professionals in the various regions of the world. Many of the venture capital firms are international in their operations with professionals from the U.S. typically locating overseas to establish the operational procedures of the firm in the new region such as Europe or Asia. Additionally, a lot of non-U.S. venture capitalists have studied at leading U.S. universities or worked in U.S. firms before returning to their home country. Thus, their training and foundation would be consistent with the U.S. industry standards. Even when the venture capitalist is from outside of the U.S. and has no direct connection to the U.S., his local training was typically conducted by leaders who have a basis in the U.S. industry (Manigart, 1994).

In short, we expect the normative forces at work in the venture capital industry to be such that as venture capitalists become established in Asia, the perception of the roles they are to fulfill will be similar to those already existing in the U.S., rather than for new ones to be invented. Based on these normative forces it is hypothesized that:

Hypothesis 1: The perceived importance of roles of venture capitalist will be the same in the United States, Europe, and Asia.

### **Cognitive Institutions in Asia**

Cultural differences impact how organizational activities are implemented (Adler, 1991). Consistent with the collectivist orientation of Asian culture, there is a strong commitment to shared responsibility by individuals within an organization (Boisot & Child, 1988). The emphasis in Asian firms is on taking collective actions rather than on a single individual being responsible for an activity. Similarly, Asian decision-making places a greater reliance on

collective group efforts rather than individuals (Biggart & Hamilton, 1992; Hamilton & Biggart, 1988; Orru, Biggart, & Hamilton, 1991).

Collectivism's role in behavior in organizations in Asia has been far reaching, even impacting such issues as firm budgeting (Ueno & Sekaran, 1992). This orientation towards collectivism in Asia, and China in particular, is so strong that when organizations seek to force individuals to work alone rather than in the groups their performance drops (Earley, 1993).

These differences have led Biggart and Hamilton (1992, p. 472) to argue that "Asian economies espouse different institutional logics from Western economies, ones rooted in connectedness and relationships." Thus, in Asia the cognitive forces impacting venture capitalists' behavior must be seriously considered.

The belief that cognitive institutions shape venture capitalist behavior in Asia is consistent with the limited existing evidence on implementation of professional roles in international settings. For example, the accounting profession is widely viewed as having strong normative institutions that shape accountants' behavior. However, it has been shown that while overall control and expected roles may be established centrally by strong institutions, the actual performance of a given task is learned locally from others doing a similar function (Freidson, 1986; Meyer & Rowan, 1977). Dirsmith, Heian, and Covalleski (1997) argue that in the accounting profession overall roles may be determined centrally by strong professional institutions, but the performance of those functions are decoupled from those professional institutions and the actual learning of actions occurs locally. Unfortunately this research did not frame its analysis in terms of institutional theory, so it is not possible discern if culture shaped the differences found. However, the findings do imply that the focus on cognitive institutions and potential differences in venture capitalists' behavior in different regions may be insightful. It also indicates that the findings of the research presented here may have broader implications than venture capital alone.

### **Implications of Cognitive Institutions for Venture Capitalists in Asia**

Sahlman (1990) argues that U.S. venture capitalists structure deals in order to maximize returns, minimize agency risk, and maximize efficiency in the operation of the venture capital firm itself. Implicit in these rationales is the belief that the venture capital firms and their

portfolio companies are two separate and independent entities. Thus, the venture capitalist focuses on ways to monitor the funded firm in order to maximize oversight while at the same time protecting his own time and resources; the ultimate goal being to maximize overall capital gains from the venture capitalist's portfolio.

However, the venture capitalist/entrepreneur relationship may be different in a setting where collectivism, rather than individualism, is the cultural (cognitive) institution. This fundamental shift in perception would be consistent with other previously noted characteristics of Asian firms. For example, Asian cultural buyer/supplier relationships are much closer than in the West (Backman, 1995; Weidenbaum & Hughes, 1996). Rather than strictly an economic contract, the buyer/supplier relationship is a relational contract (Dore, 1983). The concern in Asia is not just on the economics of the contract, but also the relationship it represents (Kao, 1993). Tiessen (1997) refers to such relationships in Asia as relational ties. In Asia it is expected that the long term relationship present (or expected relationship), overlap of personal and equity links, extended interconnected networks, and the emphasis on interconnections that go beyond the formal legal relationship change the nature of the buyer/supplier relationship (Gerlach, 1992). Likely this collectivistic perspective will similarly impact venture capitalists.

### **Cognitive Institutional Impact on the Time Spent with CEO**

The CEO of the firm is the principal contact the venture capitalist has with the funded firm. The Western focus on controlling economic risk in order to maximize capital gains leads to the venture capitalist spending most of her time with her funded firms which carry the greatest risk. Sapienza, et al. (1996)<sup>1</sup> examined venture capital across national borders, looking at venture capitalist backed firms in the U.S., the U.K., the Netherlands, and France. The study found that the amount of time the venture capitalist spent in face-to-face contact with the venture's CEO varied according to the perceived risk of the funded venture. However, this relationship was stronger in predicting the behavior of U.S. venture capitalists than European venture capitalists.

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<sup>1</sup> Jeng and Wells (2000) examined venture capital in 21 countries. However, they only examined New Zealand in Asia with the remaining countries examined coming from North America or Europe. It is arguable that New Zealand is culturally more similar to Europe than Asia. The research did not examine governance issues.

As was discussed previously, in Asia the venture capitalist and CEO may have a relational contract which emphasizes the relationship between the parties as much as capital gains maximization. Thus, the time spent by the venture capitalist with the entrepreneur will be impacted more by the effort to build and maintain the relationship, rather than on economic efforts to control risk or minimize venture capitalist time and effort in order to maximize capital returns. In a collectivist society the time spent interacting later in the relationship with the CEO will be just as valuable as time spent initially since the focus is on a relational contract.

Additionally, Asian accounting practices do not offer the same transparency that is standard in the West (Broadman, 1999; Backman, 1999, Lubman, 2001, Mann, 1997). Collectivism and relational contracts help overcome this regulatory shortcoming. Rather than relying on what the portfolio company reports (which may not be accurate), the venture capitalist may instead rely on her relationship. Over time problems are less likely to arise, and when they do tend to be solved more cooperatively. The result is that in Asia we do not expect the venture capitalist's time spent with the CEO to vary according to the number of years since the initial investment.<sup>2</sup> Therefore, we hypothesize that:

Hypothesis 2: The number of years the funded venture has been in the portfolio of the venture capitalist will be negatively related to the amount of time the venture capitalist devotes to the funded venture in the United States and Europe, whereas time in portfolio will be unrelated to the amount of time spent by the venture capitalist in Asia.

### **Cognitive Institutional Impact on Governance**

Venture capitalists in the U.S. are known to have a strong impact on the governance structure established for the funded firms in their portfolio (Shalman, 1990). The board is a major mechanism through which the venture capitalist can monitor and control the actions of the funded firm (Fried & Hisrich, 1994). To illustrate, Kaplan and Stromberg (2000) found that venture capitalists explicitly negotiate the size of the funded firm's board and its composition.

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<sup>2</sup> It is worth noting that Black and Gilson's model (1998) would predict that the amount of time devoted by venture capitalists would diminish over time, even in Asia, because the productivity of involvement would lessen over time. However, because the incentive to invest time in Asia was not as high to begin as it was in the US, this decrease should not be as great as elsewhere.

With an average board size of 6 and venture capitalists directly holding 41 percent of the board seats, the board of directors in funded firms is strongly influenced by the venture capitalist.

One reason board size is limited in the West is that the focus is on efficient decision making. The smaller the board, the easier it is to reach a decision in a timely manner. However, in a culture where the emphasis is on collectivism, the central focus of the board may shift to building relationships among all of the various stakeholders of the firm. If a function of the board is to provide relational links between interested parties, the board will need to be larger so that more parties can be included. Therefore, we hypothesize:

Hypothesis 3: The board of directors of venture capital funded firms in Asia will be larger than venture capital funded firms in the United States and Europe.

In the West the board of directors has limited insider representation. This controls the potential agency risk of firm management maximizing their personal interests rather than the firms (Sahlman, 1990). However in Asia, since the cognitive institutions lead to a focus on collectivism and relational contracts there is less emphasis on controlling agency risk. As a result, the venture capitalist in Asia is less likely to require the board of directors of the funded venture to include external members at the expense of internal representation. Therefore, we hypothesize:

Hypothesis 4: The board of directors of venture capital funded firms in Asia will include a greater percentage of internal board members than will the board of directors of venture capital funded firms in the United States and Europe.

## **RESEARCH SAMPLE**

The data utilized in this research was gathered through the use of the same survey tool in three separate data collection efforts, in three different regions of the world. The U.S. data were collected in 1987-1988; the methodology and results are reported in detail in Sapienza (1992), Sapienza and Gupta (1994), and Sapienza and Timmons (1989). As a portion of the research effort in the U.S., the validity and inter-rater reliability of the survey tool was established. The same survey tool was then used with both the European and Asian samples.



The European portion of the data was collected in 1992; Sapienza et al. (1996) reports the methodology and results of the research. Sapienza et al. (1996) examined the three largest venture capital markets in Europe, the United Kingdom (U.K.), France, and the Netherlands. However, it is arguable that the U.K. represents a cultural and economic mixture of the U.S. and continental European countries. For example, Hofstede's (1980) research places the U.S. and U.K. in the same grouping when integrating the information on uncertainty avoidance and masculinity, whereas most of continental Europe appears in other national groupings. This is consistent with Sapienza et al. (1996) who found that on several dimensions (e.g., the impact of the venture stage on the interaction between the CEO and venture capitalist) the U.K. was more similar to the U.S. than to the other two European nations.

However, economic and political interaction resulting from its proximity to Continental Europe also results in the U.K. having other characteristics that are more similar to Continental Europe than that of the U.S. For example, Hofstede's power and uncertainty avoidance dimensions place the U.K. with other European countries. Further, since Hofstede's work (1980), the European Union has promoted the greater integration of U.K. business with Continental Europe. Since the U.K. contains characteristics of both continental Europe and the U.S., this research, in contrast to Sapienza et al. (1996), does not include the U.K. venture capitalist. Rather, respondents only from Continental Europe (France and the Netherlands) are examined.

The Asian portion of the data was collected in 1997. The venture capitalists were identified through the use of the Guide to Venture Capital in Asia (1996). Two waves of surveys were sent to the managing director of venture capitalist firms in three Asian countries -- Japan, Korea and Taiwan. These three countries were selected since they represented the highest value obtained on the "Confucian Dynamism" variables among the 22 Asian nations surveyed by Hofstede and Bond (1988). Orru, Biggart, and Hamilton (1991) also used these three countries for their investigation of organizational isomorphism in Asia; they argued that business in the three nations represented qualitatively different conceptualizations than that found in the West.

While the surveys are from different time periods, the focus of this research is the impact of the normative and cognitive institutions on professionals. Because such institutions change slowly, the impact of the different survey time frames is minimal for the purpose of this study.

To illustrate, Kaplan and Stromberg (2000) found that the median size of the boards of funded firms in the U.S. was 6 members while Spaienza (1992), using data 10 years earlier than Kaplan and Stromberg's, found a mean of board size of 5.7.

The response rate for the U.S. portion of the research was 85 percent. The survey in this portion of the research was conducted by personal interview, which encouraged high response rates. Mail surveys were utilized for both the European and Asian samples. Response rates of 35 percent and 32 percent were obtained respectively. Tests for differences between respondents and non-respondents were not significant in any country; thus, the potential of non-response bias appears low. Similarly, tests between the first and second wave of respondents demonstrated no significant differences, indicating low probability of potential response bias.

The U.S. portion of the research asked each respondent to complete surveys on two portfolio companies, preferably one doing well and one not doing well; respondents were board members for the targeted ventures. The European and Asian respondents were asked to pick one venture only; in Europe it was to be a firm on which they served on the board of directors and invested in at least two years. For the Asian sample, respondents were asked to detail the investment where they had been on the board of directors the longest.<sup>3</sup> The U.S. and Asian surveys were in English while the European survey was translated into the respective nation's predominant language.

## **METHODS OF ANALYSIS AND VARIABLES**

### **Measures**

#### Roles of the venture capitalist

The potential roles for the venture capitalist were taken from Sapienza, Manigart, and Vermeir (1996).<sup>4</sup> The roles are built on the prior research of Gorman and Sahlman (1989) and

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<sup>3</sup> Despite differences in sampling frame, respondents of all three regions showed enough variation in important variables. E.g. all samples consist of both well performing and badly performing ventures, and the time a venture was in the portfolio of the venture capital firm was comparable in the three regions (on average 4.2 years in the US, 3.2 years in Europe and 5.6 years in Asia) (see table 1).

<sup>4</sup> Descriptions of the eight roles provided: Sounding board = Listens, responds objectively, frankly, and truthfully; Financier = Provides or arranges funding in a timely manner; Business advisor = Discusses plans, reviews targets, offers feedback, provides management assistance, notes threats; Mentor/coach = Provides encouragement, positive reinforcement, support, and motivation; Friend/confidant = Is concerned for CEO, will go out of his way for CEO,

MacMillian, Kulow, and Khoylian (1989) and have been shown to have validity in the U.S. The venture capitalists were asked to rate the importance of eight roles: “Sounding Board,” “Financier,” “Business Advisor,” “Mentor/Coach,” “Friend/Confidant,” “Source of Professional Contacts,” “Source of Industry Contacts,” and “Management Recruiter.” Respondents were asked to rate the importance of these roles on a Likert type scale (1=not important, to 5=of great importance).

#### Time Devoted to Funded Company

Venture capitalists were asked to provide the total number of hours per year they devoted to the funded firm.

#### Board Size

Board size is measured as the total number of board members.

#### Percentage of Internal Board Members

The percentage of internal board members is number of board members who were portfolio company employees divided by the total number of board members.

#### Years of Venture in Portfolio

The number of years the venture had been in the venture capital fund’s portfolio was rounded to the nearest whole year.

#### Control Variables

##### *Venture Capitalist Experience*

In the U.S. it has been shown that the greater the professional experience level of the venture capitalist, the lower the time devoted to the funded firm (Sapienza & Gupta, 1994). Evidence of similar behavior was found in Continental Europe (Sapienza et al., 1996). From an institutional theory perspective, there is not a strong prediction of what impact experience will have on venture capitalist behavior in Asia. Therefore, the venture capitalist’s experience is employed as a control variable. The experience of the venture capitalist was examined in two ways: first her experience as a venture capitalist and second his experience in the industry of the funded firm.

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listens to CEO’s problems; Source of professional contacts = Knows or can locate CPAs, lawyers, etc.; Source of industry contacts = Helps generate orders, reach licensing agreements, locate key suppliers, etc; Management recruiter = Helps locate key members for management team.

The variable “venture capitalist experience as a venture capitalist” was coded as 0 if the venture capitalist had been in the industry five years or fewer years, and 1 if he had been in the industry more than five years. The variable “venture capitalist experience in industry of funded firm” was coded as 0 if the venture capitalist had experience in the industry of the funded firm for two or fewer years, and 1 if she had more than two years of experience.

#### *CEO Experience*

Sapienza, et al (1996) controlled for CEO experience in the belief that agency risks and the amount of monitoring required would vary according to the background of the CEO. However, beyond agency theory, upper echelons theory argues that the top management such as the CEO is critical to the performance of a business (Finkelstein & Hambrick, 1990). Sapienza et al (1996) specifically controlled two variables, 1) the CEO’s year’s in the focal industry, and 2) the CEO’s previous start-up experience as an entrepreneur, coded 0 if the CEO had no prior experience and 1 if he did have such experience.

#### *Business Risk*

Consistent with Sapienza et al. (1996) it is expected that greater effort may be required to monitor ventures with high business risk. Therefore the stage of the venture was introduced as a dummy variable coded “0” if the venture was seed, start-up, or early stage venture and “1” if it was a later stage venture. Consistent with Zaltman, Duncan, and Holbeck (1973) three measures of innovation were used: technical, product, and marketing innovation. The venture capitalists were asked to rate each of these three dimensions relative to their competitors, 0=innovation in a given area was equal to or less than competitors, 1=innovation in that given area was greater or much greater than competitors.

#### *Geographic Distance*

The dependent variable in our regression (testing hypothesis 2) is the amount of time devoted by the venture capitalist to the funded firm. It is possible that the distance between these two individuals may impact the amount of time that can be devoted on a face-to-face basis, particularly in Asia where there are often difficulties in communication and travel. While the sampled venture capitalists are from Japan, Korea, and Taiwan, these venture capitalists often invest over a wide area in Asia. Thus, geographic distance was controlled. Geographic distance was measured as the time in minutes it took for the venture capitalist to travel to the headquarters

of the portfolio company. The means and standard deviations of all variables are reported in Table 1.<sup>5</sup>

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Insert Table 1 About Here

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## **Analysis**

To test Hypothesis 1 the mean differences of the perceived importance ascribed to each of the eight roles by the venture capitalists in each region were examined. Hypothesis 2 was tested using an ordinary least squares multiple regression in which the independent variables and control variables were regressed against total time spent by venture capitalist with the CEO. The results are reflected for each individual region of the world. Tests were conducted to ensure that the data meet the requirements of regression analysis. Multicollinearity was deemed not to be a threat in the data due to tests for minimum tolerance. Tests to assure that common method variance did not undermine the validity of the data were based on Podsakoff and Organ's (1986) work. The factor structure of the dependent and independent variables demonstrate that common method variance was not a significant problem for this data set. Hypotheses 3 and 4 were tested using t-tests.

## **RESULTS**

### **Importance of roles**

Hypothesis 1 argued that venture capitalists would perceive their role in funded firms similarly across all three continents. Table 2 shows the means for each role from each continent, ranked from most important to least important overall, and p-values of t-tests of differences between the means of each individual role between continents. There is mixed support for Hypothesis 1. The top-four most important roles are the same in each continent, namely "sounding board," "financier," "business advisor" and "mentor/coach." However, there are also a large number of significant differences between the perceived importance of the different roles. Asian venture capitalists are consistent with their American colleagues for some roles, but also with their European colleagues for other roles.

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<sup>5</sup> For space considerations, the correlations between the independent variables are not shown, but they all remain within acceptable limits. They can be obtained from the authors upon request.

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Insert Table 2 About Here

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The role of “sounding board” is significantly more important in the US than in Asia and in Europe, and more important in Europe than in Asia. The role of “financier” is significantly more important in Europe than in Asia and the U.S.; there is no difference in importance in the U.S. and Asia. The roles of “business advisor” and “mentor/coach” are significantly more important in the US than in Asia and Europe, while they are not perceived to be different in Asia and Europe. Asian venture capitalists perceive their role as “source of industry contacts” as more important than do their American and European colleagues. Finally, there is no difference between the perceived importance of less important roles “source of business contacts” and “management recruiter” in the three continents.

Amount of time devoted to the venture

Hypothesis 2 argued that the length of time the funded venture was in the portfolio of the venture capitalist would impact the amount of time devoted by the venture capitalist to the funded firm in the U.S. and Europe, but not Asia. The regression results for Europe and the U.S. were significant and demonstrate the longer the funded firm was in the venture capitalist portfolio the lower were the hours worked with the firm. As predicted, the overall regression for Asia was not significant nor was time the venture was in the portfolio.

As noted above, venture capitalist experience was employed as a control variable. In a manner consistent with Sapienza, Manigart, and Vermeir (1996) the coefficient of the experience of the venture capitalist in the venture capital industry was significantly negative in the U.S. and Europe; but as expected the control variable was not significant in Asia. The experience of the venture capitalist in the industry of the funded firm was significantly positive in the U.S., but not in Asia or Europe. A U.S. venture capitalist devotes significantly less time to a later stage venture than to an early stage venture and to a venture that is more innovative on the product dimension, but not an Asian or European venture capitalist. Thus, Hypothesis 2 is supported.

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Insert Table 3 About Here

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### Board size

Hypothesis 3 argued that the board of directors of firms funded by venture capital would be larger in Asia than in the U.S. and European. A review of Table 4 shows that Asian boards are significantly larger than European boards, but not U.S. boards. Thus, there is moderate support for Hypothesis 3.

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Insert Table 4 About Here

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### Internal board members

Hypothesis 4 argued that the percentage of insiders on Asian boards would be larger than that in the US and Europe. A review of Table 4 shows strong support for the hypothesis: Asian boards have a significantly higher percentage of insiders than U.S. or European boards.

## **DISCUSSION**

Our prediction that venture capitalists' view of the relative importance of roles would be the same in the U.S., Europe, and Asia, received mixed support. Consistent across the three continents is the finding that the most important roles are strategic roles; support roles are viewed as moderately important, while interpersonal roles are less important. Thus, there is general support for a similarity of the perception of the various roles of the venture capitalist. This similarity is consistent with Sapienza, et al., 1996.

However, there are some significant differences in the perceived importance of specific roles. The most important roles, namely “Sounding Board,” “Financier,” “Business Advisor” and “Mentor/Coach” were rated as less important in Asia than in either the U.S. or in Europe. One explanation may be that roles which emphasize the individual have relatively less importance in a collectivist society, and those that emphasize function (source of contacts and management recruiting) may be relatively more important. Alternatively, Black and Gilson's (1998) position on the efficacy of involvement might suggest that in Asia venture capitalists do not as finely distinguish between roles because there is little incentive to do so.

We argued in the development of Hypothesis 2 that venture capitalists in Asia would be more likely than those in the West to maintain the same level of effort over time because their

motivation to contribute to the collective good would not depend solely on the economic productivity of such effort. If market forces alone drove involvement, the intensity of their involvement could be expected to diminish significantly over time (Black & Gilson, 1998). Indeed, the general observation that time involvement in Europe is lower than that in the US is consistent with Black and Gilson's (1998) depiction of why US venture capitalists are more active. However, here we observe that Asian venture capitalists devote as much time to their portfolio companies as do US venture capitalists and that this level of effort does not diminish as the length of the relationship grows. In short, the result is consistent with motives other than self-interested efficiency in the Asian market. Black and Gilson (1998) effectively explain the greater economic efficiency of the US market but do not fully explain choices that are not totally economically driven. Our data suggest that norms based on other than economic efficiency have developed in Asia.

The means by which normative institutions have been transmitted to Europe and Asia are not difficult to identify. As noted previously many venture capitalists in Europe and Asia received their training in the U.S. and maintain contact with U.S. venture capitalists (Bruton, et al., 1999). But there are also other sources of influence. For example, the leading institute for training of venture capitalists in Asia is the Institute of Private Equity Investment. Since 1995, this institute has provided semi-annual training seminars in Asia for new Asian venture capitalists. Over 60 percent of the Institute's instructors have been venture capitalists that either received their education or training in the U.S., or are currently affiliated with a U.S. firm. In addition, the instructional materials used in the training are largely drawn from research on the U.S. industry. Thus, even now the normative institutions on which the values of the industry in Asia rest are connected to the U.S. industry. However, those values and attitudes, and how they are implemented, are impacted by the local culture or cognitive institutions. The collectivist values of Asian society impacting venture capitalists' values and actions; a finding consistent with the general evidence on the impact of collectiveness on business within the region (Biggart & Hamilton, 1992; Biggart & Hamilton, 1988; Orru et al., 1991).

Culture (cognitive institutions) clearly has an impact on the results of the regressions. The model that works so well in the U.S. has no predictive power in Asia. It is interesting to note from the regression results in Table 3 that as the cultural connection with the U.S. gets more



distant, the explanatory power of models developed in the U.S. grows increasingly weak. The explanatory power of the variables in the regression is greatest in the U.S., declines as the model is applied to the European sample (particularly when the U.K. is excluded), and disappears in Asia.

Similarly, the results for Hypothesis 4 indicate that culture impacts venture capitalist's behavior in Asia. Thus, there is strong evidence from this study that an assumption that U.S. research has automatic application in different parts of the world is incorrect. Instead, local cognitive institutions (culture) impact the behavior of professionals, such as venture capitalists. These differences can be significant even though these professionals say they are conducting roles similar to what is understood in the West.

Our results are consistent with the view that Asian venture capitalists are less concerned with efficiency in dealing with portfolio companies, and more concerned with creating and maintaining a strong relationship, than are their U.S. and European counterparts. While this difference appears driven by differing cognitive institutions, our results do not indicate if the Asian venture capitalists' behavior is correct. Perhaps downplaying efficiency concerns is consistent with a collectivist culture, but not with high-performance. On the other hand, the American and European venture capitalists might be wise to be more concerned with the creation of relational rents (DeClerq & Sapienza, 2000). Without performance data, we cannot make a judgment as to whether the Asian emphasis on the relationship is justified.

## **Future Research**

Future research should expand our understanding of the impact of venture capital on high technology firms in Asia. This study looked at the Asian venture capitalist's relationship to their funded firms. We should also explore how the Asian venture capitalist makes investment decisions, and how the Asian venture capitalist gets the money he is investing. In the U.S. these are seen as pure economic investment decisions, whereas in Asia the issues are also clearly impacted by relationship issues.

There are also specific issues from this study that merit further investigation. The lack of difference between the U.S. and Asia in board size is counter to what was predicted. From a US

perspective, the Board is seen as the primary governing entity for the company. So, if you want to create strong linkages, you create them at the board level. However, this logic may not hold in Asia. The true role of the Asian board is unclear. Our study is consistent with the limited research in this area which has found that Asian boards are much less independent than those in the US and Europe (Weidenbaum & Hughes, 1996).

Future research on Asian board behavior should examine control issues in light of the cognitive institutions present in Asia. For example, how actively do boards intervene in their funded firms? What is their role in strategy development and evaluation? Upon what information do Asian venture capitalists base their funding decisions? It may be expected that because of the collectiveness of Asian venture capitalists, they intervene far less than their Western.

The evidence here suggests that the nature of the interaction between the CEO of the funded firm and the venture capitalist will be different in Asia. Thus, topics such as CEO dismissal need to be examined in Asia in light of institutional theory. Similarly, the potential for the networks of informal control that develop between parties in Asia to substitute for the formal legal control mechanisms used in the West needs to be examined.

This research was at the micro level, focusing on differences in behaviors between venture capitalists in different parts of the world. Future research can explore the macro level implications of these micro level differences. How does differing venture capitalist behavior impact portfolio company performance? How does it impact the performance of Asian venture capital firms? How does it impact the performance of Asia's economy?

Finally, Scott (1995a) argues for a broader investigation of institutions so that the impact of the different types of institutions on organizational behavior can be better understood. The information presented here supports this analysis. The evidence is that while normative institutions shape overall values, cognitive institutions shape the implementation of those values among professionals in a worldwide industry. Future researchers should seek to expand this understanding to better comprehend how various institutions interact with each other to shape "professionals" behavior. Similarly, different professions need to be examined across the three regions to determine the applicability of our findings to other professional groups. There is no reason to expect that venture capitalists as a professional group act radically different than other professionals, however, the findings here should be validated.

## CONCLUSION

To date the development of management theory has been largely based on a single culture, that of the U.S. (Doktor, Tung, & VonGlinow, 1991; Hofstede, 1990). Management scholars should examine whether management theory differs across countries and how possible differences are shaped by cognitive institutions. Increasingly, European and Asian business schools have begun to establish separate courses in “European Management” and “Asian Management.” This trend reflects a belief that management practice in Europe and Asia is different from practice in the U.S. To avoid fragmentation of the body of management knowledge and practice, scholars must seek to understand both the differences and similarities between management practices in different parts of the world. Institutional theory, as demonstrated here, provides a strong basis to seek to understand those differences and similarities.

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**TABLE 1****Means and standard deviations of Dependent, Independent and Control Variables**

	US		Europe		Asia	
	Mean	SD	Mean	SD	Mean	SD
Hours Contact Between Venture Capitalist and CEO of Firm	194.05	187.76	77.16	62.32	347.34	747.76
Time in Portfolio (Years)	4.18	4.28	3.24	2.65	5.59	3.84
Venture Capitalist Experience as Venture Capitalist	0.38	0.49	0.38	0.49	0.36	0.48
Venture Capitalist Experience in Industry of Funded Firm	2.14	1.22	2.37	1.24	3.22	1.19
CEO's Industry Experience	10.69	9.01	12.80	7.89	10.62	6.70
CEO's Start-up experience	0.50	0.51	0.39	0.49	0.58	0.50
Venture Stage	0.55	0.50	0.87	0.33	0.58	0.50
Technological Innovation	0.43	0.50	0.61	0.49	0.78	0.42
Marketing Innovation	0.51	0.51	0.39	0.49	0.38	0.69
Product Innovation	0.65	0.48	0.72	0.45	0.70	0.46
Distance	138.41	172.58	73.61	54.26	534.70	1429.89

**TABLE 2****Mean Rankings of Venture Capitalist Roles Around the World****(1=not important, 5=very important)****and p-values of t-tests between independent samples**

<b>Importance of roles</b>	<b>Total Sample</b>		<b>Mean</b>	<b>Mean</b>	<b>Mean</b>	<b>p-value</b>	<b>p-value</b>	<b>p-value</b>
	<b>Mean</b>	<b>Standard Deviation</b>	<b>Asia</b>	<b>US</b>	<b>Europe</b>	<b>Asia vs. US</b>	<b>Asia vs. Europe</b>	<b>US vs. Europe</b>
Sounding board	4.19	0.87	3.68	4.51	4.23	0.00	0.00	0.04
Financier	4.06	1.20	3.89	3.88	4.32	0.95	0.02	0.03
Business advisor	4.05	0.89	3.96	4.39	3.82	0.00	0.43	0.00
Mentor/Coach	3.67	1.01	3.60	3.92	3.49	0.08	0.59	0.01
Friend/Confidant	3.20	1.10	3.36	3.34	3.00	0.93	0.09	0.08
Source of professional contacts	3.07	1.00	3.11	2.91	3.18	0.33	0.66	0.12
Management recruiter	2.96	1.28	3.17	2.90	2.87	0.29	0.19	0.92
Source of industry contacts	2.88	1.28	3.45	2.63	2.74	0.00	0.00	0.62
<i>N</i>	<i>167</i>		<i>40</i>	<i>49</i>	<i>78</i>			

**TABLE 3****Regression Results; Dependent variable : hours worked by venture capitalist**

	Asia Coefficient	US Coefficient	Europe Coefficient
Time in Portfolio	-0.00	-0.10 +	-0.20 +
Venture Capitalist Experience as Venture Capitalist	0.14	-0.65 *	-0.30 *
Venture Capitalist Experience in Industry of Funded Firm	-0.03	0.46 *	0.17
CEO's Industry Experience	0.11	0.01	0.11
CEO's Start-up experience	-0.27	-0.43	-0.12
Venture Stage	0.11	-0.94 **	-0.02
Technological Innovation	0.17	0.23	0.11
Marketing Innovation	0.01	-0.06	0.15
Product Innovation	0.18	-0.41 +	0.10
Distance	0.12	0.00 *	-0.06
Adjusted R2	--	0.540	0.096

Significance levels : + p&lt;.10; \* p&lt;.05; \*\* p&lt;.01



**TABLE 4**

**Board of Directors  
and p-values of t-tests between independent samples**

<b>Board Size</b>	Total sample		Mean	Mean	Mean	p-value	p-value	p-value
	Mean	St. dev.	Asia	US	Europe	Asia vs. US	Asia vs. Europe	US vs. Europe
Board Total Size	5.37	2.35	6.40	5.71	4.63	0.15	0.00	0.00
Board Insiders as a Percentage of Board	0.41	0.26	0.51	0.35	0.39	0.00	0.03	0.41
<i>N</i>	167		40	49	78			