

Quality of law enforcement and success in private deals

Abstract

This paper investigates how law enforcement is related to exit performance of venture capital investments. Our results lend support to the conjecture that investments with international venture capitalists (VCs) outperform investments by their domestic counterparts and that international VCs are adversely affected by inferior law enforcement in a country to a lesser extent than are domestic VCs. Syndicated investments perform better than stand-alone investments and when investments are syndicated between domestic VCs (but not between domestic and international ones), the quality of the law enforcement seems to be more closely related to performance than in stand-alone domestic investments. These findings, which follow from analyzing more than 10,000 venture-backed companies across 44 countries, are in line with predictions from information asymmetries and agency cost theories.

JEL classification: G24, G32

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1 Introduction

Venture capital is becoming international and emerging literature has started to focus on this phenomenon. Some studies investigate factors that drive international venture capital flows between countries (e.g., Aizenman and Kendall 2012; Schertler and Tykvová 2012). Further studies put emphasis on one specific factor. For example, Guler and Guillén (2010) concentrate on venture capitalists' networks in the US and their effects on internationalization efforts of these investors. Tykvová and Schertler (2011) focus on venture capitalists' networks in developed countries and analyze how they affect inflows and outflows of venture capital. Iriyama and Madhavan (2009) analyze how immigrants shape US international investments. From the company perspective, Mäkelä and Maula (2008) investigate how a company succeeds in attracting international venture capitalists (VCs).

A few recent studies deal with the performance of international venture capital investments and factors that are related to this performance (Dai et al. 2012; Humphery-Jenner and Suchard 2013; Nahata et al. 2013; Wang and Wang 2012). These studies typically do not include worldwide domestic and international investments, but rather focus only on one country or one region only or exclude domestic investments.¹ Our main aim is to contribute to a better understanding of how international and domestic investments, syndicated and stand-alone investments and, finally, investments in countries with differing strengths of law enforcement differ in their performance and how these factors interplay.

Starting with the seminal works by La Porta et al. (1997, 1998) large strand of literature in corporate finance and governance analyzes the links between corporate finance and legal origins, systems, rules and law enforcement. This paper adds to this research by analyzing how law enforcement is related to the success of venture capital investments. We argue that the positive effect on performance that researchers have found to come with international investors (e.g., Dai et al. 2012) and syndicates (e.g., Brander et al. 2002; Das et al. 2012; Tian 2012) should differ in its magnitude depending on the quality of the law enforcement inherent in the country the investment takes place.

When looking at the role of legal rights and law enforcement on success in venture capital investments, Nahata et al. (2013) suggest that superior legal rights and law enforcement in the country the investment takes place significantly improve performance of international investments. Wang and Wang (2012) demonstrate that the degree of economic freedom is positively related to

¹ Nahata et al. (2013) focus on US international investments; Wang and Wang (2012) deal with worldwide international investments; Dai et al. (2012) include international investments in Asia; Humphery-Jenner and Suchard (2013) analyze investments in China.

the likelihood of a successful exit. These results are also consistent with findings of Cumming et al. (2006). However, Dai et al. (2012) report the effect of local laws to be insignificant in most specifications they use. Obviously, more research is needed in this area and our paper helps to fill the gap by offering a more fine grained analysis of how law enforcement is related to performance. We conjecture that international investors are able to alleviate the supposedly negative impact of inferior law enforcement for at least two reasons. First, we expect their relationship towards limited partners to be less affected by the inferior law enforcement than that of domestic investors. Second, international VCs are more likely to use substitutionary control mechanisms when the country regulations are not beneficial to venture capital investments (e.g. Barcarcel et al. 2010; Lerner and Schoar 2005).

Our sample allows us also to gain a richer understanding of how worldwide syndication patterns affect success compared to studies that deal with international investments only and compare stand-alone investments and investments syndicated with domestic investors. Humphery-Jenner and Suchard (2013) demonstrate that the presence of an international investor in China increases the likelihood of success only when this investor syndicates with a domestic partner. Nahata et al. (2013) and Dai et al. (2012) both demonstrate, consistently with our findings, that syndicates between domestic and international investors are more successful than stand-alone international investments. Nahata et al. (2013) finds this effect only in developed economies. We expect to find a stronger positive effect of syndicates on success in countries with superior law enforcement. The reason we have for this expectation is that in countries with inferior law enforcement, syndication will give rise to larger agency costs because syndicates rely on complex contractual structures between their members. These costs adversely affect the investment performance. On the contrary, superior law enforcement is beneficial to the smooth functioning of syndicates and should positively influence investment performance. Moreover, we expect to find this effect especially for domestic syndicates. In syndicates between domestic and international VCs we expect that, on the one hand, international investors are able to mitigate the negative effects of inferior law enforcement, but, on the other hand, inferior law enforcement increases agency cost of syndication. Consequently, the internationalization and the syndication effects work in the opposite way.

We believe that our analyses significantly complement and expand the current work on venture capital internationalization, syndication and exit performance on the one hand and on the other hand add to the existing law and finance research. Our results are robust towards various alterations and we check for endogeneity of internationalization and syndication.

The rest of the paper is organized as follows. Section 2 provides the theoretical framework for our study. In Section 3, we describe the data on venture capital investments and exits. Section 4 gives an overview of the variables used and reports results from univariate comparisons. The next two sections are devoted to multivariate analyses. Section 5 looks at how the investment type and success as well as rule of law and success are related. In Section 6, we analyze whether different investment types are affected by rule of law to a different extent. Section 7 provides some robustness checks. Finally, Section 8 summarizes and concludes.

2 Related literature and theoretical framework

2.1 Internationalization and success

VCs are active investors that provide their portfolio companies with extensive managerial support (e.g., Sahlman 1990). Hereby, international VCs may offer their companies several benefits that domestic investors do not have. They may provide their companies with access to international product and capital markets. In addition, their companies may profit from VCs' international networks when searching, for example, for human capital, additional sources of finance or for alliance and cooperation partners. Following this line of reasoning, we expect international VCs not only to provide, in general, higher-quality support than domestic VCs but also to attract better companies as they are mostly more experienced and better-networked than a typical domestic VC. Hsu (2004) provides evidence that more experienced and better-networked VCs are more likely to attract high-quality companies than less experienced and less-networked VCs.

Venture capital business also incorporates an intensive ex-ante selection and screening process of suitable investment targets and comprehensive ex-post monitoring activities of the selected portfolio companies (e.g., Sahlman 1990). As these companies are typically young, small and intransparent and do not have any track record, the access to local information and understanding of local markets can be very beneficial in the selection and monitoring activities. Domestic VCs face less severe information asymmetries and monitoring problems than international VCs because they are familiar with country habits, rules and norms; they have an easier access to local information, local networks and resources; they understand the local markets better than international investors. All this may positively affect the selection process and, later on, make monitoring of these companies easier for domestic than for international investors.

To sum up, both types of investors seem to have their advantages and disadvantages. Recent empirical evidence does not provide a clear picture on whether domestic or international investors are more successful. For example, Humphery-Jenner and Suchard (2013) find out that the participation of international VCs per se does not improve performance of Chinese portfolio companies. On the contrary, Dai et al. (2012) show for Asian companies that international VCs improve their performance.

2.2 Syndication and success

Syndication among VCs may be beneficial to companies' development and performance. A syndicate partner delivers a second opinion on company situation and future prospects during the selection and screening phase (see Casamatta and Haritchabalet 2007; Lerner 1994), which might mitigate adverse selection and increase the quality of selected portfolio companies. Syndication may be beneficial also during the investment phase because different syndicate members may contribute their unique and, to a certain part, complementary skills, knowledge, experience and networks. Such combination of resources (Bygrave 1987; Manigart et al. 2004) may result in a superior support and monitoring (e.g., Cumming and Walz 2010; Brander et al. 2002; Tian 2012). A higher value added through improved support and a reduction in the moral hazard problems between the VC(s) and the company as a consequence of a better monitoring increase the chances for a successful exit. We therefore expect higher likelihood of a successful exit in syndicated than in stand-alone investments.

The performance of syndicated transactions will also be affected by the composition of the syndicate. As we argued above, both types of investors (i.e. domestic and international) have advantages and disadvantages. Given this argumentation and in line with the findings of the empirical literature (Dai et al. 2012; Humphery-Jenner and Suchard 2013; Nahata et al. 2013), we postulate that, in general, syndicates between international and domestic investors will be most beneficial to investment success as portfolio companies backed by such syndicates can profit from their relative advantages of both types of VCs. Foreign VCs have a relative advantage over local VCs in terms of networks and experience while local VCs are at an advantage in information collection and monitoring.

2.3 Law enforcement and success

Starting with La Porta et al. (1997, 1998) many works argue that legal rights and law enforcement matter in corporate finance. Appropriate laws and regulations that induce strong property rights, high quality of the courts and contract enforcement as well as a low likelihood of crime and violence increase investor protections and, thus, positively affect the investment climate. Law enforcement is

of particular importance in investments, which are based on complex contracts, such as venture capital transactions (e.g., Bottazzi et al. 2009; Cumming et al. 2010; Lerner and Schoar 2005; Kaplan et al. 2007). Cumming et al. (2006) and Nahata et al.'s (2013) results support this view by showing that superior legal rights and law enforcement lead to a better exit performance of venture capital investments. On the contrary, Dai et al. (2012) report the effect of law quality on exit performance to be insignificant in most specifications they use when they control for investment type, deal, company and VC characteristics as well as company country characteristics.

One explanation for these controversial results could be that different types of investments respond differently to the quality of legal enforcement. We first suppose that the effect of law enforcement differs for domestic and international investors. It is possible that international investors are less affected as these investors may, to a certain extent, be subject to the legal regime in their home country. In line with this reasoning, Kelley and Woidtke (2005) suggest that multinational U.S. companies have comparative advantage over domestic firms in poor investor protection countries. Allayannis et al. (2005) demonstrate that companies may mitigate the costs of inferior legal rights in their home country with borrowing abroad. Rossi and Volpin (2004), who analyze worldwide mergers and acquisitions, argue that international investors may improve governance mechanisms in countries with poor investor protection. In the venture capital context, one potential reason for why the inferior law enforcement may harm domestic and international VCs to a different extent is that international VCs that come from countries with better law enforcement are less subject to agency problems between general and limited partners in their home countries than would be the case in the investment country. On the contrary, domestic VCs in the investment country with inferior law enforcement face misaligned incentives between general and limited partners to a much stronger extent, which may induce general partners to deliver inferior performance. Another reason could be that it is easier for international than for domestic VCs to find a way how to mitigate the obstacles of bad laws in the company country because international VCs typically are more experienced than their domestic counterparts. In line with this reasoning, Lerner and Schoar (2005) find out that international private equity investors in developing countries use substitutionary control mechanisms, which they implement in private negotiations, when the country regulations do not allow them to employ the type of contracts they are used to from their home country. Balcarcel et al. (2010) demonstrate that international VCs obtain larger stakes in companies that are located in countries with inferior legal protection. They suggest that in this way international VCs try to protect themselves from being not able to enforce contracts in countries with inferior legal protection where courts may not be able to adequately enforce with smaller stakes.

Second, we expect syndicated investments to be more strongly adversely affected by inferior law enforcement because law enforcement plays not only an important role for the contracting between the VC and the company, but also for the contraction between syndicate partners, which is subject to agency costs as well. Superior law enforcement, which reduces these agency costs, enables syndicates to develop their advantages described above. With inferior law enforcement, agency costs within the syndicate increase as partners may fear that contracts between them cannot be efficiently enforced. For example, if lead VCs fears expropriation from their syndicate partners, they will exert less effort to support and monitor the company, which will have a negative effect on the company performance.

3 Data on venture capital investments and exits

The sample consists of 10,888 venture-backed companies in 44 countries in the period 2000-2008 extracted from the Bureau van Dijk Zephyr database. This database contains information on M&A, initial public offerings (IPOs), private equity and venture capital investments around the world. It relies on multiple sources of information, such as company press releases, stock exchange announcements, news from financial advisors, web sites, etc. Several scholars working in the fields of venture capital and private equity have started to use Zephyr in recent years (e.g. Beuselinck et al. 2009; Bloom et al. 2009; Brav et al. 2009; De Prijcker et al. 2009; Michaely and Roberts 2012; Schertler and Tykvová 2012; Tykvová and Schertler 2011). From this database, we extracted data on worldwide venture capital investments in the period between January 2000 and December 2008.

Following the literature (Dai et al. 2012; Das et el. 2011; Hochberg et al. 2007; Nahata et al. 2013; Sorenson 2007), we measure performance as a successful exit. Our dependent variable *exit* is binary, one for successful and zero for unsuccessful exits. To construct this variable, we extract from Zephyr data on worldwide mergers and acquisitions, IPOs, secondary sales and management buyouts between January 2000 and March 2013 to infer which of our sample investments have been successfully exited during this period. For those companies that have not been exited until March 2013, we set our dependent variable equal zero. As some of the most recent investments might still be successfully exited after this date, we perform a robustness check in which we exclude the investments from years 2007 and 2008 from the analysis.

In Table 1, we categorize the venture capital investments based on the country in which the investment takes place and we distinguish between successful and unsuccessful exits. Most investments take place in developed countries: Nearly 50% of the companies that obtain venture

capital are from the United States, followed by the United Kingdom, France, Germany and Canada. In total, 29.3% of the investments were successfully exited. The success rates amount to 30.8% in the United States, to 28.4% in the United Kingdom, to 33.3% in France, to 23.2% in Germany and to 26.2% in Canada. These numbers are somewhat higher compared to Nahata et al. (2013) who report that 24.4% of worldwide exits were successful. The differences might arise because both studies cover different periods. Nahata et al. (2013) deal with investments between 1996 and 2002 so that their time period completely covers investments during the bubble period, which might have turned unsuccessful more often than investments in other years. Compared to that, our sample period starts from 2000, in which the bubble bursted. Also, part of the differences may be due to the fact that Nahata et al. (2013) focus on IPOs and trade sales as successful exits. Albeit they report that they include secondary sales, the fraction of these exits is only 4% of all venture capital exits in their sample while it reaches 8.1% in our sample. When comparing these numbers to the aggregate exit type statistics (e.g., EVCA data) we suppose that these exits are underrepresented in Nahata et al.'s sample. Finally, their sample covers only 30 countries, while we have data from 44 countries.

4 Variables and descriptive statistics

Table 2 presents variable descriptions and sources. Table 3 shows basic descriptive statistics on independent variables. Our main independent variables of interest are *rule of law*, *inter* and *synd*. To proxy for the quality of law enforcement we employ the *rule of law* variable from La Porta et al. (1997). The variable scales from 0 to 10 with higher scores denoting more tradition for law and order. To generate this variable, La Porta et al. (1997) relied on the country risk rating agency International Country Risk (ICR) Guide. To assess the "Law" element, ICR considers the strength and impartiality of the legal system, the "Order" element captures the popular observance of the law. Since La Porta et al. (1997) do not provide measures for transition economies, we obtain the values for these countries from Pistor et al. (2000) who take the data from the Central European Economic Review.² They argue that their index is very similar to the La Porta et al. (1997) measure. We follow several studies (e.g. Dyck and Zingales 2004) that complement La Porta et al.'s measures with Pistor's measures to proxy for law enforcement. The mean value of this variable is 9.45 in our company sample, which is driven by the large amount of companies from the US, with the highest index value of 10. The value is significantly higher for companies that were successfully exited, indicating that more law and order is positively related to success.

² Unfortunately, either study provides the score for China; we tackle this issue in one of our robustness checks.

The internationalization dimension is captured by a binary variable *inter*. This variable equals one if there is at least one international VC that finances this investment (and zero otherwise). 33% of the investments are international. The fraction of international investments is significantly higher in successful (36%) than in non-successful investments (31%).

Syndication is captured by a binary variable *synd* that equals one if more than one VC finances the investment (and zero otherwise). Approximately 53% of investments are syndicated. The fraction of syndicated investments is significantly higher in successful (59%) than in non-successful investments (51%).

In order to look at the internationalization and syndication patterns in a more fine-grained analysis, we define five investment types (and the respective binary variables that equal one for the respective investment type and zero otherwise):

- a stand-alone domestic investment (*DD*),
- a syndicated domestic investment (*DDDD*),
- a stand-alone cross-border investment (*CB*),
- a cross-border investment syndicated between domestic and international VCs (*CBDD*),
- a cross-border investment syndicated between international VCs (*CBCB*).

In the whole sample, 35% of investments are DD and 33% of investments are DDDD. In a large fraction of international investments, international VCs syndicate with domestic partners and CBDD investments represent 18% of all investments. Finally, 12% are CB and only 2% CBCB. Univariate comparisons again indicate that internationalization and syndication are beneficial to success.

Table 4 further looks into the relationship between success and rule of law as well as between success and investment type. Panel A depicts the fraction of successful exits in countries with more vs. less tradition for law and order. For the purposes of this univariate comparison, the countries with more tradition for rule and order are defined as those having the rule of law variable equal to 10; all other countries belong to the countries with less tradition for law and order.³ Wilcoxon-test suggests that high rule of law score is related to a significantly higher fraction of successful exits. Panels B and C show the fraction of successful exits in domestic vs. international investments and in stand-alone vs. syndicated investments. The results from Wilcoxon-tests lend support to the conclusion that international investments and syndicated investments perform significantly better when compared to domestic investments and stand-alone investments. Finally, Panel D, which depicts the fraction of

³ In the multivariate regressions, we employ the exact value of the rule of law variable.

successful exits by the five investment types, supports the conjecture about benefits from international and syndicated investments over domestic and stand-alone investments. The CBDD type delivers the best performance; here 34.3% of investments are exited successfully, which is 10.3 percentage points more than the type with the worst performance, which is DD.

We employ a diverse mix of other data sources. In our regressions on the likelihood of a successful exit we control for the countries' expected growth, economic development (GDP per capita), financial market returns, market capitalization and venture capital industry size. We add company country dummies because the success of venture capital investments varies substantially across countries and we are not able to control for all country-specific effects that may be related to success. We also add year dummies to control for time-varying effects such as global venture capital industry competition, IPO and M&A market conditions that supposedly affect success of venture capital investments (see Gompers and Lerner 2000). To control for company specific characteristics that may be related to success, we use industry dummies and the deal value.

Alternatively to the company sample (1 observation = 1 company), we employ a dyad sample that is based on dyads between companies and VCs. In comparison to the company sample, the latter sample is larger because each syndicated investment is treated as one observation in the company sample, but as several observations (their number equals the number of VCs) in the dyad sample. This sample enables us to control for the VCs' experience and VCs' country characteristics. We measure VC's experience as past deal count in the three-year-window preceding the investment. As our dataset starts in 2000 and we need three years to calculate this variable, the dyad sample consists of investments between 2003-2008 only. On average, a VC invested in 9.16 companies in the preceding three-year-window, this value being significantly higher for successful than non-successful companies (10.57 vs. 8.58).

Table 5 reveals correlation coefficients in the company sample.

5 How is investment type and rule of law related to success?

Table 6 depicts marginal effects from different specifications of logit regressions that model the likelihood of a successful exit. Panel A uses the company sample, Panel B uses the dyad sample.

The first two columns in Panel A suggest that internationalization and syndication are positively related to performance. Column 3 reveals that more tradition for law and order goes hand-in-hand with a higher likelihood of a successful exit. Column 4 confirms the results while employing

internationalization, syndication and rule of law variables simultaneously. International investments seem to have a 4-5 percentage points higher likelihood of a successful exit than domestic investments. Syndicated investments have a 4-5 percentage points higher likelihood of success. An increase in the variable rule of law by 1 (on a 1-10 scale) increases the likelihood of a successful exit by 11 percentage points. The fifth column includes binary variables related to the five different investment types (DD being the omitted category) together with rule of law. Compared to stand-alone domestic investments, syndicated domestic investments have a 6 percentage points higher likelihood of a successful exit, international investments of a stand-alone investor and investments syndicated between international and domestic investors have a 9 percentage points higher likelihood of success. The results remain statistically significant when we control for deal volume in Columns 6 to 8 (the number of observations drops because this variable is not available for all investments).

In Columns 9 and 10, we control for the endogeneity of VC's selection. Existing literature suggests that high-quality firms match with high-quality VCs (e.g., Hsu 2004). Thus, our results on the positive effect of international investors might be driven by the selection effect, i.e. international investors (which often are more experienced and more professionalized) backing better companies, which have higher likelihood of success per se. To make sure that our findings are not driven by this potential selection bias, we use the propensity score matching. In the first step, we estimate the conditional probability of an international investment. We include company age, deal volume and a set of industry, country and year dummies. In the second step, we estimate the propensity scores. In the third step, we match to each treatment company (international investment) one control company (domestic investment) with the closest propensity score. We employ the nearest neighbor matching without replacement and we restrict the treated on the common support. In Column 9, we estimate the likelihood of a successful exit within the matched sample. The results reveal that the effect of international investors is still positive, albeit its statistical and economic significance drops compared to the basic regression in Column 1.

We have similar concerns regarding potential endogeneity of syndication as syndicates may dispose over better selection capabilities (Casamatta and Haritchabalet 2007; Lerner 1994) than stand-alone investors. Thus, our results on the positive effect of syndication might not be driven by the treatment effect but rather by the selection effect, i.e. syndicates backing better companies. We again perform matching using a similar procedure as before (for each stand-alone investment we choose a syndicated investment with the closest propensity score) and estimate the likelihood of a successful exit within the matched sample. Column 10 reveals that the effect of syndicates is highly statistically significant. The economic significance is even slightly higher than in the basic regression (Column 2).

We perform the same ten regressions for the dyad sample in Panel B. These regressions control for VC's experience and VC's country characteristics. They lead to the same conclusions regarding the effect that internationalization, syndication and rule of law have on success. Venture capitalist's experience is strongly and positively related to success as expected. Giving the similarity of the results, we will focus on company sample in the rest of the paper.

To sum up, the results from Table 6 suggest that investments of international VCs and syndicated investments perform better than domestic and stand-alone investments. These results are robust towards endogeneity of internationalization and syndication. The results further indicate that the quality of law enforcement in the company country and company performance are positively related.

In unreported regressions, we also analyze the impact of international investors, syndicates and rule of law on various exit channels separately (trade sale, IPO, secondary sale and management buyout) using multivariate logit models. From these models we infer that international investors are beneficial to trade sales and IPOs, while syndicates as well as a strong tradition for law and order increase particularly the likelihood of trade sales.

6 Does the rule-of-law-effect depend on the investment type?

In the following, we investigate whether rule of law is related to exit success differently for international and domestic investors, for syndicated and stand-alone investments and, finally, for the different investment types (CB, DDDD, CBDD). To this aim, we interact the investment types (one-by-one) with rule of law. In Table 7 we depict the marginal effects of these interaction terms.⁴ To compute the marginal effect of the interaction term in our logit models, we rely on the procedure suggested by Norton et al. (2004). All regressions contain rule of law and the same control variables (including dummy variables) as in Table 6. We vary the investment type dummies included and, consequently, the interaction term differs as well across columns.

In Column 1, we add the variable *inter* and its interaction with rule of law. Thus, we investigate whether the effect of international investors, which was significantly and positively related to success (see Table 6), differs in countries with differing traditions for law and order. The marginal effect of the interaction term is negative, while both marginal effects of non-interacted variables are positive. These results suggests that while international investors and stronger local tradition for law and order both are positively related to the success probability, the effect of rule of law is smaller with

⁴ We do not show the marginal effects from other variables because they are similar to those in Table 6.

international than with domestic investors. We interpret this result as suggesting that international investors are less affected by local laws than domestic investors. One potential explanation was that international investors are affected, to a certain part, by the laws in their home country in international investments. However, Table 6 reveals that the marginal effect of the rule of law variable in the VC country is insignificant. Thus, a better law enforcement in the VC country does not per se improve performance. So, it is probably the experience and know-how of international investors that helps them to find ways to mitigate the adverse effects and makes them less vulnerable to weak law enforcement than domestic investors.

In Column 2, we use variable *synd* and interact it with the rule of law. Thus, we want to infer how the effect of syndication, which was significantly and positively related to success, differs with the quality of law enforcement. Both marginal effects of non-interacted variables are positive and the marginal effect of the interaction term is positive as well. These results suggest that while syndicates and stronger local tradition for law and order both are positively related to the success probability, the positive effect of rule of law is larger in syndicated than in stand-alone investments. Our explanation is that syndicates may best develop their benefits in countries with high rule of law scores. Put differently, in countries with low rule of law scores, syndicate members will face high agency costs within the syndicate and these costs will mitigate the positive effects of syndicates on the success probability.

In the third to fifth columns, we employ four investment type dummies as regressors (DD is the reference category). One-by-one, we interact the rule of law with those three investment types, which we found to have a positive impact on success (CB, DDDD, CBDD). Thus we want to understand whether and how this impact may vary across countries with different law and order traditions. In Column 3, the marginal effect of the interaction term with CB is negative. This finding suggests that the effect of law and order tradition is lower with international stand-alone than with domestic stand-alone investors, consistently with what we have found on internationalization in the first column. The interaction effect with DDDD (Column 4) is significant and positive. This result indicates that the positive effect of strong law and order tradition is larger for investments in which domestic investors syndicate than for investments in which domestic investors invest alone, consistently with what we found on syndication in the Column 2. Finally, in the fifth column, we interact CBDD with the rule of law and the effect is insignificant. We interpret this finding as being consistent with the two reverse effects we have found in the first and second columns – namely a stronger effect in syndicated investments and a weaker effect in international investments – compensating each other.

To further support the analysis of how the investment type effect varies with a changing rule of law, we choose an alternative approach, in which we analyze whether the success is differently related to the presence of different types of investors in countries with high and with low scores of rule of law. To this aim, we split the sample in two subsamples: investments in countries with the highest score for rule of law and other countries. We report the results from regressions on these subsamples in Table 8.

The effect of international investors seems to be more strongly related to success in countries with weaker law enforcement (Columns 1 and 2). When we control for syndication, the effect of the internationalization variable even disappears in countries with the highest law enforcement (Column 5), but remains highly statistically and economically significant in countries with weaker law enforcement (Column 6). This result is also supported in the final two columns as the marginal effect on the CB dummy turns insignificant in the top-law-enforcement countries (Column 7), but remains highly statistically and economically significant in other countries (Column 8). These findings indicate that international investors are beneficial to success especially in countries with weak law enforcement.

The effect of syndicates is only significant in the countries with the highest score of rule of law (see Columns 3 and 5), but not in other countries (Columns 4 and 6). This finding suggests that only in countries with the best law enforcement, syndicates can develop their benefits. The strength of law enforcement seems to be particularly relevant for syndicates consisting of domestic investors only as the final two columns reveal. We find a positive effect of DDDD in the subsample of top-law-enforcement countries (Column 7), but an insignificant effect in other countries (Column 8).

The results from Table 8 suggest that international VCs are particularly beneficial to companies' success in low enforcement countries and syndicates are particularly beneficial to success in high enforcement countries. If this is true, we would expect to observe a higher share of international deals in low-enforcement countries and stronger syndication in high-enforcement countries. We devote our attention to these issues in Table 9. To check the first conjecture, in the first column we regress the fraction of international venture capital investments on total venture capital investments that occur in each country and year on the rule of law variable (controlling for time effects). To check the second conjecture, in Column 2 we regress the fraction of investments syndicated among domestic VCs on total domestic venture capital investments. In the second regression, we focus on domestic investments only as international syndicates might be affected by the "international" and the "syndicate" effects, which go in the opposite direction, at the same time. We employ Tobit models as both dependent variables are censored at 0 and 1. The findings are in line with our

expectation. Rule of law has a negative effect on the internationalization share and a positive effect on the domestic syndication share.

7 Robustness

We finally check whether our findings are robust towards various alterations. We present the results in Table 10.

As a first check, we exclude investments from the two most recent years of our investment sample (2007 and 2008). The reason is that some of these investments might still be successfully exited after March 2013, in which our exit data ends. Including these investments and labeling them as unsuccessful exits might thus have biased the results of our analysis. We trade-off this bias against an increased sample size. Panel A suggests that the marginal effects of the interaction terms are very similar to those of the main analysis. Only the interaction term of CB and rule of law turns insignificant (z-value of 1.4 vs. 1.8 in the main analysis).

As a second check, we focus on investments in developed countries only (using MSCI Barra classification). We thus check whether investments from emerging economies and frontier markets drive our results. Panel B suggest that all effects we found in the whole sample persist, and are economically and statistically larger in developed countries. Due to a low number of observations in developing countries, the respective regressions for the subsample of investments in developing countries do not converge.

Finally, we did not include China in regressions with rule of law variable because neither La Porta et al. (1997) nor Pistor et al. (2000) provide rule of law score for China. In accordance with Cumming et al. (2006) and Wang and Wang (2012), we employ the German score for China. The results (Panel C) remain unchanged.

8 Summary and conclusion

In this paper, we investigate the performance of worldwide venture capital investments in recent years. We measure performance as a successful exit. We find that the quality of law enforcement is beneficial to success of private investments. Our results are also consistent with the view that companies financed by international VCs are more successful than companies financed by domestic investors. In addition, companies backed by syndicates have a higher likelihood of a successful exit

than companies backed by stand-alone VCs. A more fine grained analysis reveals that syndicates between international and domestic VCs are the best performing type of investments.

Our main conclusion is that the quality of law enforcement matters for success, but that this effect differs for different investors. Our results support the conjecture that experienced international investors are able to mitigate deficiencies of weak law enforcement in countries where they invest better than their domestic counterparts. We also find that superior law enforcement seems to strengthen the benefits of syndication, while with inferior law enforcement syndication may give rise to higher agency and information costs that may outweigh syndication benefits.

These findings may not only help to explain the differences in performance of venture-backed companies, they may also help in explaining the reasons behind worldwide syndication and internationalization patterns that are grounded in the differences in the law enforcement. A more details research is warranted in this area. This paper leaves several other questions open to further research. It would be interesting to hand-collect contractual data to understand how contracts between companies and VCs as well as between VCs themselves (in a syndicate) differ across countries with different quality of law enforcement, across domestic and international investors, and how this is related to success. Another interesting issue is to analyze where the portfolio companies go public (own or foreign country) and which companies (own or foreign) acquire them and, again, how this differs across countries and how it is related to success of these investments.

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Table 1 – Successful and unsuccessful exits by countries

Country	Companies	Successful exits	Unsuccessful exits	Success rate
AUSTRALIA	147	73	74	49.7%
AUSTRIA	55	14	41	25.5%
BELGIUM	165	54	111	32.7%
BRAZIL	11	2	9	18.2%
BULGARIA	5	2	3	40.0%
CANADA	492	129	363	26.2%
CHILE	1	0	1	0.0%
CHINA	47	3	44	6.4%
CZECH REPUBLIC	5	3	2	60.0%
DENMARK	119	33	86	27.7%
EGYPT	2	1	1	50.0%
ESTONIA	4	0	4	0.0%
FINLAND	165	48	117	29.1%
FRANCE	923	307	616	33.3%
GERMANY	574	133	441	23.2%
GREECE	6	0	6	0.0%
HONGKONG	3	1	2	33.3%
HUNGARY	8	0	8	0.0%
INDIA	66	1	65	1.5%
IRELAND	103	32	71	31.1%
ISRAEL	17	7	10	41.2%
ITALY	155	49	106	31.6%
JAPAN	31	4	27	12.9%
LITHUANIA	6	3	3	50.0%
LUXEMBOURG	7	2	5	28.6%
MALAYSIA	7	0	7	0.0%
NETHERLANDS	200	47	153	23.5%
NEW ZEALAND	5	1	4	20.0%
NIGERIA	1	0	1	0.0%
NORWAY	89	42	47	47.2%
PHILIPPINES	1	0	1	0.0%
POLAND	19	10	9	52.6%
PORTUGAL	19	9	10	47.4%
RUSSIA	27	10	17	37.0%
SINGAPORE	17	5	12	29.4%
SOUTH AFRICA	10	2	8	20.0%
SPAIN	329	57	272	17.3%
SWEDEN	330	91	239	27.6%
SWITZERLAND	53	3	50	5.7%
THAILAND	3	0	3	0.0%
UKRAINE	1	0	1	0.0%
UNITED KINGDOM	1,635	464	1,171	28.4%
UNITED STATES	5,023	1,548	3,475	30.8%
VIETNAM	2	0	2	0.0%
Total	10,888	3,190	7,698	29.3%

This table shows the country composition of our sample that covers 10,888 companies. Investments take place between January 2000 and December 2008, exits occur between January 2000 and March 2013. Data was extracted from Zephyr database.

Table 2 – Variable descriptions and sources

Variable	Description	Source
exit	The variable is one for successful and zero for unsuccessful exits. Successful exits are IPOs, trade sales, secondary sales and management buyouts between January 2000 and March 2013. For those companies that have not been exited until March 2013, we set the variable equal zero. Investments take place between January 2000 and December 2008.	<i>Zephyr</i>
rule of law	The variable captures the perceptions of law and order tradition in the country. To assess the “Law” element, the strength and impartiality of the legal system is considered, the “Order” element captures the popular observance of the law. It scales from 0 to 10 with lower scores for less tradition for law and order.	<i>La Porta et al. (1997)</i> Values for Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Poland, Russia and Ukraine: <i>Pistor et al. (2000)</i>
inter	The variable equals one if at least one international VC finances this investment, zero otherwise.	<i>Zephyr</i>
synd	The variable equals one if more than one VC finances the investment, zero otherwise.	<i>Zephyr</i>
DD	The variable equals one for stand-alone domestic investments, zero otherwise.	<i>Zephyr</i>
DDDD	The variable equals one for syndicated domestic investments, zero otherwise.	<i>Zephyr</i>
CB	The variable equals one for stand-alone international investments, zero otherwise.	<i>Zephyr</i>
CBDD	The variable equals one for investments syndicated between domestic and international VCs, zero otherwise.	<i>Zephyr</i>
CBCB	The variable equals one for investments syndicated between international VCs, zero otherwise.	<i>Zephyr</i>
growth	Expected real economic growth in the next 3-5 years, in %.	<i>Thomson Reuters Datastream</i>
GDPcap	Country GDP per capita, in USD.	<i>Thomson Reuters Datastream</i>
return	Country stock market return, in %.	<i>Thomson Reuters Datastream</i>
mcap	Country stock market capitalization over GDP.	<i>World Development Indicators</i>
VC size	Size of the domestic venture capital industry: Number of domestic VCs active in t-1 over the country population [in mn]	<i>Zephyr</i> Population size: <i>Worldbank</i>
deal val	Deal value, in thousand Euros.	<i>Zephyr</i>
VC exper	VC experience at the time of the investment measured as past deal count in the three-year-window preceding the investment.	<i>Zephyr</i>

This table presents descriptions and sources of variables used in the study.

Table 3 – Descriptive statistics

Variable	No Obs.	Sample	Mean	Std. Dev.	Min	Max	exit=0	exit=1	Wilcoxon test
rule of law	10,832	company	9.45	0.91	2.73	10.00	9.43	9.52	-3.60***
inter	10,888	company	0.33		0	1	0.31	0.36	-5.44***
synd	10,888	company	0.53		0	1	0.51	0.59	-7.15***
DD	10,888	company	0.35		0	1	0.37	0.28	8.90***
DDDD	10,888	company	0.33		0	1	0.32	0.35	-3.59***
CB	10,888	company	0.12		0	1	0.11	0.13	-2.07**
CBDD	10,888	company	0.18		0	1	0.17	0.21	-5.44***
CBCB	10,888	company	0.02		0	1	0.03	0.02	1.41
Growth	10,881	company	2.65	0.93	-0.40	9.10	2.62	2.71	-7.73***
GDPcap	10,882	company	38,000	9,632	458	105,920	38,449	36,944	12.48***
return	10,862	company	1.41	26.85	-73.83	151.86	0.64	3.27	-4.07***
mcap	10,888	company	1.25	0.36	0.09	5.62	1.25	1.23	5.78***
VC size	10,888	company	1.36	0.64	0.00	19.85	1.37	1.35	1.23
deal val	8,555	company	21,935	91,574	2.82	3,236,931	22,031	21,707	-7.38***
VC exper	19,278	dyad	9.16	20.15	0	249	8.58	10.57	-9.34***

This table presents descriptive statistics on variables included. All variables and their sources are described in Table 2. Investments take place between January 2000 and December 2008, exits occur between January 2000 and March 2013. Wilcoxon test is the z-value of the two-sample Wilcoxon rank-sum (Mann-Whitney) test testing the hypothesis that the two samples are from populations with the same distribution. *p<0.10, **p<0.05, ***p<0.01.

Table 4 – Fraction of successful exits

Panel A	rule of law<10	rule of law=10	Wilcoxon test		
fraction of successful exits	27.2%	30.4%	-3.45***		
Panel B	inter=0	inter=1	Wilcoxon test		
fraction of successful exits	27.6%	32.7%	-5.44***		
Panel C	synd=0	synd=1	Wilcoxon test		
fraction of successful exits	26.0%	32.2%	-7.15***		
Panel D	DD	DDDD	CB	CBDD	CBCB
fraction of successful exits	24.0%	31.5%	31.8%	34.3%	25.5%

This table presents the fraction of successful exits based on the rule of law in the country of the investment (Panel A) and for different investment types (Panels B, C, D). All variables and their sources are described in Table 2. Investments take place between January 2000 and December 2008, exits occur between January 2000 and March 2013. Wilcoxon test is the z-value of the two-sample Wilcoxon rank-sum (Mann-Whitney) test testing the hypothesis that the two samples are from populations with the same distribution. *p<0.10, **p<0.05, ***p<0.01.

Table 5 – Correlation coefficients in the company sample

	exit	r of law	inter	synd	DDDD	CB	CBDD	CBCB	growth	GDPcap	return	mcap	VC size	deal val
exit	1													
r of law	0.0488*	1												
inter	0.0526*	-0.0936*	1											
synd	0.0703*	0.2179*	0.1402*	1										
DDDD	0.0352*	0.1791*	-0.4856*	0.6513*	1									
CB	0.0188*	-0.2130*	0.5279*	-0.3935*	-0.2563*	1								
CBDD	0.0534*	0.0838*	0.6792*	0.4398*	-0.3298*	-0.1731*	1							
CBCB	-0.0131	-0.0515*	0.2299*	0.1489*	-0.1117*	-0.0586*	-0.0754*	1						
growth	0.0404*	-0.1853*	0.0665*	-0.0491*	-0.0392*	0.1154*	-0.0261*	0.0255*	1					
GDPcap	-0.0699*	0.5524*	-0.0801*	0.1144*	0.1120*	-0.1299*	0.0179*	-0.0157	-0.3367*	1				
return	0.0476*	-0.1006*	0.0172*	-0.0975*	-0.0682*	0.0765*	-0.0400*	-0.0076	0.4061*	-0.1113*	1			
mcap	-0.0364*	0.2335*	-0.0519*	0.0890*	0.0881*	-0.0845*	0.0127	-0.0122	0.2202*	0.2817*	-0.0989*	1		
VC size	-0.0093	0.4361*	-0.0575*	0.1762*	0.1214*	-0.1788*	0.0756*	0.0110	-0.0541*	0.4310*	-0.2632*	0.5182*	1	
deal val	-0.0029	-0.0414*	0.0808*	-0.0231*	-0.0455*	0.0977*	0.0152	0.0274*	-0.0067	-0.0088	-0.0149	-0.0174	-0.0162	1

This table presents correlation coefficients between the variables (based on observations in the company sample). Investments take place between January 2000 and December 2008, exits occur between January 2000 and March 2013. *p<0.10.

Table 6 – Logit analysis of the likelihood of a successful exit, models without interaction terms

Panel A: Company sample										
	whole sample: basic					whole sample: with log deal value			matched sample	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
inter	0.05*** (0.01)			0.04*** (0.01)		0.02** (0.01)			0.03* (0.01)	
synd		0.05*** (0.01)		0.04*** (0.01)			0.05*** (0.01)			0.06*** (0.02)
rule of law			0.11*** (0.04)	0.11** (0.04)	0.11** (0.04)			0.17*** (0.06)		
DDDD					0.06*** (0.01)					
CB					0.09*** (0.02)					
CBDD					0.09*** (0.01)					
CBCB					0.02 (0.03)					
log deal val						0.03*** (0.00)	0.03*** (0.00)	0.04*** (0.00)		
growth	0.03* (0.01)	0.03** (0.01)	0.03** (0.01)	0.03** (0.01)	0.03** (0.01)	0.00 (0.02)	0.00 (0.02)	0.01 (0.02)	0.01 (0.03)	-0.01 (0.02)
log GDPcap	0.08** (0.04)	0.08** (0.04)	-0.01 (0.05)	-0.01 (0.05)	-0.02 (0.05)	0.11*** (0.04)	0.11*** (0.04)	-0.02 (0.06)	0.13** (0.05)	0.18*** (0.06)
return	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
mcap	0.02 (0.04)	0.02 (0.04)	0.01 (0.04)	0.02 (0.04)	0.02 (0.04)	-0.01 (0.05)	-0.01 (0.05)	-0.02 (0.05)	-0.01 (0.07)	0.01 (0.07)
VC size	-0.00 (0.02)	-0.00 (0.02)	-0.00 (0.02)	-0.01 (0.02)	-0.01 (0.02)	-0.02 (0.02)	-0.02 (0.02)	-0.02 (0.02)	-0.04 (0.03)	-0.06** (0.03)
company country dummies year dummies industry dummies										
<i>Chi2</i>	1,182.4	1,154.6	1,161.4	1,238.1	1,170.6	1,399.0	1,424.7	1,489.3	255.7	414.4
<i>N</i>	10,858	10,858	10,811	10,811	10,811	8,539	8,539	8,492	3,584	3,524

Table 6 – cont.

Panel B: Dyad sample										
	whole sample: basic					whole sample: with log deal value			matched sample	
Panel B	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
inter	0.04*** (0.01)			0.03** (0.01)		0.01 (0.01)			0.03* (0.02)	
synd		0.06*** (0.01)		0.05*** (0.01)			0.05*** (0.02)			0.07** (0.03)
rule of law			0.18** (0.09)	0.18* (0.09)	0.17* (0.09)			0.31* (0.17)		
DDDD					0.07*** (0.01)					
CB					0.06** (0.03)					
CBDD					0.10*** (0.02)					
CBCB					-0.03 (0.04)					
log deal val						0.03*** (0.01)	0.03*** (0.01)	0.04*** (0.01)		
growth	0.01 (0.02)	0.01 (0.02)	0.03 (0.02)	0.03 (0.02)	0.03 (0.02)	-0.01 (0.03)	-0.01 (0.03)	0.02 (0.03)	-0.04 (0.05)	0.07 (0.05)
log GDPcap	0.11* (0.06)	0.11* (0.06)	-0.12 (0.12)	-0.12 (0.12)	-0.10 (0.12)	0.15* (0.08)	0.15* (0.08)	-0.24 (0.20)	0.22** (0.11)	0.32*** (0.10)
return	0.00 (0.00)	0.00* (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)	0.00 (0.00)
mcap	0.11 (0.07)	0.11 (0.07)	0.15** (0.07)	0.16** (0.07)	0.16** (0.07)	0.12 (0.09)	0.12 (0.09)	0.19* (0.10)	0.25** (0.12)	-0.13 (0.13)
VC size	-0.00 (0.03)	-0.01 (0.03)	-0.00 (0.03)	-0.00 (0.03)	-0.01 (0.03)	-0.01 (0.03)	-0.01 (0.03)	-0.01 (0.03)	0.01 (0.06)	0.03 (0.05)
vc exper	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00** (0.00)	0.00*** (0.00)	0.00** (0.00)
vc rule of law	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)	0.02 (0.02)
company country dummies VC country dummies year dummies industry dummies										
Chi2	7,018.0	7,466.8	10,198.6	10,931.2	12,817.5	8,677.9	7,715.1	14,757.5	1,793.7	1,003.3
N	19,073	19,073	19,033	19,033	19,033	16,539	16,539	16,499	8,590	2,369

The table depicts marginal effects from a logit model with the dependent variable successful exit. Panel A uses the company sample, Panel B the dyad sample. Investments take place between January 2000 and December 2008, exits occur between January 2000 and March 2013. Columns (1) to (8) use all observations, for which data is available. Columns (9) and (10) are based on matched samples, where we first estimate conditional probabilities of an investment type (international and stand-alone) with a probit regression and then match to each international investment that domestic one that has the closest propensity score and to each stand-alone investment that syndicated one with the closest propensity score. *vc rule of law* is the rule of law in the VC's country. Other variables and their sources are described in Table 2. The macroeconomic variables are from the year of the venture capital investment. Standard errors (clustered on the country and year level, see Petersen 2009) are below the marginal effects in brackets. *p<0.10, **p<0.05, ***p<0.01.

Table 7 – Logit analysis of the likelihood of a successful exit, models with interaction terms

	(1)	(2)	(3)	(4)	(5)
	Inter X rule of law	Synd X rule of law	CB X rule of law	DDDD X rule of law	CBDD X rule of law
„Interaction term“	-0.042**	0.034***	-0.038*	0.050***	-0.006
	(0.016)	(0.013)	(0.020)	(0.015)	(0.018)
<i>N</i>	10,811	10,811	10,811	10,811	10,811

The table depicts marginal effects of the interaction term (only) between an investment type dummy variable and rule of law calculated as suggested by Norton (2004). We employ logit models with the dependent variable successful exit. Investments take place between January 2000 and December 2008, exits occur between January 2000 and March 2013. We use the company sample. All regressions employ rule of law and the control variables as in Table 6. Column (1) adds variable inter and its interaction with rule of law. Column (2) adds variable synd and its interaction with rule of law. Columns (3) to (5) add CB, DDDD, CBDD and CBCB and interact CB (Column (3)), DDDD (Column (4)) and CBDD (Column (5)) with the rule of law. All variables and their sources are described in Table 2. Standard errors (clustered on the country and year level, see Petersen 2009) are below the marginal effects in brackets. *p<0.10, **p<0.05, ***p<0.01.

Table 8 – Logit analysis of the likelihood of a successful exit, sample splits

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	rule of law=10	rule of law <10	rule of law=10	rule of law <10	rule of law=10	rule of law <10	rule of law=10	rule of law <10
inter	0.02**	0.10***			0.01	0.10***		
	(0.01)	(0.02)			(0.01)	(0.02)		
synd			0.07***	0.02	0.06***	0.01		
			(0.01)	(0.02)	(0.01)	(0.02)		
DDDD							0.07***	0.03
							(0.01)	(0.02)
CB							0.02	0.13***
							(0.03)	(0.03)
CBDD							0.08***	0.12***
							(0.01)	(0.03)
CBCB							-0.00	0.04
							(0.03)	(0.05)
growth	0.02	0.04***	0.02	0.05***	0.02	0.04***	0.02	0.04***
	(0.03)	(0.02)	(0.03)	(0.02)	(0.03)	(0.02)	(0.03)	(0.02)
log GDPcap	0.04	-0.11	0.05	-0.12	0.05	-0.11	0.05	-0.11
	(0.08)	(0.09)	(0.08)	(0.08)	(0.08)	(0.09)	(0.08)	(0.09)
return	0.00	-0.00	0.00	-0.00	0.00	-0.00	0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
mcap	0.05	-0.11*	0.06	-0.12**	0.06	-0.11*	0.06	-0.11*
	(0.05)	(0.06)	(0.04)	(0.06)	(0.04)	(0.06)	(0.04)	(0.06)
VC size	-0.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
company country dummies year dummies industry dummies								
<i>Chi2</i>	2,428.4	527.5	2,665.7	599.0	2,649.2	539.9	2,623.8	603.6
<i>N</i>	6,843	3,968	6,843	3,968	6,843	3,968	6,843	3,968

The table depicts marginal effects from a logit model with the dependent variable successful exit. We split the sample into two subsamples: countries with rule of law=10; countries with rule of law<10. Investments take place between January 2000 and December 2008, exits occur between January 2000 and March 2013. We use the company sample. All variables and their sources are described in Table 2. The macroeconomic variables are from the year of the venture capital investment. Standard errors (clustered on the country and year level, see Petersen 2009) are below the marginal effects in brackets. *p<0.10, **p<0.05, ***p<0.01.

Table 9 – Tobit analysis of internationalization and (domestic) syndication share, country level

	(1)	(2)
	Internationalization share	(Domestic) syndication share
rule of law	-0.038***	0.031*
	(0.011)	(0.017)
year dummies		
<i>N</i>	315	261

The table depicts the results from a Tobit model with the dependent variables fraction of international venture capital investments on total investments in a country and year in Column (1) and fraction of investments syndicated among domestic investors on total domestic venture capital investments in Column (2). Investments take place between January 2000 and December 2008. Standard errors (clustered on the country and year level, see Petersen 2009) are below the marginal effects in brackets. * $p < 0.10$, *** $p < 0.01$.

Table 10 – Robustness logit analysis of the likelihood of a successful exit, models with interaction terms

	(1)	(2)	(3)	(4)	(5)
	Inter X rule of law	Synd X rule of law	CB X rule of law	DDDD X rule of law	CBDD X rule of law
Panel A: Without investments in 2007&2008					
„Interaction term“	-0.043**	0.038**	-0.041	0.046**	-0.006
	(0.021)	(0.018)	(0.029)	(0.019)	(0.022)
<i>N</i>	7,142	7,142	7,142	7,142	7,142
Panel B: Only developed countries					
„Interaction term“	-0.051***	0.041***	-0.065***	0.054***	-0.008
	(0.017)	(0.014)	(0.024)	(0.015)	(0.019)
<i>N</i>	10,649	10,649	10,649	10,649	10,649
Panel C: China’s rule of law = Germany’s rule of law					
„Interaction term“	-0.042**	0.034***	-0.038*	0.050***	-0.006
	(0.016)	(0.013)	(0.020)	(0.015)	(0.018)
<i>N</i>	10,858	10,858	10,858	10,858	10,858

The table depicts marginal effects of the interaction term (only) between an investment type dummy variable and rule of law calculated as suggested by Norton (2004). We employ logit models with the dependent variable successful exit. Investments take place between January 2000 and December 2008 (except for Panel A where we exclude the years 2007 and 2008), exits occur between January 2000 and March 2013. Panel B includes only investments in developed countries (based on MSCI Barra classification). Panel C adds China and employs the German score for this country. We use the company sample. All regressions employ rule of law and the control variables as in Table 6. Column (1) adds variable inter and its interaction with rule of law. Column (2) adds variable synd and its interaction with rule of law. Columns (3) to (5) add CB, DDDD, CBDD and CBCB and interact CB (Column (3)), DDDD (Column (4)) and CBDD (Column (5)) with the rule of law. All variables and their sources are described in Table 2. Standard errors (clustered on the country and year level, see Petersen 2009) are below the marginal effects in brackets. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.