VENTURE CAPITAL INVESTMENT ACROSS BORDERS: COMPARING TWO SECTORS

Master Thesis

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Abstract

In the era of globalization, cross-border venture capital investment is growing, leading to innovation and economic growth across international borders. This thesis explores the challenges faced by venture capitalists due to cultural and regulatory differences while investing across international borders and compare the trends of cross-border venture capital investment in logistics and healthcare sectors. This study adopts a comprehensive research approach integrating both qualitative and quantitative research methods. Through a comprehensive literature review, expert insights, and empirical analysis, the thesis unearths the various cultural differences, regulatory variations, and sector specific intricacies while investing cross-border in logistics and healthcare sectors. The findings of this thesis contribute to the formulation of strategies for a successful cross-border venture capital investment. By understanding the cultural, regulatory, and sector-specific differences investors and entrepreneurs can take the benefit of international collaboration while supporting innovation and economic development.

Keywords: Venture Capital, Cross-border Venture Capital, Jurisdiction, Regulations

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Lastly, I would like to acknowledge all those who participated in this study, offering their time, knowledge, and insights. Their contributions have played an essential role in shaping the outcomes of this research.

Declaration of Authorship

I, Krishna Uddhav Deokar, hereby declare that this thesis titled "Venture Capital Investment Across Borders: Comparing Two Sectors" and the work presented herein is my original creation. All the information, data, figures, and ideas included in this thesis are the result of my own research efforts. Any external sources, references, or materials used have been duly cited and acknowledged in accordance with the appropriate citation style.

I further declare that this thesis has not been submitted, in part or in whole, for any other academic degree or qualification. I have not engaged in any form of academic misconduct, including plagiarism, falsification, or fabrication of data.

I acknowledge that the intellectual property rights of any existing works, concepts, or ideas used in this thesis have been appropriately cited and respected.

By signing this declaration, I affirm my responsibility and accountability for the content and authenticity of this thesis.

Date: 22nd August 2023

Place: Berlin

Krishna Uddhav Deokar

Table of Content

List of Abbreviations

VC- Venture Capital

IP- Intellectual Property

List of Figures

List of Tables

CHAPTER – 1

1. Introduction

Traditionally, venture capital (VC) firms operated locally. Geographic proximity to the portfolio company, exposure to the local culture, economy and regulations was considered crucial for identification and successful investment. However, in the era of liberalized economies, cross-border venture capital investment has become more popular. Investors worldwide are attracted by the new markets offering new opportunities started investing outside their home country for more growth prospects[1].

Entrepreneurs of innovative enterprises might receive financial and administrative support from venture capitalists, specialized financial intermediaries who combine their financial knowledge with their experience in technology[2]. The investment in a country other than the home country of the venture capital firm is called cross-border venture capital investment.

In the year 2022, 4,232 European venture capital deals had foreign investment worth 65.2 billion euros[3]. The movement of the funds across borders is facilitated by the technological developments coupled with the interconnected economies, making a nourishing climate for the venture capitalists to cross the traditional boundaries. This thesis dives into the domain of cross-border venture capital investment, with a specific focus of cultural and regulatory challenges faced by venture capitalists while investing cross-border in logistics and healthcare sector and the patterns of investment in both the sectors.

Although venture capitalism is studied in detail, insufficient attention is paid to cross-border venture capital investment. No previous study is available where two sectors are compared from the point of view of cross-border venture capital

[1] See Bradley et al. 2019 Page 1
[2] See Hain et al. 2016. Page 743
[3] Statista

investment. This thesis first studies the cross-border venture capital investment in logistics and healthcare sector and then discusses the trends and challenges faced by venture capitalists in both the sectors. This will be done through extensive literature research, experts' insights, and empirical analysis.

1.1. Problem Statement

With the increasing trend of cross-border venture capital investment, venture capitalists face problems which they are not used to in the local venture capital investment. Because of the lack of comprehensive understanding of cross-border venture capital investment, venture capitalists often find it hard to navigate its complex landscape. Lack of this knowledge hinders the positive cooperation between venture capital firms and the portfolio companies. The convergences of cultural differences, regulatory differences, and sector specific regulations creates multifaceted challenge for the venture capitalist, which requires a nuanced solution. Despite the increasing cross-border venture capital investment globally, gaps in the theoretical understanding and comparison of sectors still exist. This study aims to fill this research gap by exploring the challenges faced by venture capitalists due to the cultural and regulatory differences and comparing investment patterns in two sectors.

1.2. Research Objectives

The main objective of this research is to explore the challenges faced by venture capitalists due to cultural and regulatory differences while investing in logistics and healthcare sectors and compare the investment patterns in those sectors. The specific research objectives are as follows:

1) Exploring cultural nuances and communication challenges arising due to them, faced by venture capitalists when investing cross-border.
2) Investigating the challenges arising due to regulatory differences while investing cross-border.
3) Study the sector-wise regulations and extra compliance requirements.

4) Compare the investment patterns of cross-border venture capital investment in logistics and healthcare sectors.

1.3. Research Questions

The thesis is focused on answering the following three questions:

1) What are the challenges faced by venture capitalists when investing across borders in the logistics and healthcare sectors?

2) What are the regulatory challenges for cross-border venture capital investment in the logistics and healthcare sectors?

3) Which sector among the logistics and healthcare sectors is preferred by venture capitalists for cross-border venture capital investment?

1.4. Organization of Research

The research is organized into five sections. The detailed content of the five chapters is given below:

Chapter 1: This chapter introduces the topic followed by the problem statement and objectives of the study.

Chapter 2: This chapter reviews the in-depth literature available about the cross-border venture capital investment in logistics and healthcare sectors.

Chapter 3: This chapter provides information about methodology for qualitative and quantitative analysis and interview partner information.

Chapter 4: This chapter analyses the quantitative and qualitative data collected from the interviews with experts.

Chapter 5: This chapter draws the results from the data analyzed, concludes the research, and provides further scope of study.

CHAPTER - 2

2. Literature Research

2.1. Conceptual Framework:

This section outlines the current knowledge about the topic.

2.1.1. Definition and explanation of Venture Capital:

Venture capital (VC) is a sort of private equity and financing provided by investors to start-up enterprises and small businesses with the potential for long-term growth. The majority of venture capital is often provided by wealthy individuals, investment banks, and other financial organizations. The source of venture capital need not always be monetary. It frequently manifests as managerial or technical expertise. Small businesses with outstanding growth potential or those that grow quickly and seem set to keep growing frequently receive VC funding. Venture capitalists (VCs) are specialist financial intermediaries that combine their specialization in technology with their financial expertise to support innovative businesses' entrepreneurs financially and administratively[4].

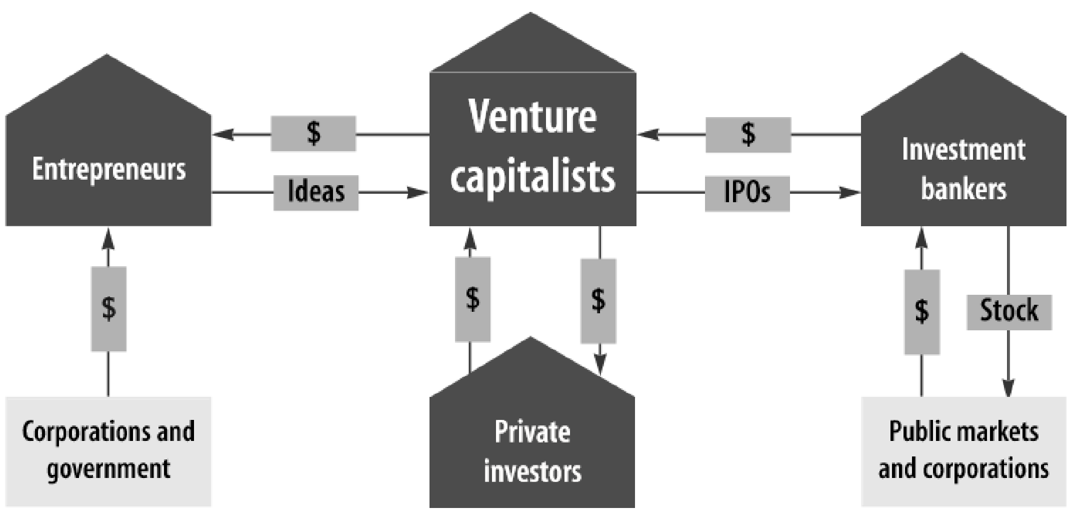

Figure 1: How the venture capital industry works[5]

[4] See Hain et al. 2016 Page 743
[5] Zider 1998 Page 135

Entrepreneurs seeking finance, investors seeking large returns, investment bankers seeking companies to sell, and venture capitalists seeking to profit by creating a market for the other three are the four primary participants in the venture capital industry[6].

In view of realizing profit after 5-7 years, VCs invest their funds in the portfolio companies which are innovative new startups. VCs are risk taking experts who invest in inherently risky and informationally opaque start-up ventures[7]. Despite having no or very little trading records or other information like balance sheets and historical cash flow data, venture capitalists develop methods other than traditional methods to analyze these innovative ventures without established benchmark[8].

The first famous example of Venture Capital investment was Digital Equipment Corporation (DEC). In 1957, among the first venture capitals, American Research and Development Corporation (AR&D), invested $70,000 in DEC. In 1968 after DEC went public AR&D earned a return of 5000 times on initially invested capital that means the investment was worth $355 million[9].

These firms are generally small and young, infected by a high level of uncertainty. Also, there is a vast difference in knowledge between entrepreneur and investor about the firm. Possessing few tangible assets and operation in a rapidly changing market makes these firms riskier for the investment. But the return on investment is often high so the venture capital firms have developed variety of mechanisms to tackle problems which arises during each stage of the investment[10].

Extensive research has shown that VCs promote innovative ideas as well as provide additional value-added support in bringing these products and services rapidly to the market. As a result, in many developed and emerging economies

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[6] See Zider 1998 Page 135
[7] See Buchner et al. 2018 Page 575
[8] See Buchner et al. 2018 Page 576
[9] See Feld and Jason 2016. Page 1
[10] See Gompers and Lerner 2001 Page 145

creating an environment to flourish venture capital market has become integral part of policy making[11].

A vibrant venture capital market can stimulate economic expansion. Innovation drives economic growth, which is led by new, entrepreneurial businesses. However, financing these businesses can be challenging due to moral hazard and asymmetric knowledge. Venture capitalists specialize in finding solutions to these issues, bringing together investors with deep pockets and entrepreneurs with lots of ideas. It makes sense for governments to support a vibrant venture capital market because ensuring funding for innovative businesses has positive externalities on the economy[12].

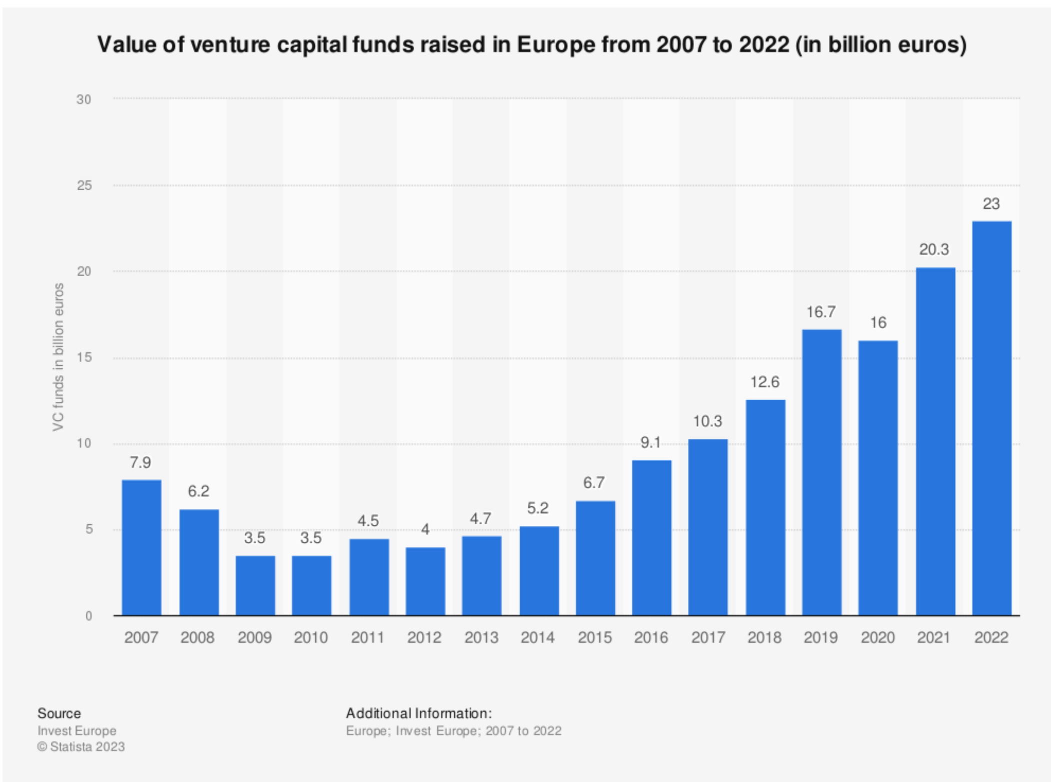

Figure 2: Value of venture capital funds raised in Europe from 2007 to 2022 (in billion euros)[13]

[11] See Hain et al. 2016 Page 743
[12] See Lerner and Tag 2013 Page 154
[13] Statista

Figure 2 shows that there is a meteoric rise in the capital funds raised in Europe from lows of 3.5 billion euros in 2009 to 23 billion euros in 2022. An increase of 557% is experienced from 2009 till 2022 in the capital funds raised in Europe.

Unlike banks, VC investors offer specialized resources and economies of scale in identifying and funding potentially profitable companies in risky environments where it is expensive for lenders and borrowers to come together due to asymmetric information difficulties. There aren't many tangible assets available for banks to use as collateral for startups, and issues with adverse selection still exist for deals at a later stage.[14].

2.1.2. Overview of cross-border venture capital investment:

Traditionally, Venture Capital (VC) was considered as a local industry. The geographical proximity between investee and investor firm was considered pivotal in identifying investment opportunities. After identification of these opportunities, closeness was also considered to be important for monitoring, adding value and achieving high performance. However, VCs experienced international growth in the late 1990s and early 2000s. New opportunities and new markets are attracting venture capitalists to invest outside their home country at growing rates. Both the amount of foreign investment and number of international exists by VC-backed companies has increased because of these reasons. Cross-border VC investment can be defined as the investment by investors located in another country from that of the portfolio company[15].

Domestic venture capital firms are those who invest in the local market and cross-border venture capital firms are those who invest in foreign market. The effectiveness of an investment is often dependent on the familiarity of VC firm with the local market, how accessible is the local information and knowledge, proximity of

[14] See Wright et al. 2005 Page 136
[15] See Bradley et al. 2019 Page 1

investor and investee and frequency of interactions. Because of the above listed reasons venture capital was believed to be an inherently a local market[16].

Contrary to the above view there was a significant increase in cross-border venture capital investment reported in the latter half of the first decade of the 21st century. Proportion of cross-border venture capital investment increased from 15% in 1990s to 40% in 2007 before the global economic crisis[17]. In terms of the amounts of money invested and its geographical diversity, international VC is a phenomenon that is becoming more and more significant. Since 2012, for instance, the percentage of venture capital (VC) investments coming from non-domestic sources in Europe has increased by 79%[18].

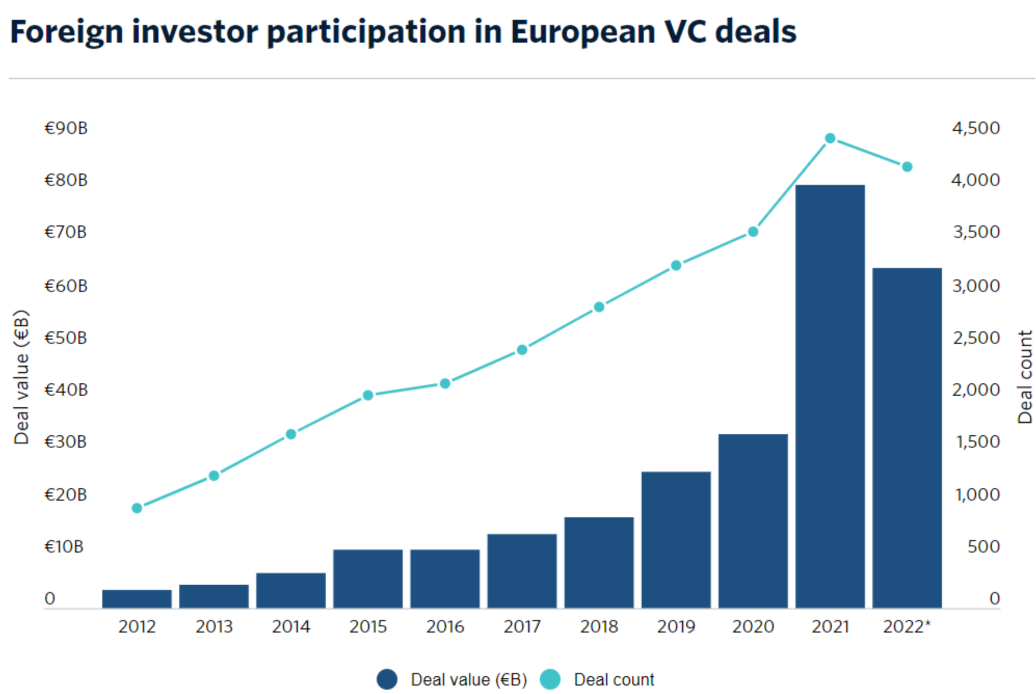

Figure 3: Foreign investor participation in European VC deals[19]

The foreign investor participation in European VC deals increased by 49.6% from 961 deals in 2012 to 4,232 deals in 2022. Also, the value of deal increased by

[16] See Buchner et al. 2018. Page 576
[17] See Aizenman and Kendall 2008 Page 3
[18] See Hodgson 12-Dec-22 Accessed on 26/06/2023.
[19] Statista

79% from 3.5 billion euros in 2012 to 65.2 billion euros in 2022. Which included the largest European deal of 949 million euros between data processing company Celonis and Qatar Investment Authority and Blackstone[20].

Several studies have investigated the significance of variations in target and investor country traits to explain VC flows across these nations. The net movement of VC from the low growth to the high growth country is positively correlated with expected disparities in economic growth between the two nations. The exchange of capital between nations is facilitated by a reduction in the distance between them, a shared language, colonial links, and mutual trust[21]. An increase in foreign VC investment is likely to follow as the economies of nations become more linked, like in the European Union. Therefore, institutional conditions are crucial for global VC flows[22].

2.1.3. Introduction to the logistics sector

Since the nature of logistics and how it affects other spheres of human activity frequently depend on the efficiency of logistics procedures, which were understood as early as the ninth century, logistics is a field of study that has been evolving dynamically for many years. It should be noted, however, that its dynamic development from a scientific point of view began in the 1950s of the 20th century, from changing transport processes, which then went faster and more smoothly due to a sudden technological leap. This paper won't go into the specifics of the history of logistic thought, as this is not the purpose of the work[23].

Logistics is the control of supply and movement to ensure that the goods are delivered on schedule and in good condition. Operations handling is an element of the logistics sector, and in today's highly competitive world, the necessity to handle operations cheaply and efficiently is crucial. The logistics system is a structural

[20] See Hodgson 12-Dec-22 Accessed on 26/06/2023.
[21] See Aizenman and Kendall 2008 Page 10
[22] See Alhorr et al. 2008 Page 900
[23] See Korpysa et al. 2021 Page 4458

combination from a theoretical perspective, with its components (subjects) and their interactions and connections forming its foundation[24].

According to Council of Supply Chain Management Professionals (CSCMP), which is capital global foundation in logistics network, the definition of logistics management is "Logistics management is that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverses flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements".[25]

The volume of international trade has increased due to globalization, making it necessary for nations to strengthen their logistical capabilities. Investments made by nations in this area have given them a considerable competitive edge in relation to international trade since logistical advances have made production, distribution, and marketing easier. A crucial step in achieving cost and efficiency advantages for nations is accurate and effective planning of logistics activities. By actively participating in this evolution, logistics has currently evolved into a crucial component of trade. Therefore, advancements in the logistics sector play a significant role in supplying the benefits in terms of growth and development[26].

Investments in logistics have a wide range of economic benefits, but they are primarily significant for increasing trade and supply chain integration, better utilizing national transportation resources, increasing employment opportunities, and lowering costs for more competitive imports and exports. While institutional infrastructure expenditures have not yet been sufficient for load distribution, it is essential that investments be made in a wider framework that includes logistics support operations[27].

[24] See Navickas et al. 2011 Page 232
[25] SCM Definitions and Glossary of Terms 04-Jul-23.
[26] See Hayaloglu 2015 Page 523
[27] See Rodrigue 2012.

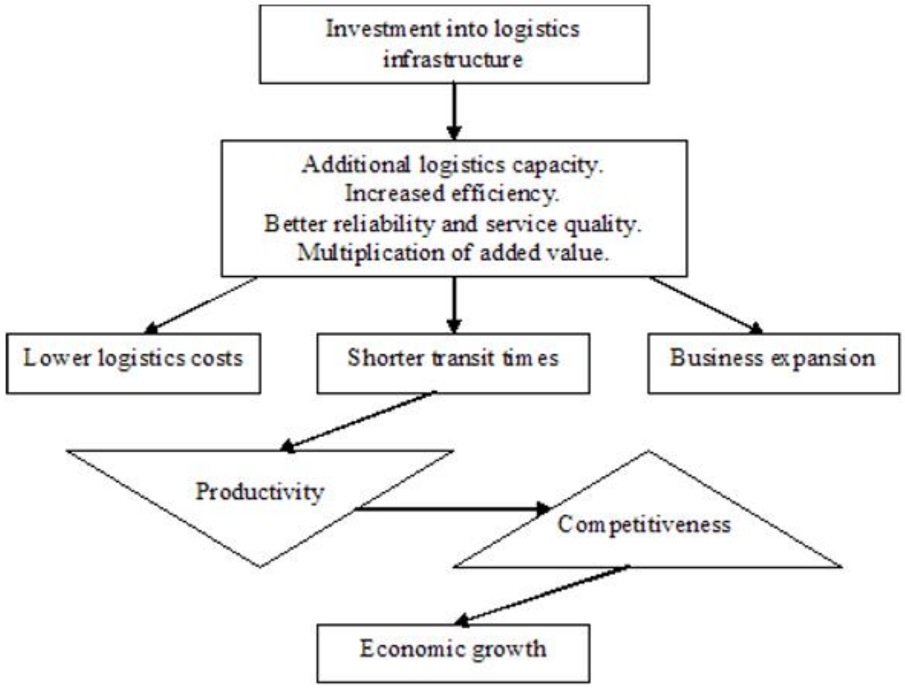

Figure 4: The impact of logistics on economic growth[28]

According to (Navickas et al. 2011) the investment in logistics sector leads to the economic growth of the country. With investments in the logistics sector additional logistics capacity with better efficiency can be installed which can be relied upon and adds value to the system. With developed logistics system transit time and cost can be lowered with expansion of business. Competitiveness increases due to an increase in productivity because of the shorter transit time. All these factors contribute to economic growth.

Due to the fact that a new logistic startup is established every five days, innovations in the field are becoming increasingly significant. However, given the logistic sector's extreme fragmentation, characterization is not always easy. The last-mile delivery industry, eCommerce logistics, rate compensation and marketplaces, software as a service and big data, warehousing, digital forwarding, autonomous

[28] Navickas et al. 2011 Page 234

driving, transport management systems, and blockchain are some of the clusters that exist.

It appears that logistics startups are booming: Only the logistics sector accounts for approximately a trillion dollars in sales in the United States, and emerging issues like freight transparency, process automation, and online booking provide room for new businesses and business models. More than $1.5 billion has been invested as a result in the B2B and B2C industries in the United States. It appears clear that established logistics giants like Hellmann Worldwide Logistics and DB Schenker are making an effort to collaborate with such startups in areas like food delivery, robotics for automated picking, freight forwarding, process automation using wearables, and online platforms[29].

Sub-sectors of logistics sector, depending on the business models, according to (Startup funding in logistics: Focused investment in a growing industry 06-Jun-22) is as following:

1. On-demand last-mile delivery platforms
2. Road freight marketplaces and solutions
3. New last-mile parcel networks
4. Visibility and intelligence providers
5. Warehousing and robotics
6. E-commerce fulfillment and enablement
7. Air and ocean transportation
8. Traditional third-party or contract logistics services
9. Inventory/order management

2.1.4. Introduction to the healthcare sector

The healthcare industry has been conceptualized to include a number of subsectors, including drugs and pharmaceuticals, including traditional medicines,

[29] See Korpysa et al. 2021 Page 4461

machines and equipment used for diagnosis, treatment, and production of medicines, hospitals, clinics, fitness centers, data processing and medical transcription, research and development, and trading in medicines and machines and equipment[30].

Following is the classification of healthcare sector as per (Joseph, Reji, K and Rangnathan, K, V, K 2016):

Manufacturing	
Manufacture of Chemical Substances Used in Manufacture of Pharmaceuticals/Chemical Products	MC
Manufacture of Drugs, Medicines (Allopathic)	MD
Manufacture of Medical, Surgical, Scientific and Measuring Equipment/Optical Instruments	ME
Pharmaceutical Machinery	MP
Manufacture of Surgical Consumables/Optical Glass Products/Lenses	MS
Manufacture of Homeopathic/Ayurvedic/Unani/Traditional Medicines	MT
Services	
Fitness centers/gyms	SF
Hospitals/Clinics/Medical Institutes.	SH
Diagnostic Centers	SL
Other Health and Medical Services	SS
Information Technology/Software Development/BPO/Data Processing/Communication / Medical Transcription	ST
Research within services	
Clinical Research Organization	SC
Research/Scientific Testing & Analysis/ Biotech	SR
Trade within services	
Wholesale Trade in Medicines and Chemicals/ Scientific, Medical and Surgical Instruments/Marketing	SW

[30] See Joseph, Reji, K and Rangnathan, K, V, K 2016 Page 2

Others within services	
Development & Management of Biotech Park/Real Estate Activities/Setting Up of Industrial Parks/ Infrastructure/Construction	SO

Table 1: Classification of Healthcare Sector[31]

Given the number of subsectors in the healthcare sector makes it difficult to keep track of investments in the healthcare sector.

a. **Key concepts and theories relevant to the research questions**

International Venture Capital Market: Today, due to the liberalization of the economies the geographical borders do not matter while investing in the ventures. The venture capital market where everyone can invest irrespective of the investor and investee's country is called the international venture capital market.

Geographical Distance: The distance between the investor and the investee firms is called geographical distance.

Cultural Difference: The spectrum of acceptable actions that can be used to separate one socioeconomic group from another is affected by the integrated and maintained system of socially acquired values, beliefs, and standards of conduct that make up cultural diversity[32].

Regulatory Difference: Regulations denote the policies that a body or authority develops and upholds. These are enforceable by law. These regulations vary from jurisdiction to jurisdiction.

Cost of Foreignness: The term "liability of foreignness" refers to the extra expenses that businesses operating outside of their home nations face in addition to those local businesses face[33].

[31] Joseph, Reji, K and Rangnathan, K, V, K 2016 Page 4
[32] See Jackson and Guerra 2011 Page 447
[33] See Nachum 2016 Page 1

2.2. Cross-Border Venture Capital Investment:

2.2.1. Trends and patterns in cross-border venture capital investment

A significant portion of the industry is made up of cross-border VC investments, and this percentage has been growing over time. Cross-border VC investments typically occur later than domestic VC investments, are linked to larger rounds, greater exits, and more overseas exits than domestic VC investments[34].

Before the 1990s the portion of cross-border VC investments was negligible due to reasons such as having upper hand of local presence and information gap. Owing to the competition within the local maturing market VCs were, among other factors, forced to look for opportunities in the foreign markets. Based on the number of venture capital deals (Chemmanur, Thomas, J et al. 2016) reported a growth in cross-border venture capital investment from 10% in 1991 to 22.7% in 2008[35].

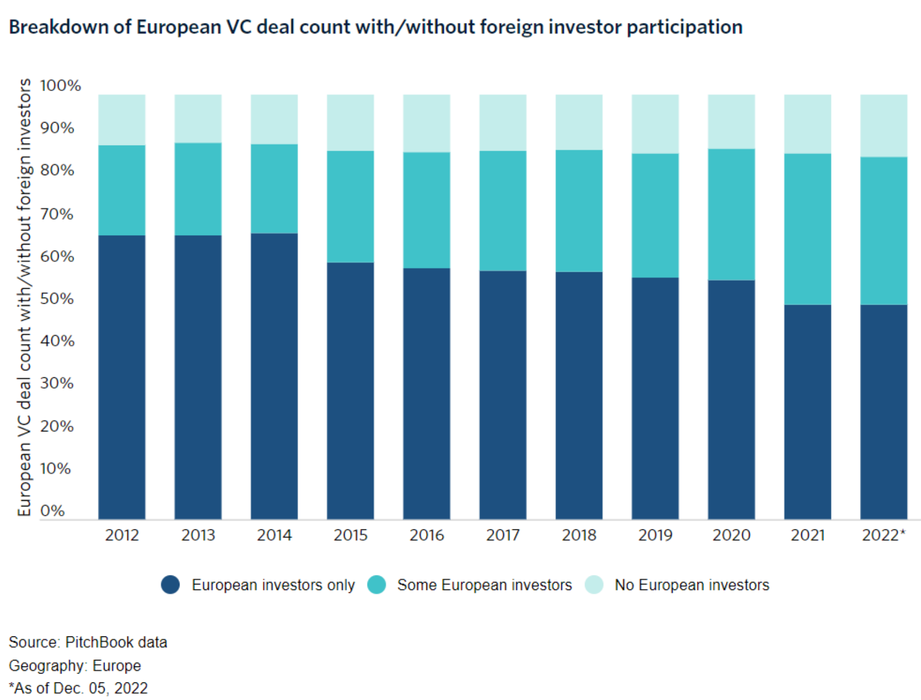

Figure 5: Breakdown of European VC deal count with/without foreign investor participation[36]

[34] See Devigne et al. 2018 Page 1422
[35] See Chemmanur, Thomas, J et al. 2016 Page 574
[36] Statista

From the above figure it is evident that the foreign investor participation is increasing in the European VC deals. The share of foreign investors increased from 33.13% in 2012 to 49.56% in 2022[37].

Over the past few years, as Europe's VC ecosystem has grown, foreign investors have increased their exposure to the region. At the same time, investors continue to find European startups' valuations to be appealing, particularly when contrasted to those of their US counterparts. Investors headquartered in the US, who are the most active foreign investors in Europe, are benefiting from the decline in the value of the pound and the euro this year.

Deal sizes for European companies have grown as foreign investors have entered the market with greater capital, and 2022 was no exception. The majority of the largest rounds on the continent featured companies from outside of Europe[38].

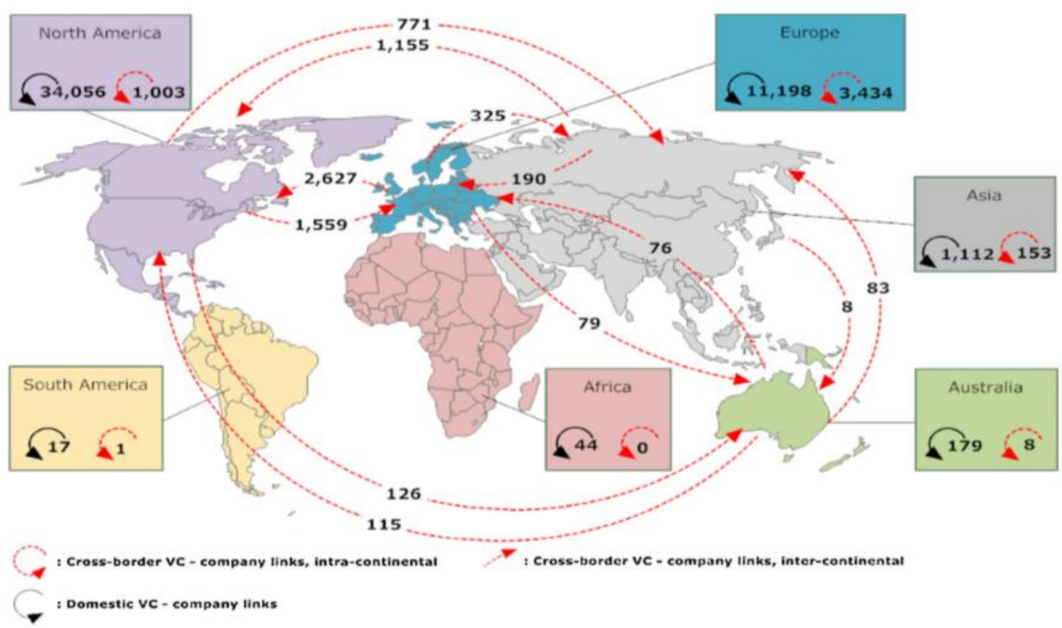

Figure 6: Domestic and cross-border (intracontinental and intercontinental) VC-PC links (2000-2008)[39]

[37] See Hodgson 12-Dec-22 Accessed on 26/06/2023.
[38] See Hodgson 12-Dec-22 Accessed on 26/06/2023.
[39] Schertler and Tykvová 2011 Page 428

Above figure is the comprehensive study of 58,377 deals during period 2000-2008 between venture capital (VC) and portfolio companies (PC) conducted by (Schertler and Tykvová 2011). They established links between VCs and PCs on the basis of intracontinental and intercontinental deals. It can be seen that the most cross-border deals took place within Europe while Africa had no cross-border deals. The major share of intercontinental VC deals takes place between North America and Europe in both directions. With 2,627 links of European VC firms investing into North American PCs and 1,559 links of North American VC firms investing into European PCs[40].

2.2.2. Motivations and drivers for cross-border investments

As discussed above the motivation for the investors to invest in foreign markets was saturated and overcompetitive local markets coupled with the globalization in the 1990s. Also, major driver for cross-border venture capital investment was the technology bubble and oversupply of American VC funds in 1990s. Despite the fact that VC funding into and out of America was driven by this bubble, the destinations of these fundings were random making cross-border VC fundings more significant in the countries where the VC fundings were not common before 1990s[41].

According to the study carried out by (Schertler and Tykvová 2011) the impact of market capitalization on cross-border venture capital investment remains unclear. Due to the possibility that high market capitalization is accomplished by favorable domestic investment possibilities; VCs based in countries with high market capitalization may invest abroad less frequently. However, VCs in nations with significant capitalization might find it easier to establish a name for themselves and raise more money. As a result, these VCs are better able to invest both domestically and internationally than VCs based in underdeveloped nations. Their research indicates that anticipated growth in the VC country boosts VCs' domestic investments and only weakly discourages VCs' cross-border investments. The was based on a large

[40] See Schertler and Tykvová 2011 Page 428
[41] See Aizenman and Kendall 2008 Page 1

dataset of worldwide venture capital deals in 48 countries over a period of 9 years (2000-2008). Additionally, VCs in countries with healthy stock markets spend more heavily both domestically and internationally than VCs in nations with underdeveloped stock markets. These latter findings support the idea that better circumstances for VC fund raising exist in mature stock markets.

(Schertler and Tykvová 2011) proposed a hypothesis that "more investment opportunities (higher expected growth, higher R&D expenditures, and more patents) in a country encourage domestic investments and cross-border inflows but discourage cross-border outflows."[42] The hypothesis is explained in the figure below. If the investment opportunities are more in country A, then it motivates the VCs from country A to invest domestically and also motivates the VCs from country B to invest internationally in country A. An opposite situation is seen when the investment opportunities in country B are scarce then it discourages the VCs from country B to invest domestically and also discourages the VCs from country A to invest internationally resulting in a cash outflow from the country B. It is evident that the availability of investment opportunities is the biggest driver of the cross-border VC investment.

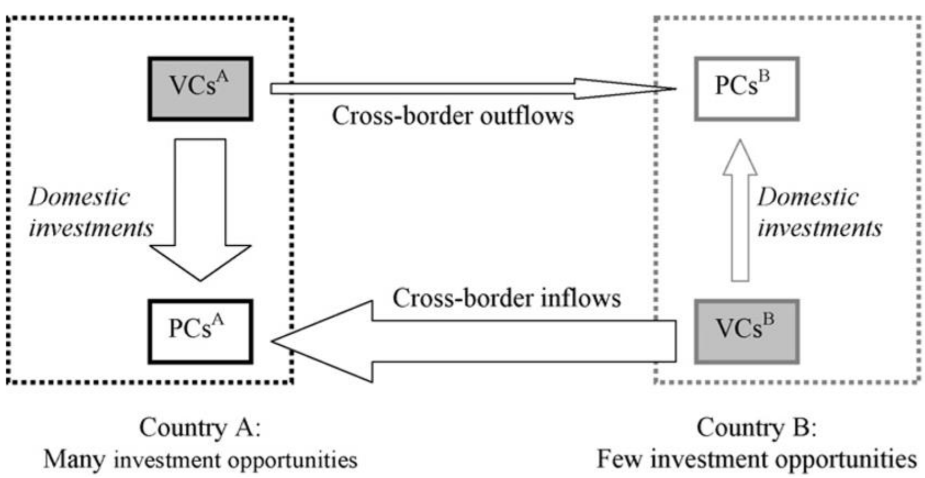

Figure 7: Domestic and cross-border investments in countries with many and with few investment opportunities[43]

[42] Schertler and Tykvová 2011 Page 425
[43] Schertler and Tykvová 2011 Page 425

(Iriyama et al. 2010) studied the VC flows from 1982 to 2002 for all nations that have hosted VC flow from the USA as of 2002 using Network theory, social embeddedness perspective. The result of their study was that international VC flows are significantly impacted by immigrant groups that are active in the technical networks of both their home and host countries. VC outflows from the United States to a certain country are predicted by the cumulative professional and technical immigration levels from that country to the United States.

According to (Aizenman and Kendall 2008) the direction of the global VC and VC flows is significantly influenced by factors including distance, shared languages, and colonial links. Additionally, crucial elements that draw foreign VC include local high-end human resources, improved corporate conditions, increased levels of military spending, and bigger financial markets. Although the cultural and institutional differences are high, high market capitalization and low level of corruption can attract foreign investment[44].

Another factor that motivates investors to invest cross-border is the risk to reward ratio. The rewards are high for an acceptable risk. Large organizations including pension funds, banking institutions, insurance companies, and university endowments are frequently investors in venture capital funds. Each of these institutions invests a small portion of its overall assets in high-risk ventures. They anticipate a return on investment between 25% and 35% annually throughout the duration of the project. Venture capitalists are given a great deal oof leeway because these investments make up such a small portion of institutional investors' portfolios. Not the precise investments but rather the firm's general track record, the fund's "story", and their faith in the partners themselves are what convince these institutions to invest in a fund[45].

[44] See Hain et al. 2016 Page 744
[45] See Zider 1998 Page 133

The institutional development of the target nation is a significant factor influencing the import of foreign venture capital. International VC investors prefer to invest in institutionally established nations because they foster an environment that is more welcoming to investors, with greater openness and less informational gaps between VC owners and the companies they invest in. Since these institutions foster new prospects, safeguard investors' rights, make exits easier, and ensure regulatory stability, VC companies invest in target nations that fit these criteria[46].

Availability of qualified human capital is also an important determinant for the flow of venture capital investment. Venture capital tends to flow to nations with more highly skilled labor, a more favorable business climate, and more developed financial markets (especially stock markets, which make it easier to exit venture investments via an initial public offering, or IPO). There is also evidence that venture capital agreements and defense spending may complement one another[47].

2.2.3. Challenges and risks associated with cross-border investments

Local bias is one of the key causes for the failure to successfully encourage venture capital investment, despite the fact that research has identified a variety of explanations for such failures. Financial intermediaries feel a strong need for geographical proximity and significantly rely on local expertise to alleviate agency difficulties, therefore local bias has long been seen as being inherent in their work. Thus, it is difficult to overcome local bias when markets attempt to speed up development by utilizing foreign sources of knowledge and capital.

Owing to the high level of uncertainty associated with investing in new activities, discrepancies in information at the outset, and agency issues throughout the investment process, local bias can be even more relevant for venture capital.

[46] See Devigne et al. 2018 Page 1416
[47] See Aizenman and Kendall 2008 Page 4

These investments seem to require frequent and open communication between investor and investee in close proximity to be successful[48].

VC investors' familiarity with local markets, their access to local information, knowledge, and networks, and their proximity to their investee (portfolio) companies in order to maintain close links, frequent interaction, and valuable reputational capital are frequently believed to be crucial factors in determining the effectiveness of specialized methods, mechanisms, and practices used by VCs. Increased information asymmetries between investors and investees are likely to lead to more pronounced adverse selection and moral hazard when there are significant distances between venture capital firms and their portfolio companies. Because of this, finding and screening acceptable investment prospects may cost VC firms more money. For distant ventures, VC firms often do more thorough and expensive due diligence. (Wright et al. 2005) indicate notable disparities between international and local investors' risk evaluations and information sources that are used in targeted selection in this respect[49].

Compared to local investments, returns from cross-border investments may be higher or lower. On the one hand, due to institutional, cultural, and geographic boundaries between VC investors and their portfolio companies, VC firms investing abroad are likely to have "liabilities of foreignness." Cross-border investment thus results in higher transaction costs as well as higher costs as a result of more pronounced information asymmetries and agency conflicts. In this situation, VC investors demand bigger returns from international ventures to offset the higher costs. Contrarily, international investing makes it easier to diversify a portfolio; as a result, VC investors with portfolios predominately comprised of local initiatives may be willing to tolerate lower returns from international investments[50]. According to (Hain et al. 2016) if the geographical and cultural differences are higher between two countries then the likelihood of cross-border investment is lower.

[48] See Hain et al. 2016 Page 744
[49] See Buchner et al. 2018 Page 578
[50] See Buchner et al. 2018 Page 576

While a very small banking sector likely indicates institutional flaws that would bar venture capital, a very large banking sector may also be a sign that venture capitalists won't find the right corporate governance structures that allow them to profitably exit their investments if banks won't buy them and stock markets aren't open to float them[51].

2.3.4. Strategies and approaches for successful cross-border investments

According to numerous studies, local versus overseas VC firms' source, invest, syndicate, and oversee portfolio companies differently. The greater institutional, cultural, and geographic distance that overseas venture capital firms must contend with significantly restricts domestically employed measures to reduce information asymmetries. Locally, VC firms reduce risk by identifying promising investment candidates through their trusted local networks and thorough screening that includes face-to-face interactions. Additionally, VC firms offer their portfolio companies more than just funding; following an investment, they offer value-adding services and access to additional resources. When investing internationally, value-adding activities are hampered since, particularly for early-stage portfolio firms, these activities sometimes need closeness and a thorough understanding of the local environment. As a result, VC firms making overseas investments will need to modify their investment methodology rather than sticking to the "recipes" from their home markets. For instance, foreign venture capital firms in India prioritize accountants' reports and product market factors over domestic VC firms when choosing investment targets in India, and they favor strategic monitoring and advice over operational activity monitoring because the former is simpler to provide over distance. [52]

One of the key elements of VC success is picking the correct investment targets from the available offerings. The transfer of soft information is hampered when addressing portfolio companies in a foreign country due to a greater geographic and

[51] See Aizenman and Kendall 2008 Page 16
[52] See Devigne et al. 2018 Page 1419 & 1422

cultural distance as well as a lesser embeddedness in the environment of the portfolio companies. Therefore, choosing portfolio companies with reduced ex ante knowledge asymmetries is a tactic employed by cross-border VC firms to address information issues. Foreign VC firms are more willing to invest in portfolio companies who are more open with their information, whether it be at a later stage, in a later round, or in bigger deals[53].

Following approaches are used by venture capital firm for successful cross-border investments:

i) Build and Leverage Networks:

Global VC flow is fueled by human networks formed as a result of highly trained workers' immigration patterns. Since they rely on close human touch to quickly complete their investment process, VCs prefer to be close to the businesses they invest in. Venture capitalists may be able to overcome such distance costs in the investment process by using prior human networks. Immigrant entrepreneurs transport information and contacts back and forth between their home countries and their host countries. Such extensive networks may also include a number of relevant stakeholders, including academic researchers, investment bankers, headhunters, consultants, and lawyers, which helps venture capitalists increase their understanding of diverse industries. Additionally, the sharing of relational, emotive, and cognitive linkages is made possible by their shared technological, cultural, and geographical interests. Overall, these earlier human networks greatly reduce the distance-related costs for the venture capitalists. Due to the local boundedness of the VC investment cycle, cross-border human networks aid in overcoming it and enable venture capitalists to expand their geographic reach across national boundaries[54].

[53] See Devigne et al. 2018 Page 1422
[54] See Iriyama et al. 2010 Page 130

ii) Consider the Impact of Economic Integration:

Despite significant economic integration policies (such as the European Union [EU], the North Atlantic Free Trade Area, and Mercosur), theoretical and empirical research on how these policies affect the entrepreneurial activities of different countries has not yet fully developed. (Alhorr et al. 2008) examined whether two specific economic integration mechanisms, namely market and currency commonality, increase cross-border venture capital flows made by participating EU countries in order to address this issue. It does so by drawing on institutional, economic, and entrepreneurial literature. The results indicate that measures for broad-scale economic integration do have an impact on how much foreign venture capital is invested in other member nations.

iii) Understand and Navigate Public Policy:

A government can lessen the negative consequences that occasionally follow transaction-level measures courting foreign investors by working to enhance its domestic foundation through ecosystem-level policies. As an alternative, a nation with a solid domestic economy can simultaneously develop transaction-level regulations to entice overseas investors. By understanding these policies venture investors can navigate through for a better investment. Also, the investors must evaluate the effect of public policy on their investment[55].

iv) Account for Foreignness and Cultural Differences:

Often the venture capital investor faces unfamiliarity and foreign liability in the countries where the institutional framework is different than that of their home country. In different institutional environments the practices used by VCs for deal selection, contracting, monitoring, and advising can be different. For instance, VC from nations with tight and rigorous legal norms and regulations rely on financial and accounting information to

[55] See Bradley et al. 2019 Page 18

assess investment risk and evaluate proposals. However, VC firms must rely on interpersonal connections in nations with underdeveloped institutional systems in order to get crucial information and uphold commitments[56].

Also, understanding the impact of differences between cultural and institutional factors on venture capital investment is important. VCs must take into account these factors before investing.

v) Balance Local and International VC Players:

(Chemmanur, Thomas, J et al. 2016) discovered that entrepreneurial enterprises in developing countries funded by syndicates made up of both local and foreign venture capitalists perform better post-IPO than those backed by either local or exclusively international venture capitalist syndicates. Due to their lack of geographic proximity to their portfolio firms, overseas VCs are at a disadvantage. When making investments in creative enterprises, VCs look to cross borders in order to get over the restrictions of proximity. They accomplish this through syndicates. Since cross-border syndicates between domestic and foreign investors are supposed to lower transaction costs and bridge large cultural and institutional distance, some opt to syndicate with local VCs. Entrepreneurial firms can make use of their strengths thanks to syndicates of local and worldwide VCs supporting their portfolio companies[57].

vi) Establish Relational and Institutional Trust:

Trust is necessary to lessen the consequences of cultural and geographic distance. Relational trust is more important for investments in established economies and institutional trust is more important for investments in emerging economies. Institutional trust positively affects cross-border VC investment[58].

[56] See Buchner et al. 2018 Page 580
[57] See Chemmanur, Thomas, J et al. 2016 Page 593
[58] See Hain et al. 2016 Page 743

vii) Internationalize Venture Capital Activities:

Internationalization of venture capital activities means setting up branches of the venture capital firms in the countries where these VCs intend to invest internationally. This helps in reducing the cultural and institutional gap by ensuring the proximity between investor and investee. These branches represent the foreign head office which decides on investment and exits. This helps in reducing the need of expatriates who would have been needed otherwise to solve the problem of differences. Cultural and institutional gaps are minimized when local investment specialists are employed in the branches, further enabling the dissemination of information and guidance to businesses[59].

[59] See Devigne et al. 2018 Page 1426

CHAPTER - 3

3. Methodology

This is a comparative study between logistics and healthcare sectors from a point of view of venture capital investment. First, the phenomena under study will be described precisely i.e., the concept of venture capital investment will be established[60]. Then the study will narrow down to the cross-border venture capital investment. With the help of the literature available the definitions and concepts will be established.

This study aims to compare the challenges faced by venture capitalists, the impact of regulatory differences on them and how the returns vary across above mentioned sectors.

This methodology section outlines the research design, data collection methods, and data analysis techniques employed in this study.

3.1. Research Design

The study will adopt a mixed-method approach. Both qualitative as well as quantitative methods would be appropriate to answer the above research questions in the research paper. A comprehensive study of available literature is used to identify the research gaps. To answer the first two questions (1. What are the challenges faced by venture capitalists when investing across borders in the logistics and healthcare sectors? 2. What are the regulatory challenges for cross-border venture capital investment in the logistics and healthcare sectors?) qualitative data from the interviews with the subject matter experts. The last question (Which sector among the logistics and healthcare sectors is preferred by venture capitalists for cross-border venture capital investment?) will be answered by the quantitative data available on various platforms.

[60] See Graue and et.al 2016 Page 8

3.2. Data Collection

Both primary as well as secondary data will be used to answer the above questions. The primary data will be collected through interviews with the subject matter experts and the secondary data will be collected from the relevant research papers, articles, industry reports and statistical databases for venture capitalists. The qualitative data from interviews is often influenced by the interaction between participants and researcher, which may reflect on the researcher[61]. To avoid this proper care will be taken to distant oneself from the interview questions.

Steps in data collection:

1. Finding relevant research papers, articles, industry reports and statistical data providing insight into the cross-border venture capital investment in logistics and healthcare sector.
2. Conduct interviews with subject matter experts using a standard interview format.
3. By using the papers, articles, industry reports, statistical data and interview script extract the relevant data to the challenges faced by venture capitalists while investing across border, impact of regulatory differences and returns from cross-border venture capital investment in logistics and healthcare sector.
4. Create a dataset of extracted information for analysis.

3.2.1. Interview Process

The semi-structured interview method of data collection helps in understanding the participants unique perspective rather than understanding the phenomenon in a generalized manner. Semi-structured interviews permit interviews to be focused also giving the chance to the interviewer exploring the area which may

[61] See Seers 2012.

come in the course of the interview process[62]. The following steps are followed for the interviews.

1. Participant Selection: Participant selection is an important aspect of the qualitative research method as it influences the trustworthiness of the research[63]. This step involves identification of venture capitalists who have invested in the logistics and healthcare sector. Once identified, they will be contacted through social networking sites such LinkedIn or company emails. A response rate of about 10% is considered. Upon getting the response the interview timings and mode of interview either online or in person depending on interviewee's convenience will be decided.
2. Data Collection: Interviews will be conducted to gather the insights and experiences of venture capitalists while doing cross-border investment. The focus of the questions will be narrowed to the challenges faced by them while cross-border investing in logistics and healthcare sectors and the impact of regulatory differences on them.
3. Data transcription: Permission will be taken from participants regarding audio recording of the interview before the commencement of the interview. The resulting audio recordings will be transcribed into text using suitable AI (Artificial Intelligence) tools. The text format will be useful for referencing.

[62] See Omolola and Nicole 2021. Page 1360
[63] See Omolola and Nicole 2021 Page 1361

Expert participants

Sr.no	Name	Location
E1	Marc Mühlenbach	Berlin, Germany
E2	Anonymous	Anonymous
E3	Ross J. Wolfe	Florida, USA
E4	Saurabh Bajpeyee	Mumbai, India

Table 2: Expert Participants[64]

Field of Expertise and Language

Expert	Field of Expertise	Language
E1	Researcher	English
E2	Venture capitalist with a focus on logistics sector	English
E3	Startup law	English
E4	Venture capitalist with a focus on healthcare sector	English

Table 3: Field of Expertise and Language[65]

Interview Questions

1. Can you briefly describe your experience in venture capital investment?
2. Can you briefly describe your experience in cross-border venture capital investment?
3. Can you describe your experience of investing across borders in the logistics sector? What are some of the key challenges you have encountered?
4. Can you describe your experience of investing across borders in the healthcare sector? What are some of the key challenges you have encountered?
5. How do the challenges faced by venture capitalists differ between the logistics and healthcare sectors when investing across borders?

[64] Self
[65] Self

6. Can you provide specific examples or anecdotes of challenges you have faced when investing in the logistics and healthcare sectors across international borders?
7. How do regulatory differences impact cross-border venture capital investment in the logistics sector?
8. How do regulatory differences impact cross-border venture capital investment in the healthcare sector?
9. Can you provide examples of specific regulatory differences that have posed challenges in your cross-border investments in the logistics and healthcare sectors?
10. How do these regulatory differences affect your investment decision-making process and the overall success of your investments?
11. Have you encountered any legal or compliance challenges due to regulatory differences when investing in the logistics and healthcare sectors across borders?
12. How do you navigate and mitigate the risks associated with regulatory differences when making cross-border venture capital investments?
13. Are there any specific regulatory frameworks or policies that have posed significant challenges or barriers to your investments in the logistics and healthcare sectors?
14. How do you assess the impact of regulatory differences on the potential returns of cross-border venture capital investments in the logistics sector?
15. How do you assess the impact of regulatory differences on the potential returns of cross-border venture capital investments in the healthcare sector?
16. Have you observed any differences in the regulatory challenges faced in developed markets compared to emerging markets when investing in the logistics and healthcare sectors across borders?
17. How do cultural differences influence the challenges faced by venture capitalists when investing in the logistics sector across different countries?

18. How do cultural differences influence the challenges faced by venture capitalists when investing in the healthcare sector across different countries?
19. How do political and economic stability factors impact cross-border venture capital investment decisions in the logistics and healthcare sectors?
20. How do you evaluate the local market dynamics and competitive landscape when considering cross-border venture capital investments in the logistics sector?
21. How do you evaluate the local market dynamics and competitive landscape when considering cross-border venture capital investments in the healthcare sector?
22. Based on your experiences, what recommendations or improvements would you suggest to address the challenges faced by venture capitalists when investing across borders in the logistics and healthcare sectors?

Execution of interviews

The interviews were conducted between 1st June 2023 and 25th July 2023. Some interviews were carried out remotely using Google meets platform and the audio was transcribed in text format using Microsoft word transcribe tool. For other interviews questions were submitted to the interview partners and their answers were received.

3.2.2. Quantitative Data Collection

The quantitative research in the field of venture capital suffers from the lack of availability of data as young privately owned firms are no required to disclose the financial data[66]. Following steps are used for quantitative data collection:

1. Identification of sample cross-border venture capital investments in logistics and healthcare sector with enough venture deals to ensure statistical significance.

[66] See Levasseur and et.al 2022. Page 27

2. Gathering data of investment by two venture capital firms in the logistics and healthcare sectors.

The platform used for the quantitative data collection is Dealroom.co.

3.3. Data Analysis

The gathered data is analyzed using both qualitative and quantitative analysis techniques.

Qualitative Analysis

Although it is possible to be overwhelmed by the data collected during the data collection process, themes will emerge from the data. The qualitative data will be sorted according to codes. Analyzing this data patterns and themes will be identified. Themes are abstract forms of the interpretation of patterns from the data[67]. Following steps are followed for qualitative data analysis from interviews:

1. Coding: Analyzing the transcribed data common themes and patterns will be identified relating to the problems faced by venture capitalists during cross-border investing in logistics and healthcare sector and the impact of regulatory differences on them.
2. Categorization: Grouping of similar themes and patterns forming categories of challenges and regulatory differences.
3. Data Analysis: After analyzing the categorized data, key challenges and regulatory differences will be identified.
4. Interpretation: Conclusions will be drawn from the above key challenges and regulatory differences while investing cross-border in logistics and healthcare sectors.

[67] See Seers 2012.

Quantitative Analysis

The study uses descriptive statistical analysis to analyze quantitative data. Following steps are used for quantitative analysis:

1. Summarize the data using statistical analysis.
2. Conducting comparative analysis of cross-border venture capital investments between logistics and healthcare sector.
3. Considering additional factors such as investment size.

3.4. Ethical Considerations

To protect the concerned human participants, this study complies with all ethical requirements, such as confidentiality, anonymity, and informed permission. Informed agreement from the participants in the study will be obtained as it comprises primary data.

3.5. Limitations

This study contains primary data obtained from interviews with subject matter experts which may be influenced by their own intuition. This study may not compare all the aspects of cross-border venture capital investment between logistics and healthcare sectors.

Also, as the portfolio companies are new and privately owned, they are not obligated to disclose the investors and investment figures. So, the quantitative data analysis is totally dependent on the secondary sources.

CHAPTER - 4

4. Data Analysis

4.1. Interview analysis and findings

Studying the approach used by venture capitalists to invest cross-border is important for the study. After analyzing all the interviews, it is evident that there are many cultural and regulatory differences that impact the investment and returns in the cross-country VC investment. The qualitative data collected for analysis from the interviews reveal that venture capitalists must adhere to the regulatory guidelines laid out by the regulatory bodies in different jurisdictions.

4.1.1. Cultural differences

The proportional weight given to the data provided by entrepreneurs and in the business strategy, as well as the amount to which alternative external sources are sought, are all influenced by cultural factors. This shows that sources of knowledge are not always readily adaptable to different contexts. The information sources that VC companies actually rely on can differ between and within different legal and geographical systems. These results suggest that marketplaces and systems that appear to be identical may actually be heterogeneous. It could be beneficial to do additional research to examine the causes of these variations in greater detail while taking into account the various institutional contexts[68].

4.1.2. Problems due to cultural differences

i) Operating model:

Geographical distance and cultural disparities could cause issues with cross-border VC investments. When entering overseas markets, venture capitalists may try to reproduce their home operating model or they may adjust to the local environmental factors, resulting in asymmetry among enterprises. However, when

[68] See Transcript E3, 2023 Page 81

they strive to compete on the basis of some component of differentiation, foreign competitors may still maintain some distinctiveness[69].

ii) Communication:

Time required for the process can vary depending on the jurisdiction. As the example given by expert 1, there is a difference in communication styles between Asian countries and European countries. For example, one can be very straightforward while having a conversation with the European counterparts but while having a conversation with Asian counterparts one cannot speak with this freedom. One must build personal relations to have a good conversation[70]. Also, the venture capitalists must make sure that they have conveyed their message in a clear and respectful manner when dealing with counterparts of different cultures. All these factors significantly slow down the process[71].

iii) Availability of data:

In some countries getting data for the research may be difficult. This leads to difficulties in taking an informed decision. It is an experience that some organizations in the underdeveloped countries work opaquely leading to hinderance in data extraction. Lower quality data leads to a decision which may not be good for the investment. Leading to poor quality of investment[72].

Business data's main purpose is to facilitate improved decision-making and increase the likelihood that your plans will be successful. This objective is hampered by inaccurate data since it causes you to draw incorrect conclusions and employ ineffective tactics. Although corporate data cannot provide all the answers you require, working in the dark without information is undoubtedly preferable than having it. With reliable data, you can identify the business decisions that will add the

[69] See Transcript E2, 2023 Page 75
[70] See Transcript E1, 2023 Page 74
[71] See Transcript E3, 2023 Page 81
[72] See Transcript E1, 2023 Page 74

most value and calculate the degree of success you may anticipate. You take on greater risks and are less likely to achieve successful outcomes if your data sources are misleading you or if you lack faith in the knowledge, you already have.

iv) Trust:

Trust is an important factor when making an investment decision. For venture capital investments to take place, there must be regular and transparent communication between entrepreneurs and venture capitalists (VCs). Trusting an investor from a different country is often difficult for entrepreneurs. This situation is often handled by the investors by building personal relations with the entrepreneurs, which is often time consuming[73].

v) Decision-making process:

The decision-making processes are different in different cultures. Some cultures have the tendency to arrive at a decision quickly while others tend to have an elaborate group discussion which may delay the decision. Often venture capitalists must adjust to the investee culture of decision-making. This difference can affect the speed at which the decision is made, affecting the overall success of the investment.

For instance, some investments decisions are based on the seasons, if the investment decision is delayed and the season is missed there will be negative impact on decision[74].

vi) Hierarchy and Authority:

Hierarchy is important in the decision-making process. One needs to know whom to talk to while negotiating a deal or dealing with regulatory authorities. Venture capitalists may have to navigate through these hierarchies while dealing with local partners and authorities. Hierarchies may change between institutions to

[73] See Transcript E4, 2023 Page 93
[74] See Transcript E3, 2023 Page 83

institutions making it challenging for venture capitalists to deal with it. It also slows down the process[75].

vii) Negotiation Approach:

Negotiation approach differs from culture to culture. Some cultures may prioritize win-win strategies while some cultures may adopt a more competitive approach. Venture capitalists must change their strategies while dealing in different cultures. This can lead to an overall change in the strategies by VCs[76].

viii) Business Etiquettes:

Understanding and respecting local business etiquette, including greetings, gift-giving, and dining norms, is crucial to establish positive relationships. Not knowing these etiquettes might affect the relationship building with the local partners and authorities[77].

ix) Time orientation:

Different cultures have different sense of time, punctuality and time management. These varying perspectives can affect the meeting schedules and timelines of the deadlines[78].

x) Risk tolerance:

Different cultures have different levels of risk tolerance. The attitude of local partners towards risk tolerance affects the decision-making by the venture capitalists. Venture capitalists may need to adapt their risk assessment approaches when dealing with risk-averse or risk-tolerant cultures[79].

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[75] See Transcript E1, 2023 Page 74
[76] See Transcript E1, 2023 Page 73
[77] See Transcript E3, 2023 Page 85
[78] See Transcript E4, 2023 Page 93
[79] See Transcript E2, 2023 Page 75

4.1.3. Regulatory differences

There are some regulatory differences among emerging economies. For instance, there are limitations on venture capital funds in India, such as a low ceiling on the acceptable debt-to-equity ratio. In general, initiatives in the Philippines and Korea use more leverage, whereas those in China and Taiwan often use less.

4.1.4. Problems due to regulatory differences

i) Regulatory Compliance Cost:

For venture capitalists, navigating numerous regulatory frameworks can result in higher compliance expenses, which can have an impact on the overall profitability of investments. Different countries have their own regulations for each sector. Studying these regulations is the biggest challenge for venture capitalist firms. Venture capital firms who want to invest cross-border must employ experts to study the regulations of those jurisdiction and navigate through those regulations for a successful investment[80]. Also, the VC firms need to work with the local partners from the jurisdiction to solve the problems. This in turn leads to extra cost which is spend by the venture capital firm[81].

ii) Uncertainty:

Economies having clear and unchanged regulations can attract a lot of investment (local or foreign). If the regulations are untouched by the governments, which is often experienced in the developed economies, venture capitalists have confidence in the investment. It is an observation that the regulation in each sector keeps on changing in underdeveloped or developing countries. This situation adds uncertainty in the investment and investment decision. If the VC firms has to keep track of the changing regulations, there is a cost associated with it which makes

[80] See Transcript E3, 2023 Page 82
[81] See Transcript E2, 2023 Page 78

investment less feasible. Also, venture capitalists are often concerned that if something will withstand in future what they have designed today[82].

iii) Delays:

Different regulations have their own compliance requirements. “Failure to comply with local regulations can also impact the overall success of investments”[83]. So, these regulations need to be carefully studied and navigated. Which may result in delay in investment decision[84].

iv) Foreign Investment restrictions:

The openness for foreign investment differs from country to country. Some are more open to the foreign investment while others are conservative to the foreign investment. Venture capitalists may face problems regarding the ownership or control of local companies, affecting their ability to invest[85].

v) Taxation and Transfer Pricing:

Investment feasibility may be impacted by varying tax laws and transfer pricing legislation. It may be necessary to use complex tax arrangements to maximize returns and adhere to rules. Different jurisdictions have different tax arrangements which makes it difficult for the venture capitalists to adjust to the new tax regime.

Transfer pricing is an accounting and taxation technique that permits pricing exchanges between subsidiaries that share common ownership or control or within businesses. Both domestic and international transactions are subject to the transfer pricing practice[86].

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[82] See Transcript E3, 2023 Page 82
[83] Transcript E2, 2023 Page 77
[84] See Transcript E4, 2023 Page 93
[85] See Transcript E1, 2023 Page 73
[86] See Transcript E4, 2023 Page 93

vi) Intellectual Property Protection:

Different nations have different intellectual property laws, which has an impact on how venture capitalists safeguard and enforce their IP rights. Infringement risks can result from inadequate IP protection. To avoid the risk of infringement, venture capitalists must invest time and resources in studying and understanding local intellectual property laws and navigate through them[87].

vii) Sector-wise regulations:

Different sectors have different regulations in the same jurisdiction. Different sectors such as healthcare, finance, agriculture, logistics, etc. have different regulations which venture capitalists must understand and navigate thorough them. Venture capitalists need the help of local partners to understand and navigate through these regulations which increases the cost[88].

viii) Labor and employment laws:

Staffing decisions and HR procedures may be impacted by local laws on employment contracts, worker rights, and hiring procedures. Venture capitalists must follow all these local laws regarding employment contracts, worker rights, and hiring procedures when setting up a local entity. Also, they must make sure that all local partners and the portfolio firm abides by these regulations. Failure to abide by these local regulations by venture capitalists or the portfolio firm may result in the action by the local authorities[89].

ix) Regulations related to exit options:

Regulatory disparities may affect how simple it is to choose an exit strategy, such as an IPO or an acquisition. Regulations pertaining to exits must be understood by venture capitalists. In some jurisdictions it is difficult to exit from an investment

[87] See Transcript E2, 2023 Page 77
[88] See Transcript E3, 2023 Page 83
[89] See Transcript E2, 2023 Page 78

because of the regulations related to it. Some jurisdictions have a lock in periods where the venture capitalists are not allowed to exit from an investment for the particular period of the investment[90].

x) Legal and dispute resolution framework:

The framework for the legal dispute resolution can differ significantly with the jurisdiction. So, the way in which contractual disputes are resolved also changes. Venture capitalists need experts in the local legal system to draft contracts and navigate the legal framework to resolve the disputes. Employing the local lawyers increases the cost of the process. If venture capitalists do not want the local partnership for legal help, then the lawyers of the VC firm must study the laws in the new jurisdiction which can be time consuming[91].

4.1.5. Challenges due to regulatory differences for cross-border venture capital investment specific to logistics sector:

The regulatory challenges while investing cross-border in logistics sector changes from jurisdiction to jurisdiction. Venture capitalists must keep in mind that the specifics of these regulations might change overtime, so it is important to conduct up-to-date research and consult legal experts when considering cross-border investment in the logistics sector. Below listed are some common regulatory challenges faced by venture capitalists while investing in the logistics sector.

i) Customs and Import Regulation:

Customs regulations refer to statutory and other rules governing the import, export, and transit of commodities and payment methods, as well as rules pertaining to taxes, duties, and other customs prohibitions, controls, and restrictions. This regulation governs the import and export of the goods which is a crucial part of the logistics sector. So, these regulations affect the logistics sector most. The custom

[90] See Transcript E4, 2023 Page 93
[91] See Transcript E3, 2023 Page 87

procedure and import regulations can be complex and time consuming hence using a lot of time and resources of the venture capital firm. Different jurisdictions may have different requirements for documentation, tariffs, and duties, which can impact the flow of goods and increase costs[92].

ii) Transportation Regulations:

Depending on the method and the location, the government regulates the transportation industry to varied degrees. Regulatory frameworks centered on safety have taken precedence over economic (right-of-entry) restrictions in some transportation modes. Other modes are still governed by numerous municipal, regional, and national regulations as well as rigorous technical standards. For businesses that operate across borders, problems grow more complicated. Compliance with these regulations is important to ensure the safety of goods and people transporting them[93].

iii) Infrastructure licensing:

Licenses and permits required to build and operate the logistics infrastructure such as warehouses, distribution centers, and transportation services may differ in the different jurisdiction. Investors must navigate through a range of local regulations to establish and operate logistics facilities.

iv) Environmental Regulations:

Logistics projects impact the environment both during the setup of infrastructure and during the operation. The pollution during setup is due to construction of infrastructure and during operation is due to the energy required and the waste of packaging material. The logistics project must comply with the environmental regulations to avoid penalties and to be sustainable.

[92] See Transcript E2, 2023 Page 76
[93] See Transcript E2, 2023 Page 76

These regulations differ from region to region. For instance, environmental regulations in the European union are stricter than those of other developing nations or regions. Some countries have policies towards sustainability while others lack these policies. Venture capitalists must navigate through these local regulations to be sustainable[94].

v) Customs delay and documentation:

Customs regulations change from country to country. Some products are regulated or completely banned in some jurisdictions. Venture capitalists must take into account this aspect. They should make sure that all that all the products which will be used by the portfolio firm should not come under this category.

Also, due to incomplete and inaccurate documentation, customs delays may happen which can disrupt the supply chain, affecting the schedule of the project, which in turn affects the profitability of the investment[95].

4.1.6. Challenges due to regulatory differences for cross-border venture capital investment specific to healthcare sector:

The nature of the healthcare sector is sensitive because of the critical role it plays in public health. Because of the above reason while investing in the healthcare sector the regulatory challenges can be complex. These challenges change as every regulatory framework goes from region to region, country to country and within specific subsectors. Below are some regulatory challenges that venture capitalists might face while investing in the healthcare sector.

i) Healthcare licensing and permit:

"Health Care Permit means any and all licenses, permits, authorizations, approvals, franchises, registrations, accreditations, certificates of need, consents, supplier or provider numbers, qualifications, operating authority, and/or any other

[94] See Transcript E2, 2023 Page 77
[95] See Transcript E2, 2023 Page 76

permit or permission which are material to or legally required for the operation of the Company's business as currently conducted or in connection with the Company's ability to own, lease operate or manage any of its property, in each case that are issued or enforced by a Governmental Authority with jurisdiction over any Health Care Law"[96]. All healthcare facilities like hospitals, pharmaceutical manufacturing plants, and clinics require these licenses which can be complex and time-consuming process requiring a lot of time and resources of the venture capitalist firm[97].

Obtaining healthcare licenses can be difficult in some jurisdictions as they are not so open to foreign investment in the healthcare sector. Also, the procedures to obtain these licenses can differ in every jurisdiction.

ii) Drug and Medical Device Approval:

Every new drug needs to be approved by the local authority before being made available to consumers. This process can be very tedious due to the uncertainty and paperwork associated with it. Clinical trials need to be performed to obtain these approvals which are expensive and use most of the resources. Testing and safety assessment also requires a lot of time and resources. The same approvals are required for the medical devices before use. The time-consuming nature of these approvals may impact the timeline of launching products[98].

iii) Quality and safety standards:

Compliance with quality and safety standards is important for personnel and resources used in the healthcare sector. Venture capitalists must ensure that their products and operations meet the required safety standards to ensure the safety of people using it. Different jurisdictions have their own quality and safety standards which must be followed to operate in that jurisdiction[99].

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[96] Health Care Permit Definition | Law Insider Accessed on 12-Aug-23.
[97] See Transcript E3, 2023 Page 84
[98] See Transcript E4, 2023 Page 91
[99] See Transcript E4, 2023 Page 92

iv) Clinical Trials and Research Regulations:

Operations in the healthcare sector involve clinical trials and medical research. Clinical trials are potential biological or behavioral research studies involving human subjects that are intended to provide answers to particular questions about biomedical or behavioral interventions. These include both established and novel treatments (such as novel vaccines, medications, dietary choices, dietary supplements, and medical devices) that are worth further investigation and comparison. Information on dosage, safety, and efficacy is produced by clinical trials. They are only carried out following clearance from the ethics committee or health authority in the nation where therapy approval is requested. These authorities are in charge of assessing the trial's risk/benefit ratio; their clearance does not imply that the therapy is "safe" or "effective," merely that it may go ahead. Clinical trials must be ethical and follow regulatory guidelines. It must be ensured by the investors that all the guidelines are followed by the workforce[100].

v) Healthcare Professional Licensing:

All the healthcare professionals like doctors, nurses, pharmacists, specialists, etc. need to have a license to practice. Venture capitalists must ensure that all the workforce of the portfolio firm complies with local regulations[101].

vi) Telemedicine and Telehealth Regulations:

Telemedicine and telehealth are the new age business model which work on the principle of remote consultation. As these are new developments in the healthcare sector, in some regions they are regularized while in some regions they are yet to be regularized. These regulations keep on changing as per the new amendments in the laws, venture capitalists must make sure that the portfolio firm complies with these regulations and keeps up with the changing regulations[102].

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[100] See Transcript E4, 2023 Page 91
[101] See Transcript E4, 2023 Page 92
[102] See Transcript E4, 2023 Page 92

vii) Pharmaceutical Advertising and Promotions:

New startups require a lot of promotion and advertising to reach the target consumers. There are regulations related to the promotion and advertising of pharmaceutical products to avoid misleading claims and promises. Regulations related to promotion and advertising of pharmaceutical products can be strict to ensure transparent information to the consumers[103].

4.1.7. Suggestions for successful cross-border venture capital investment

i) Local presence:

Being physically present in a nation may allow for better integration into the local networks of businesspeople and middlemen needed to reach early-stage agreements.

These local investors must have strong international social capital, or connections to global venture capital firms. Due to their knowledge of how the local market operates, access to deal flow, extensive networks of contacts, and familiarity with various legal requirements, they are appealing to foreign investors. Although this need may be lessened if the entrepreneurial firm already has expertise and where the venture's markets are largely international, local investors can play a certification role regarding potential investees for incoming investors, that is, identify attractive deals and may be better able to provide monitoring and value-adding activities than is possible for a distant foreign investor[104].

ii) Local partnership:

"To navigate and mitigate the risks associated with regulatory differences, I work with local partners and advisors to understand the local regulatory environment and compliance requirements. I also ensure that I am investing in compliance with

[103] See Transcript E4, 2023 Page 92
[104] See Transcript E3, 2023 Page 88

local regulations and work with legal and compliance experts to ensure that I am meeting all necessary requirements”[105]. Local partnership includes partnerships with local legal firms and local subject matter experts. Local partnerships can help reduce the cost of research and compliance by reducing the cost of local presence[106].

Venture capitalists should work with local partners who are familiar with the regulatory environment, consult with legal professionals that specialize in international investment law, and perform extensive due diligence to assure compliance with local legislation in order to manage regulatory difficulties. Successful cross-border ventures require pliability, agility, and a proactive approach to regulatory risk management[107].

iii) Study local cultural and social factors:

Social and cultural factors are important to consider while investing cross-border. These factors can decide the overall sustainability and success of the investment. While having a meeting with local entrepreneur knowing the local culture can be helpful. For example, burping in Chinese culture is considered as compliment for the food as against many western cultures. Knowing nuances like this is always helpful while having conversations or negotiations with people from other cultures[108].

iv) Evaluate local infrastructure:

Evaluating local infrastructure of a sector in one wish to invest is always helpful to study the potential challenges and opportunities in the sector. Evaluation of the sector should start from macro level. Micro level analysis reveals the opportunities in the sector[109].

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[105] Transcript E2, 2023 Page 77
[106] See Transcript E3, 2023 Page 88
[107] See Transcript E3, 2023 Page 88
[108] See Transcript E3, 2023 Page 85
[109] See Transcript E2, 2023 Page 79

v) Thorough due diligence:

Venture capitalists must conduct thorough market research, regulation research, cultural research and industry specific research. All the required permissions should be taken and compliance with the regulations must be ensured. They must understand the local law, culture, and economics that might impact the investment. Also, evaluate risks and opportunities in the sector. Understand market trends, potential competitors, and customer preferences[110].

vi) Network Building:

Building the network of subject matter experts, local stakeholders, and potential partners always helps in investing cross-border. Network building provides insights into the local industry and helps navigate new opportunities in the industry. Attending industry talks, conferences, and networking sessions also helps to build the network[111].

vii) Long-term Perspective:

Cross-border investment requires a long-term vision to get good returns on investment. Setting realistic expectations for investment timelines and being patient as you work towards your goals is important for an investment to be successful. Being impatient about investment often works against the return on investment[112].

4.2. Data Analysis:

To get an idea of the trends in cross-border venture capital investment in logistics and healthcare sector. Investment figures of two major venture capital firms, namely LocalGlobe and Accel, are compared. The data is publicly available on the Dealroom.co platform.

[110] See Transcript E4, 2023 Page 93
[111] See Transcript E1, 2023 Page 73
[112] See Transcript E3, 2023 Page 87

LocalGlobe is a venture capital firm started in 1999 based in London, United Kingdom. Fund size of LocalGlobe as of June 2022 according to Dealroom.co is 500 million dollars. Following are the cross-border investment figures of LocalGlobe on logistics sector according to Dealroom.co.

Portfolio company	Location	Launch	Invested($m)	Round
Moove	Amsterdam, Netherlands	2019	23	Series A
Cycle	Berlin, Germany	2018	27.8	Seed, Dept and Series A
Otonomo	Herzliya, Israel	2015	15	Seed and Series A
Voi Technology	Stockholms kommun, Stockholm	2018	30	Series A
Stratio	Lisbon, Potugal	2017	4	Seed
OnTruck	Madrid, Spain	2016	2	Seed

Table 4: Cross-border investment by LocalGlobe in Logistics Sector[113]

The following are the cross-border investment figures of LocalGlobe on healthcare sector according to Dealroom.co.

Portfolio company	Location	Launch	Invested($m)	Round
Wildsense	Paris, France	2020	5	Seed
Kahun	Tel Aviv, Israel	2018	8	Seed
Empathy	New York, USA	2020	30	Series A

[113] Self

MyHeritage	Or Yehuda, Israel	2003	3	Series B
Awell	Brussels, Belgium	2016	1.9	Seed

Table 5: Cross-border investment by LocalGlobe in Healthcare Sector[114]

Accel is a venture capital firm started in 1983 based in California, United States of America. The fund size of Accel as of June 2022 according to Dealroom.co is 4 billion dollars. The following are the cross-border investment figures of Accel according to Dealroom.co.

Following are the cross-border investment figures of Accel on logistics sector according to Dealroom.co.

Portfolio company	Location	Launch	Invested($m)	Round
Bounce	Bengaluru, India	2014	124.2	Series A, Series B and series D
Sennder	Berlin, Germany	2015	373.5	Series B, Series C, series D and Late VC
Cogoport	Mumbai, India	2016	6	Series A
Carow	London, England	2013	131.5	Series B, Series C, series D and Late VC
PackLink	Madrid, Spain	2010	21.6	Series B, Series C, series D and Late VC

Table 6: Cross-border investment by Accel in Logistics Sector[115]

[114] Self
[115] Self

Following are the cross-border investment figures for Accel on logistics sector according to Dealroom.co.

Portfolio company	Location	Launch	Invested($m)	Round
Turbine AI	Budapest, Hungary	2015	25.7	Seed, Series A
Idoven	Madrid, Spain	2018	2	Seed
Medigo	Berlin, Germany	2013	6	Series A
SigTuple	Bengaluru, India	2015	45.1	Series A, Series B, Series C and Late VC
Veri	Helsinki, Finland	2019	3.2	Seed

Table 7: Cross-border investment by Accel in Healthcare Sector[116]

[116] Self

CHAPTER – 5

5.1. Results

As discussed in the methodology section the first two questions are answered by the qualitative research method from the interview findings and the third question is answered with the help of quantitative research method.

1. **What are the challenges faced by venture capitalists when investing across borders in the logistics and healthcare sector?**

The challenges faced by the venture capitalists are multiple. The two biggest challenges faced by venture capitalists while investing cross-border are challenges arising from cultural and regulatory differences. From the interview analysis it is clear that lot of time and resources are spent by venture capitalists while navigating through these challenges. As discussed in the interview analysis, the following challenges are faced by the venture capitalists.

Challenges due to cultural differences:

1) Problems in choosing own or local operating model while working in different culture.
2) Challenges in communication.
3) Challenge while exploring the data.
4) Trust deficit while dealing with people from a different culture.
5) Difference in speed of decision-making process.
6) Difficulty while dealing with hierarchy and authority.
7) Problems in deciding which negotiation approach to be used.
8) Learning business etiquette of different cultures.
9) Dealing with different time orientation of different cultures.
10) Identifying what risk, a particular local partner can tolerate.

Challenges due to regulatory differences:

1) Cost incurred to comply with regulatory requirements.

2) Uncertainty because of complex and changing regulations.
3) Delays during the regulatory compliance process.
4) Navigating the regulated foreign investment jurisdiction.
5) Complex taxation and transfer pricing systems.
6) Infringement risks due to differing intellectual property rights.
7) Navigating different regulations of different sectors.
8) Varying labor and employment laws.
9) Different regulations related to exit options.
10) Different legal and dispute resolution frameworks.

2. What are the regulatory challenges for cross-border venture capital investment in the logistics and healthcare sectors?

As discussed in the interview analysis section there are different regulations which are specific to the logistics and healthcare sectors. Below listed are the regulatory challenges that are specific to logistics and healthcare sector as discussed in the interviews:

Regulatory challenges specific to logistics sector:

1) Paperwork due to customs and import regulations.
2) Restrictions due to transportation regulations.
3) License for the infrastructure required for the project.
4) Navigating the infrastructure regulations for setting up a project.
5) Delays due to customs and documentation.

Regulatory challenges specific to healthcare sector:

1) Requirement of healthcare license and permits.
2) Obtaining drug and medical device approval.
3) Maintaining quality and safety standards.
4) Complying with clinical trial and research regulations.

5) Ensuring all healthcare professionals possess valid licenses.
6) Understanding and following telemedicine and telehealth regulations.
7) Following guidelines for pharmaceutical advertising and promotions.

The regulations for the healthcare sector are more complex and time-consuming than those of the logistics sector. The regulations in the healthcare sector are justified given their sensitive nature and effect on public health.

3. **Which sector among the logistics and healthcare sectors is preferred by venture capitalists for cross-border venture capital investment?**

The data analysis of data from the platform Dealroom.co suggests that the venture capital firms prefer to invest in the logistics sector when investing across borders.

Below given graphical representation supports the above argument.

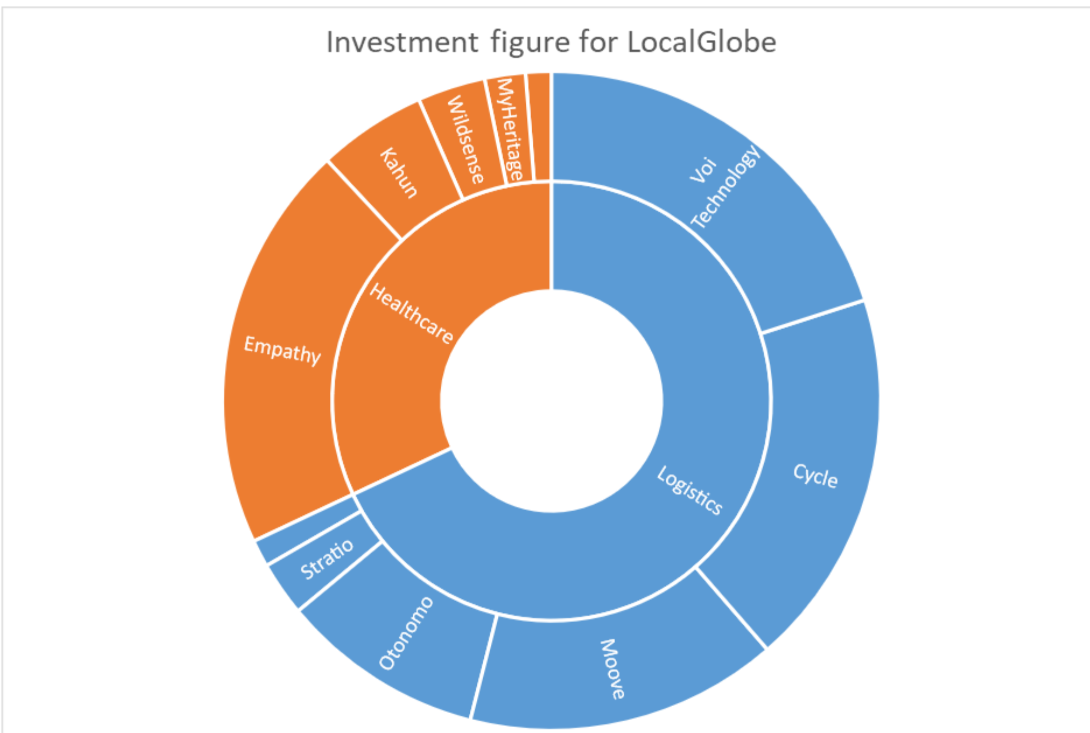

Figure 8: Investment figure for LocalGlobe[117]

[117] Self

The above figure shows the proportion of cross-border investment by LocalGlobe in logistics and healthcare sectors. It is evident that about 68% of total investment between the two sectors is in the logistics sector.

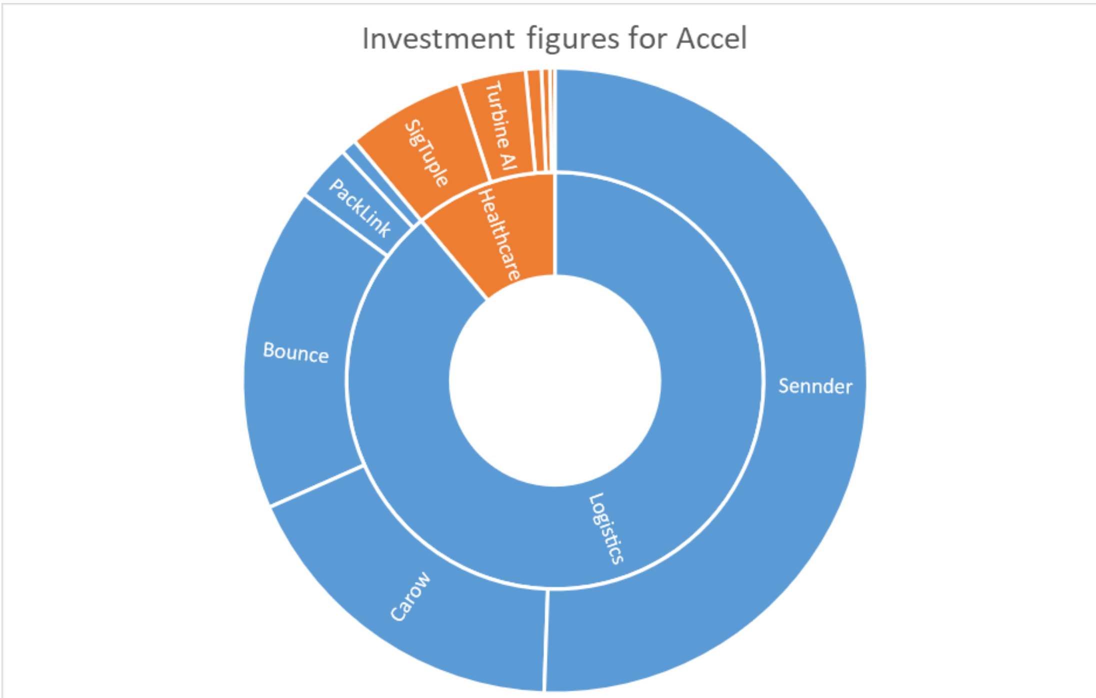

Figure 9: Investment figures for Accel[118]

The above figure shows the proportion of cross-border investment by Accel in logistics and healthcare sectors. It is evident that about 89% of total investment between the two sectors is in the logistics sector.

5.1.1. 5 R's for a successful cross-border venture capital investment:

After taking into consideration the suggestions given by the venture capitalists in the interviews for a successful cross-border investment, this paper suggests 5 R's for the same. The 5 R's for a successful cross-border venture capital investment are as follow:

i) **Respect:** This is the most important principle when dealing with partners from different cultures and jurisdictions. One must

[118] Self

respect the local culture and laws and act according to them rather than trying to change it.

ii) **Relate:** Cultivating personal relationships always helps in understanding what the local partners expect from venture capitalist firm, and it makes it easy to convey the message from VC to local partners.

iii) **Review:** Venture capitalists must carefully review the local regulations, and sector they want to invest in.

iv) **Reflect:** Reflecting on the cultural and social aspects of the jurisdiction helps to navigate the cultural differences.

v) **Regard:** Regard the economic and political stability of the jurisdiction where one wants to invest.

5.2. Conclusion

In conclusion, this paper studied the details of cross-border venture capital in logistics and healthcare sectors with the help of literature available on the topics related to the subject. Through a comprehensive exploration of the literature research gap related to the challenges and comparison of trends in different sectors when investing cross-border were emerged.

The challenges faced by venture capitalists when investing cross-border are multifaceted. Both the sectors face challenges due to varying cultural perception and regulatory framework in different jurisdictions. These challenges highlight the need for meticulous due diligence and sector-specific strategies.

Both the sectors are significantly impacted by cultural differences. The challenges such as selecting the operating model in an unfamiliar cultural context, effectiveness of communication, data exploitation issues, managing trust deficiency when dealing with different cultures, dealing with difference in decision-making speed, struggle while dealing with hierarchy, deciding negotiation strategy, familiarizing oneself with varying business etiquettes, adapting to disparate time orientations, and deciphering the risk thresholds of local partners within specific cultural frameworks arises due to cultural differences.

The challenges encountered by venture capitalists due to regulatory differences are different for both the sectors. The logistics sector, due to its dependency on the global supply chain, faces problems related to customs documentation, import regulations, license acquisition for projects, intricate infrastructure regulations, and delays due to documentation. On the other hand, due to the sensitive nature of the industry, healthcare sector faces problems related to licensing for project and healthcare professionals, and compliance with drug approval, safety standards, clinical trials, telemedicine and telehealth and advertising regulations.

Comparing the investment patterns, it becomes evident that the logistics sector is favored by venture capitalists for cross-border investment, reasons for which are unclear and keeps a scope for further research.

It is worth noting that this study has shed light on the suggestions for successful cross- border venture capital investment. So called 5 R’s namely- Respect, Relate, Review, Reflect, and Regard are suggested for a successful cross-border investment.

Lastly, this research contributes to the literature on cultural and regulatory challenges faced by venture capitalists and the investment dynamics in the logistics and healthcare sector while investing cross-border. The knowledge gathered from this study can help further investors and policymakers to navigate the complex landscape of international venture capital.

5.3. Future scope of research:

Cross-border venture capital investment is a vast subject and offers numerous research gaps to explore and contribute. The further scope for research as already mentioned can be finding the reasons why logistics sector is favored for the cross-border venture capital investment than healthcare sector.

The comparative analysis can be extended beyond logistics and healthcare sectors. Also, it is worth investigating how regional economic, political, and cultural variations influence investment dynamics.

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