FUNDAÇÃO GETULIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

CHRISTIAN ALEXANDER ALBRECHT

WINNING IN BRAZIL: HOW INSTITUTIONAL VOIDS AFFECT THE ENTRY DECISION-MAKING PROCESS OF FOREIGN VENTURE CAPITAL FIRMS COMING TO BRAZIL

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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Venture Capital

Adviser: Prof. Dr. Tales Andreassi

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ABSTRACT

The Master Thesis for the achievement of the academic status Master of Science in International Management (MPGI) will aim to solve the research question of how institutional voids affect the entry decision-making process of foreign venture capital firms coming to Brazil. This is a timely matter since in the past years there has been a sudden eruption of foreign VC involvement in Brazil. Based on the Actionable Framework by Khanna and Palpeu (2010) we conducted quantitative as well as qualitative research with two sets of interview partners in a two-phase analysis. We interviewed experts from VC firms, foreign VC firms based in Brazil and perspective VC firms that are looking to come to Brazil. We started with the former, derived lessons learned and analyzed how they affect the latter in reaching a decision. As we expected we found that depending on the industry that ventures are in, institutional voids can either pose an opportunity or a threat and hence attract or push away potential VC firms entering Brazil. Opportunities exist especially when exploiting institutional voids, for example through ventures in the marketplace efficiency. Threats are posed by investments in for instance hard infrastructure, where the economic, political and judicial systems as well as corruption and bureaucracy play demanding roles.

KEY WORDS: venture capital, institutional voids, Brazil

RESUMO

A tese de mestrado para a realização do acadêmico estado Master of Science in International Management (MPGI) terá como objectivo resolver a questão de como vazios institucionais afetar a decisão entrada de empresas de capital de risco estrangeiro que vêm ao Brasil a pesquisa. Esta é uma matéria oportuna uma vez que nos últimos anos tem havido uma súbita erupção de envolvimento VC estrangeiros no Brasil. Com base no quadro acionável por Khanna e Palpeu (2010) realizamos quantitativa bem como qualitativa re-pesquisa com dois conjuntos de parceiros de entrevista em uma análise em duas fases. Entrevistamos especialistas de empresas de VC, VC empresas estrangeiras sediadas no Brasil e as empresas de capital de risco perspectiva que estão olhando para vir ao Brasil. Começamos com as antigas lições aprendidas, derivados e analisados como eles afetam o último em chegar a uma decisão. À medida que experado descobrimos que dependendo da indústria que estão em ventures, vazios institucionais pode representar uma oportunidade ou uma ameaça e, portanto, atrair ou afastar potenciais empresas de capital de risco que entram Brasil. As oportunidades existem, especialmente quando explorando vazios institucionais, por exemplo através de empreendimentos na eficiência de mercado. Ameaças provenientes de investimentos em infraestrutura para o disco exemplo, onde os sistemas econômicos, políticos e judiciais, bem como a corrupção ea burocracia desempenham papéis exigentes.

PALAVRAS CHAVE: venture capital, institutional voids, Brasil

Abbreviation Index

ABVCAP	Brazilian Venture Capital and Private Equity Association
BRIC	Brazil, Russia, India, China
CVM	Comissão de Valores Mobiliários
GDP	Gross Domestic Product
MIT	Massachusetts Institute of Technology
MNC	Multinational Corporation
PE	Private Equity
SPV	Special Purpose Vehicle
VC	Venture Capital
WEF	World Economic Forum

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1 Introduction

1.1 Brief History and Current Situation of the VC Landscape in Brazil

Generally speaking the history of VC activity in Brazil can be distinguished in three time periods, 1980-to-1995, 1995-to-2005 and 2005-to-present (Ernst & Young, 2012). In early 1980's Brazil saw the first VC firms arise that struggled with pioneering challenges amidst an economic environment unfriendly to long-term investments due to high inflation and interest rates. This also had a huge impact on nominal return rates as they varied greatly with the inconsistent inflation. With the introduction of the Real Plan in 1995 this environment changed in favor to VC firms as inflation was lowered and interest rates were soon to follow. The ongoing privatization of public companies increased the prospect of small companies as competitors and as suppliers. Furthermore the industry matured with the emergence of the first regulatory institution with the CVM and the first incubators. With the start of the new millennium the industry reached its next milestone with the creation of the Brazilian Venture Capital and Private Equity Association (ABVCAP) that brought together several of the industries key players. (GVcepe, 2012) Overall the turn of the millennium chartered the advent of a new entrepreneurial enthusiasm in Brazil opened up many new investment opportunities for VC funds and strengthened their stance as financial vehicles. Fueled by the booming middle class and stock market in Brazil in 2005, pension funds and institutional investors started looking towards VC funds for alternative investment opportunities which brought about a new generation of VC and PE funds (Ernst & Young, 2012).

Nowadays the major growth drivers within the VC industry are the lower interest rates, an appreciation of the currency, the increasing C and D classes (middle class), the government housing projects, the real estate boom and many more. "Where there is growth, there is opportunity for the VC industry" (Ernst & Young, 2012) and this especially exists as part of the infrastructure and logistics projects that the World Cup in 2014 and the Olympics in 2016 entail.

Foreign investors and founders are attracted to Brazil by a convergence of demographic, economic, and technology trends forming an attractive market for internet-enabled companies. With a "consumption-oriented culture, rapidly growing middle class, critical mass of highly engaged digital users, and significant room for broadband and smartphone penetration growth, the precursor believes the Brazil is ripe to grow a crop of internet giants." (Wallace & Holda, 2013)

Following the Silicon Valley example the current wave of investment is focused on replicating proven business models and applying them to the Brazilian context – particularly e-commerce and digital media. It is anticipated that this focus will shift in the years to come to innovative and unique business models that serve to better the market place in Brazil and eventually the world. As the confidence in the Brazilian market environment evolves, investors will be more comfortable taking business model risks (Wallace & Holda, 2013).

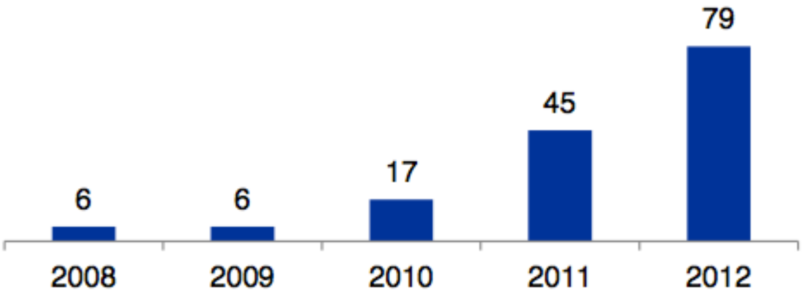

Figure 1: Number of VC Investments in Brazil Source: Start-up Dealbook Brazil, (Wallace & Holda, 2013)

As we can deduce from the table above, there has been a rapid expansion of the VC activity in Brazil, especially since 2012. The reason for this being the appearance of foreign funds that have invested infrequently in opportunistic investments and an emergence of accelerators and so-called super angels. (GVcepe, 2012)

Whilst the numbers seem optimistic, the reality is far from it. Following a research conducted by the MIT Sloan School of Management Brazil's VC sector is actually decreasing when measuring the amount of capital influx by 40% (Wallace & Holda, 2013). Furthermore, according to their research that is based on the Global Attractiveness Index when comparing the ecosystems of the BRIC and developed countries, Brazil is trailing the entire field. According to Wallace & Honda (2013), Brazil has to overcome the following challenges if they want to compete for foreign investment with the other BRIC countries:

"**Complex, multi-layered tax regime** burdens SMEs and investors with major compliance costs and high tax rates.

Convoluted business regulatory system makes it extremely time consuming and expensive to start businesses.

Restrictive labor laws make it challenging to scale businesses up and down quickly, and create long-term liabilities.

Lagging educational system and **cultural aversion to entrepreneurship** driving shortage of human capital in early stage technologies."

These factors become evident in when you compare Brazil to its peers on the basis of the global PEVC attractiveness index published every year by IESE University in Barcelona (2013).

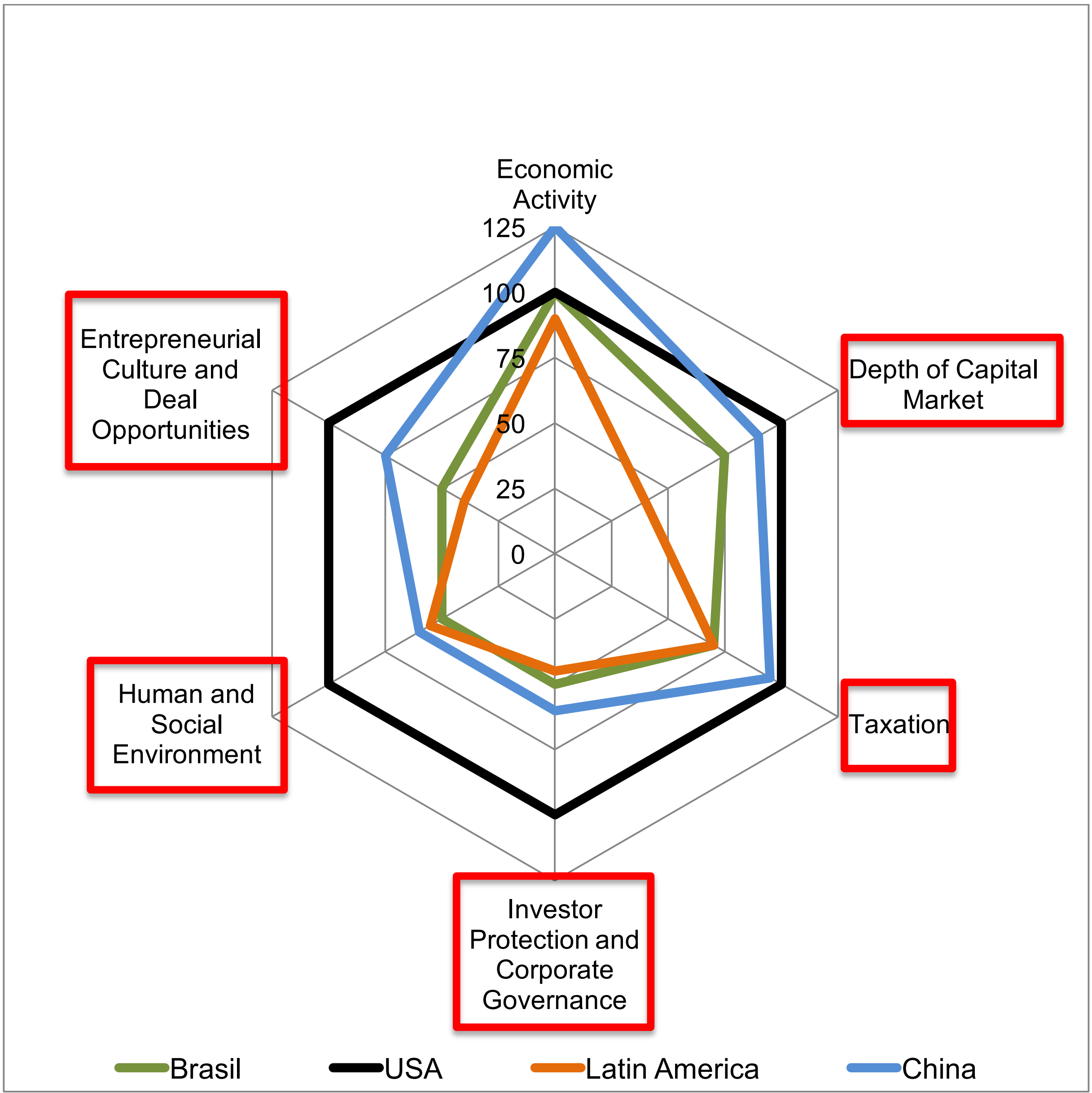

Figure 2: PEVC attractiveness index 2013 Source: IESE, 2013

In all areas, except the economic activity, Brazil trails its peers. Although the high growth, large market and rising middle class indicate the potential of the Brazilian economy, its legal, economic and social framework lags behind to support it. Hence it is conclusive to predict that institutional voids are a key influencer of PEVC activity in a respective country.

Hence when mapping out the four different scenarios of possible state of the unions for the VC industry, Wallace et. al. (2013) position Brazil in the fragile growth segment which constitutes a deal flow led by a mix of overseas and domestic firms. According to Wallace et. al. (2013) this is backed up by the recent wave of US firms that have come to Brazil and sought limited partnerships with domestic Brazilian VC funds to recreate a “Silicon Valley” like atmosphere with ventures of equal structure and agility.

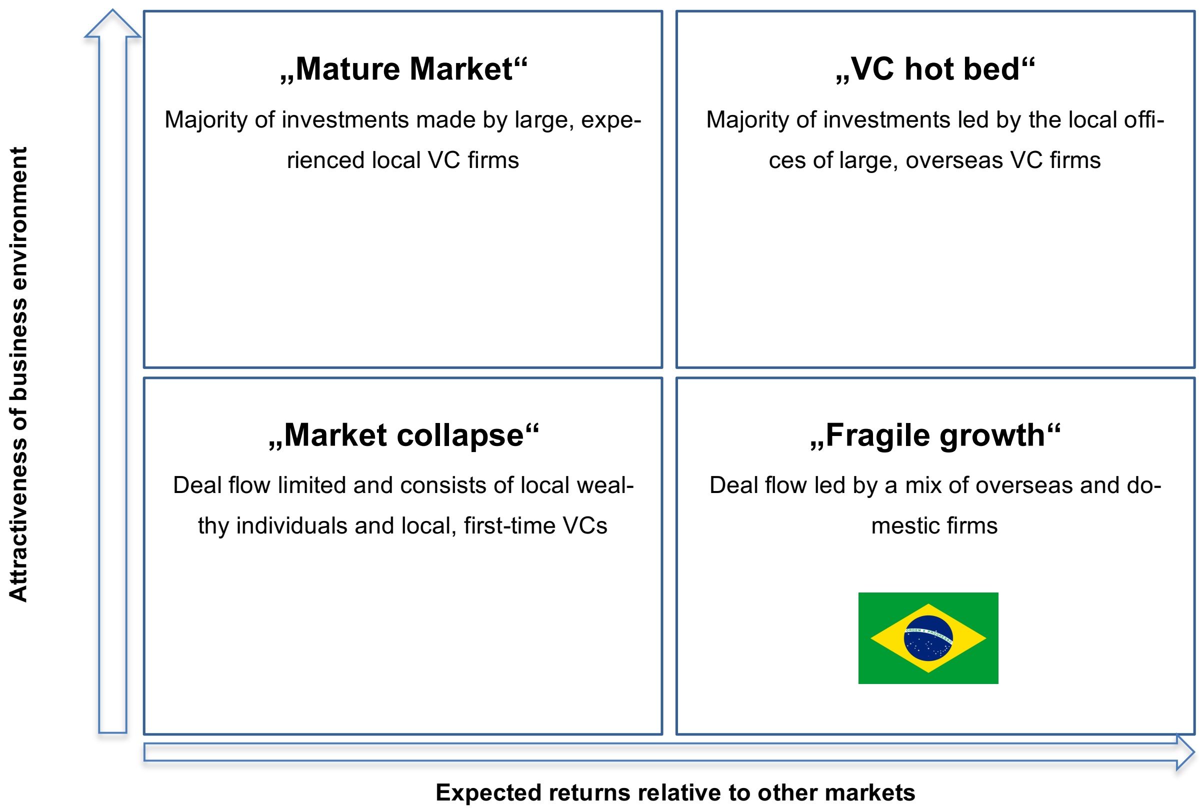

Figure 3: VC market landscape matrix Source: (Wallace & Holda, 2013)

1.2 Research Focus and Objective

Over the past decade, Brazil has developed into a highly attractive economy. In light of this positive economic climate, supported by strong fundamental economic data, one would expect Brazil to be a highly attractive market for foreign venture capital firms. However, only very little research has been conducted in this highly interesting field in such a dynamic region. In view of this lack of literature, this paper will attempt to fill the gap by conducting an exploratory study into the Brazilian venture capital market and the foreign players that have already arrived.

Based on the theory of institutional voids set forth by Tarun Khanna and Krishna G. Palepu of the Harvard Business School in the book *Winning Emerging Markets: A Road Map for Strategy and Execution,* this study will examine how institutional voids affect the entry decision of foreign venture capital firms that want to enter the Brazilian market.

1.3 Research Question

As identified in the introduction, more and more foreign VC firms have arrived in Brazil and are looking for alternative investment opportunities in the very promising market environment of Brazil. Although, along with its BRIC peers, Brazil has in the past decade seen continuous growth and is acclaimed to surpass many of the G6 countries in GDP output by 2050, it has not yet been able to shake off the status as an emerging economy. Khanna and Palepu (2010), explain this by highlighting that the existence of institutional voids hinders the country from closing in on the developed economies. In other words, marketplace inefficiencies, a lack of specialized intermediaries and high transactional costs are key characteristics of emerging economies. This research paper will aim to investigate how the stigma of an emerging economy and the institutional voids that exist within Brazil either hinder or attract foreign VC firms that want to enter Brazil. The research question that follows is:

How do institutional voids affect the entry decision-making process of foreign venture capital firms in Brazil?

1.4 Research Aim and Approach

The aim of the study is to identify how institutional voids affect the entry decision of foreign venture capital firms in Brazil. Based on the findings of the literature review we will assess past historical investments made by VC firms that have already attempted an entrance to Brazil. The analysis will be performed using Data derived from Expert Interviews, with Executives of the forenamed funds. By doing so, we will identify the *lessons learned*, which will hopefully help us to derive a set of criteria that will form the basis for the second step of our analysis: expert interviews with leading VC firms from Europe and the United States, who have yet to invest in Brazil. This two-step analysis will help facilitate a better understanding of the VC ecosystem in Brazil by identifying which institutional voids exist and how they hinder and alter the entry strategy for foreign VC funds. Since the study is aimed at answering the question of how institutional voids affect the entry decision-making process of foreign VC firms coming to Brazil, we will focus our research on the last strategic sphere outlined by Khanna and Palepu (2010) in their Actionable Framework: **Enter, wait, or exit?** The following diagram illustrates the setup of the research paper.

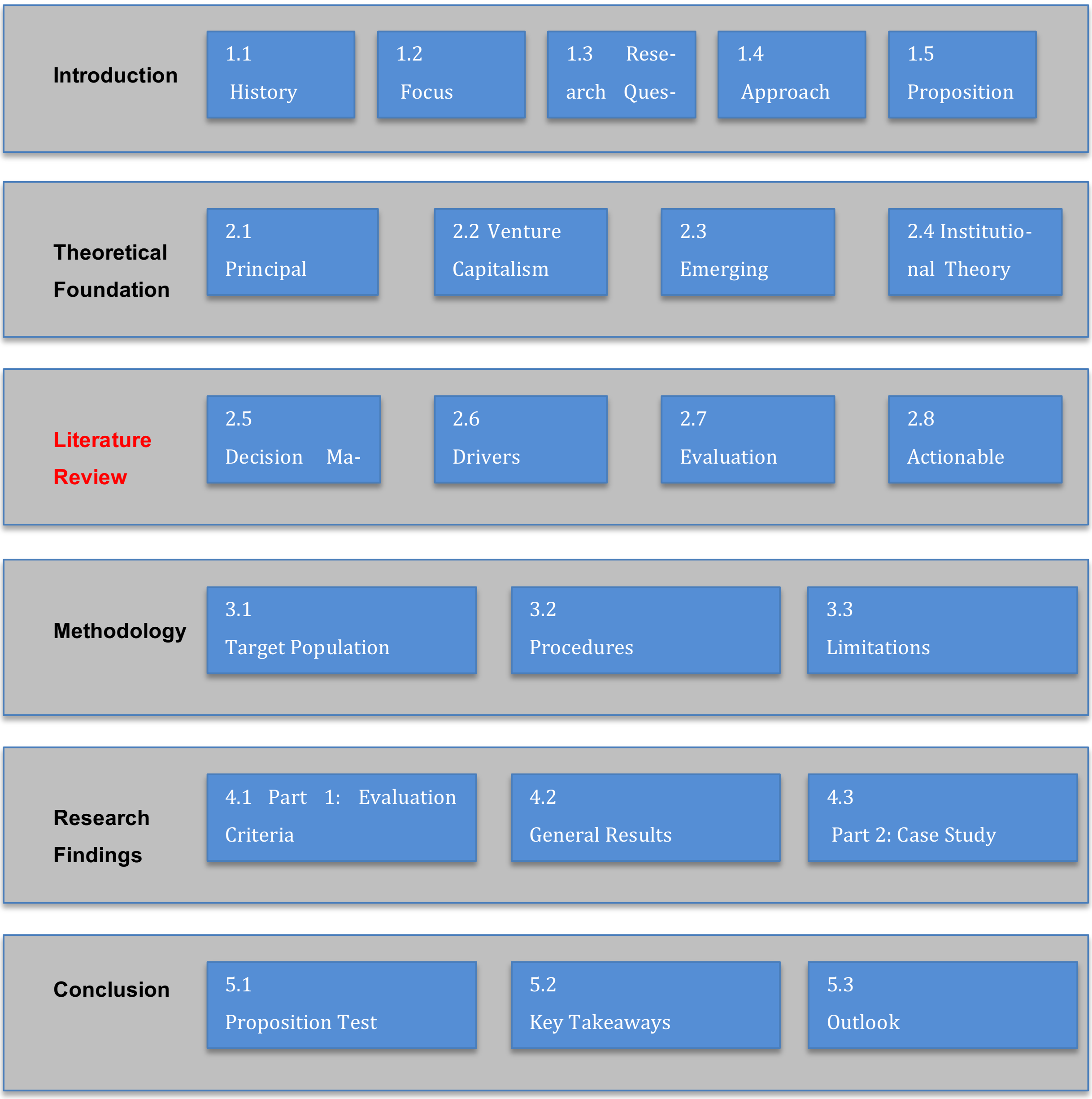

Figure 4: Setup of research paper Source: Own Diagram

1.5 Propositions

As indicated in the introduction of this research proposal, the Brazilian VC ecosystem is set up for transformation. With a soaring amount of active participants, the investment portfolio of VC firms is becoming more diversified and tested. With returns set to materialize, foreign investors will be increasingly attracted to enter the Brazilian market. As confidence increases and market conditions start to become more favorable, so will the investor sentiment.

Taking all the market conditions into respect, I believe that following an implication by

Khanna and Palepu (2010) that highlights the **(a)** synergies that exist through strategic alliances with native partners in emerging economies; connecting with local know-how in the industry will reduce the hesitancy of foreign VC firms to enter. This effect will be amplified as local Brazilian VC firms start to grow and extend their investment portfolio. With respect to answering the research question of how institutional voids affect the entry decision of foreign VC firms into the Brazilian market, I expect to find that **(b)** especially for VC firms, who amongst others, historically invest in internet driven ventures focused on e-commerce, travel and marketplaces, the existence of institutional voids poses a great opportunity to develop the countries soft infrastructure. In other words, institutional voids can be a driver, because ultimately, with respect to the rising middle class and online population, the opportunity exists. And opportunity means growth, and growth drives returns. On the other hand, **(c)** when talking about ventures in different industries, for example the hard infrastructure industry, institutional voids will dampen the moods for VC firms to engage in projects since the complexity of the economic, political and judicial environment is beyond the scope of foreign investors that have little or no affiliation with the common practices in Brazil.

2 Literature Review

2.1 Principal Agent Theory

The demand and supply of capital mainly depends on the credibility of the promise and the ability of the entrepreneur to pay back the invested money received by the financiers. Such credibility is however threatened by information asymmetry and conflicts of interest between the objectives and orientations (Pissarides, 1999) of the investor and those of the entrepreneur. The entrepreneur usually has financial and non-financial goals whereas the investor is typically interested in the project's financial success (Garnsey, 1998) In 1932, Adolph Berle and Gardiner Means analyzed the consequences of the separation of control and property. Their study leads to the creation of the renowned "Agency-Theory Model" which states that the interests of the principal and agent might differ (Garnsey, 2002)

In investment decisions, information asymmetry becomes a threat ex-ante and ex-post. The former through adverse selection which states that due to imperfect information the investor might not choose the optimal allocation of resources since the managers might overstate the potential of their particular investment. The latter being moral hazard, which constitutes the phenomenon that once the funds have been allocated, managers are potentially incentivized to live off their managerial fees and neglect the value maximization of the investment incurred (Ross et al., 2012). In fear of this, investors tend to withhold their investments, which leads to a phenomenon of credit and equity rationing (Stiglitz & Weiss, 1981) where a significant number of potential ventures are left without access to capital funds or might obtain funding at unreasonable cost. The consequences just described of information asymmetry are greater in developing countries than in developed countries due to a lack of sot and hard infrastructure (Berger & Udell, 1998). The problem is even more amplified when it comes to new ventures and growth firms: since they are still young in their maturity, their value is not recognizable as well as their potential for future growth.

2.2 Venture Capitalism

2.2.1 Distinction to Private Equity

Venture Capitalist and Private Equity firms, strictly speaking, refers to the "provision of equity capital by financial investors, over the medium and long term to non quoted companies with high growth potential“ (Gompers & Lerner, 1998). The fine line between these two investment vehicles lies in the stage in which the investment is incurred. Venture capital firms invest in the “later technology research, development and the early manufacturing and scaling-up phase” (Jeng & Wells, 2000) Therefore, they finance new or radically changing ventures differing significantly from established companies, whereas the challenge of information asymmetry merits special attention (Wright & Robbie, 1998, p. 552). Private Equity firms, on the other hand, do not only cover the early developing stages of a venture, but also the later stages of a venture’s life cycle (Gompers & Lerner, 1998) Consequently, venture capitalism can be seen as a sub-category of private equity.

Private equity is divided into various segments – venture capital and buyouts being the two broad subclasses, which explains the segmentation and financing stages within private equity. Given the extremely high failure rates of young ventures (between 30 to 95%, depending on the chosen benchmark (Nobel, 2011), most transactions comprise little to no leverage, with considerably lower volumes than “typical” private equity deals. The focus on innovation and entrepreneurship as the engines of growth has fueled venture capital tremendously, such that it has been more and more separated from private equity per se in both literature and practice (Willert, 2006).

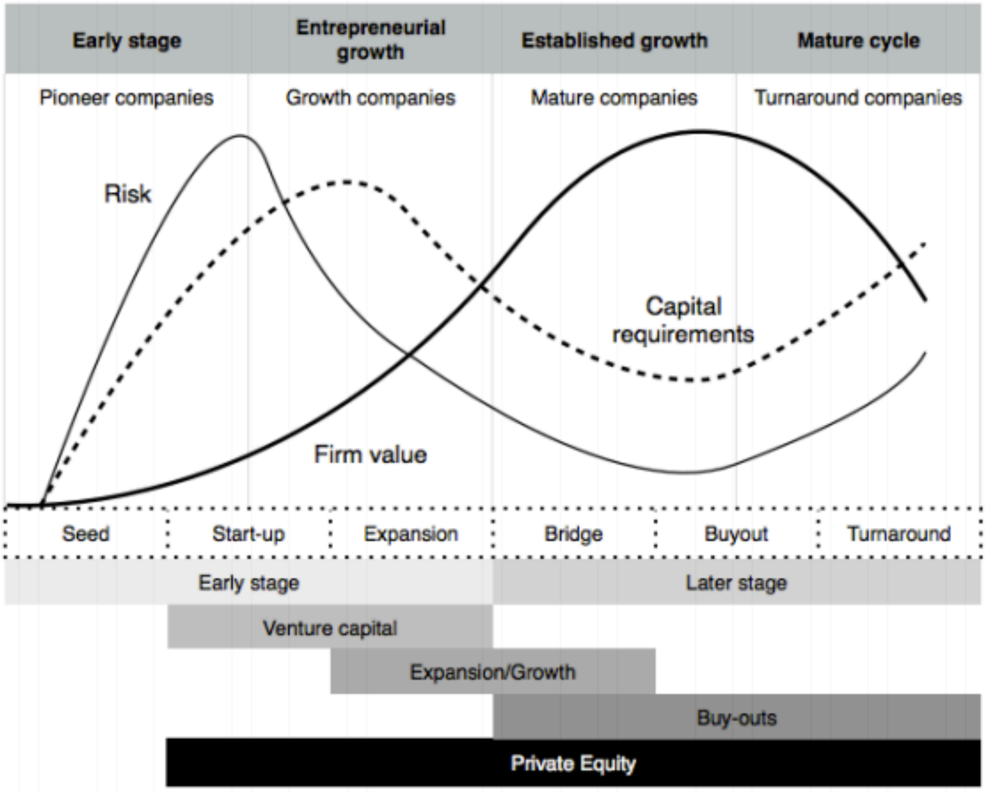

Figure 5: PE segmentation and financing stages Source: (Bader, 1996)

Figure 2 shows the PE segmentation and the financing stages. The seed stage is only a prequel to private equity, despite a latent need for financing. The reason for this is the absence of management and ample business plans which forces entrepreneurs to focus on marketability, feasibility and other operational issues instead of raising funds. In general, capital requirements are usually limited in volume at such an early stage, which does not incentivize the founders to look for investors, since they would have to give up a sizable amount of equity against a limited amount of starting capital (Bader, 1996, p. 105). In literature this phenomenon is often described as the equity gap, which is filled by the presence of angel investors, family or friends.

According to Bader's analysis, the next two stages – start-up and expansion – are the dominion of venture capitalists (p. 105). Arriving at these stages, potential start-ups have successfully overcome the challenges of the seed stage: there is a defined product pipeline as well as a functional organizational structure. Concentration shifts towards strengthening operations and reinforcing the management. Venture capital provides best practices and finances the predicted growth, while bearing the risk of failure. As opposed to the start-up phase, companies in the expansion phase have successfully penetrated the market but have not yet been able to turn a profit. They require additional capital influxes to expand their operations, such as furthering output capabilities and sales outreach – while many start-ups experiencing fast growth must deal with increasing working capital needs (Bader, 1996, p. 105). These young firms are very attractive for venture capital investors because their high growth potential has already been demonstrated, signaling promising cash flow perspectives for equity holders. Investment risks are mainly internal according to Bader (1996, p. 107), since marketability has already been proved at this development stage. Venture capital investment is typically made in the form of pure equity, due to the present unavailability of cash flows (loan interest payment is thus not an alternative). Modern day venture capital is frequently related to high tech companies, although most venture-backed firms rarely develop new technologies due to the inherent financial risk. Companies thus commonly work on new features based on known technology to fill a gap in the market; investors take a commercial risk rather then a technological risk (Bader, 1996). A notable exception is biotechnology, where major scientific breakthroughs can be synonymous with commercial success (Fraser-Sampson, 2006).

2.2.2 Determinants of VC Intensity

Some research has been made on the causes for changing VC intensity across different markets however there are only a couple that have evaluated macroeconomic determinants on a quantitative basis. Gompers and Lerner (1998) analyzed the powers that influence raising support in the investment industry and individual endeavor associations in the United States from 1972 to 1994. Jeng and Wells (2000) connected cross-segment information for 21 nations from 1986 to 1995 to a demand/supply model to recognize the determinants of investment subsidizing. Romain and Van Pottelsberghe (2004) built up a comparable interest supply demonstrate and tried a board dataset made out of 16 OECD nations over a time of eleven years, going for pinpointing the degree that macroeconomic determinants effect venture capital intensity. The following Graph will summarize the key literature.

Potential Determinants	Gompers and Lerner (1998) US, 1972-1974	Jeng and Wells (2000) 21 countries, 1986-1995	Romain et al. (2004) 16 OECD countries, 1990-2000
Gross Domestic Product	+	0	+
Level of interest rate	+ at aggregate level; - at state level	n.a.	+
Credit depth of information	n.a.	n.a.	n.a.
Stock market opportunities	+	0	n.a.
Initial Public Offering	no effect at aggregate level	+ except for early stage VC funds	n.a.
Finance reporting standards	n.a.	-	n.a.
Labour market rigidities	n.a.	0 for total VC investment; - for early stage VC funds	- (reduces the impact of GDP and R&D on VC)
Strength of legal right	n.a.	n.a.	n.a.
Capital gains tax rate	-	0	0
R&D expenditure	+	n.a.	+
Patent applications	n.a.	n.a.	n.a.

Note：+/-: the determinant is significantly positively/negatively correlated with VC

0: the determinant is not significantly correlated with VC

n.a.: the determinants is not tested in the respective research

Figure 6: Determinants of VC intensity Source: Chang (2014)

Beside those three primary concentrates quantitatively analyzing the macroeconomics determinants of funding, a few papers have broke down a little number of elements that may influence the evolvement of funding or private value. For instance, Farag, Hommel, Witt, and Wright (2004) contend that an absence of skilled individuals is one of the main considerations blocking venture capital intentsity, with Lee and Peterson (2001) contending that national social contrasts may be vital in clarifying the entrepreneurial action levels that influence the level of acknowledgment of a danger capital society. On the other hand, as Groh (2009) focuses out in an outline of private value in developing markets, the accessibility of information posts troubles when breaking down macroeconomic parameters cross-fringe. In this way, this research paper won't have the capacity to give a reasonable conclusion on the level of significance of specific criteria, but it does try to rank them according to their importance in the context of the Brazilian VC ecosystem.

2.3 Emerging Markets

2.3.1 Classical Approach

The term emerging markets has been around for almost three decades. It appeared for the first time in 1981, when it was used by the International Finance Corporation (IFC) to characterize the first mutual fund investments in developing countries. Ever since then and in almost every economical and political magazine this term has been omnipresent when discussing the economies of Brazil, Russia, India and China. A landmark Goldman Sachs report from 2003 was the first to highlight these four countries when it forecasted that the economies of the BRICs (Brazil, Russia, India, China) would grow to be collectively larger than the G-6 economies (United States, United Kingdom, Japan, Germany, France and Italy) (Goldman Sachs, 2003). In literature the following criteria are famously used to characterize the attributes of emerging economies: (Khanna & Palepu, 2010)

Poverty	Low- or middle-income country Low average living standards Not industrialized
Capital Markets	Low market capitalization relative to GDP Low stock market turnover and few listed stocks Low sovereign debt ratings
Growth potential	Economic liberalization Open to foreign investment

Common knowledge characterizes emerging markets by the virtue of their rapid economic growth. The term emerging market is used as opposed to developing markets because the opening of these economies to capital, technology and talent has fundamentally changed their economic environments. The result being that these economies have out-paced the GDP growth rates of those of developed countries over the past decade, lifting people from poverty, creating a new middle class and markets for consumer products and services. Furthermore the large, low-cost, and increasingly educated labor pools give these markets tremendous competitive advantage in production and information technology is enabling companies to exploit labor in these markets in unique ways.

2.3.2 Structural Approach – Institutional Voids

Tarun Khanna and Krishna G. Palepu of the Harvard Business School have a different stance on the subject. In the book *Winning Emerging Markets: A Road Map for Strategy and Execution* they argue that although the foregone characteristics highlight important features of the countries that are denounced to be *emerging*, they are not the characteristics that "predispose an economy to be emerging, nor are they particularly helpful for businesses that seek to address the consequences of emerging market conditions." (Khanna & Palepu, 2010, p. 23) Rather these characteristics are the symptoms that arise from underlying market structures that prevail in each of these economies. Following Khanna and Palepu emerging markets "reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together." (Khanna & Palepu, 2010, p. 23)

The importance of institutional voids as indicators for GDP growth has been supported by *The Global Competitiveness Report 2010-2011* issued by the World Economic Forum, GDP growth is determined by the combination of the following three pillars: (World Economic Forum, 2011) Basic requirements (i.e. institutions, infrastructure, macroeconomic environment etc.), Efficiency Enhancers (i.e. higher education and training, Labor market efficiency etc.) and Innovation Factors (i.e. business sophistication).

Khanna and Palepu (2010) state in their research that "the most important feature of any market is the ease with which buyers and sellers can come together to do business." This becomes increasingly evident in developed markets where specialized intermediaries provide services that minimize information asymmetries in the market and legal frameworks guarantee contract enforcement. "Absent or unreliable sources of market information, an uncertain regulatory environment and inefficient judicial systems are three main sources of market failure that exist in emerging economies and spook off foreign players. (Khanna & Palepu, 2010) The real indicator for the grade of development, as stated by Khanna and Palepu are transaction costs. They offer an insight into how efficiently a market works, it includes all the costs associated with conducting a purchase, sale, or other enterprise related transaction. Generally speaking, developed economies have low transaction costs, high liquidity, high degrees of transparency and short time periods to complete transactions. In comparison to the classical definition of emerging markets, the structural definition states that "emerging markets are those where the specialized intermediaries are absent or poorly functioning." (Khanna & Palepu, 2010)

Hence we can deduct that institutional environments in emerging economies differ greatly from those of established economies, which can have various implications for entrepreneurship in said regions (Ahlstrom & Bruton, 2010; Bruton, Ahlstrom, & Li, 2010). Bjerregaard and Lauring (2012) illustrate in more depth how entrepreneurs handle institutional malfeasance, working around and brokering contradictory institutional logics. Amongst the entrepreneurs they studied one is effective in "bridging institutional contradictions" (Bjerregaard & Lauring, 2012: 31), by distancing himself from local traditions and thus openly bringing in new values, while the other entrepreneur draws heavily on traditional normative patterns to ensure legitimacy for his entrepreneurial activities.

SMEs and business visionaries ceaselessly confront "institutional voids" of credit, that is, in numerous spots there are methodical requirements to acquiring credit originating from underdeveloped capital and go-between business sectors, administrative frameworks, contract-upholding components and feeble or even missing institutional courses of action that support these business sectors (Khanna & Palepu, 2010; Mair & Marti, 2009). Establishments in the BRICs are confronting quick paced changes in transitional situations that include high degrees of vulnerability and change, while business people in developed economies can depend on a moderately certain natural and business sector dependability (i.e. the political, legitimate and money related situations are immovably settled and standards and schedules are solidly established). Recent field-based survey research proposes that a predominant rationale portrayed by (1) outside introduction, (2) proactiveness and (3) straightforwardness of routines altogether impact the execution of entrepreneurial firms in emerging economies to overcome the obstacles set forth by institutional voids (Obloj, Obloj, & Pratt, 2010).

2.4 Institutional theory

According to North (1990), “institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interactions.” Conversely, institutional theory endeavors to explain the influence that contextual systems have on economic performance and organizational behavior (Hoskisson, 2000). Whilst developed economies tend to have transparent and advanced institutions, the opposite tends to hold true for developing economies, especially with regards to the financial and legal frameworks (Pissarides, 1999) These are typically characterized by relatively minor private savings, weak financial intermediaries, shallow financial markets, feeble property rights and immature legal systems (Pissarides, 1999) Thereby organizations that operate in said emerging markets face high bureaucracy and information processing costs due to the insufficient supply of well-functioning institutions (North, 1990). Hence the absence of institutions will have a negative effect on the entrepreneurial spirit and thus on the development of venture capitalism.

Over the course of the decade, institutional theory has become increasingly important in assessing the development of venture capitalism in emerging economies. Pissarides (1999) use Scott’s (1995) institutional context typology and propose that cognitive institutions, such as networks etc., will act as enablers for venture capitalist development in the absence of regulatory institutions.

2.5 VC Decision-making Process

Gompers and Lerner (2001) portray the exercises characterizing the venture capital industry as a VC-cycle, which is partitioned into three stages: Fundraising, venture investing and exiting venture capital investments. The primary stage is devoted to raising capital from investors. The second stage contains all the exercises from putting resources into the venture, monitoring and increasing net worth. In the third stage the investor leaves the venture and returns capital to the investors. The proposed model is in contrast to prior methodologies recommended. Whilst earlier research recognized no less than five stages, this model is lessened to three cycles.

The shared element of all models introduced is that the stages take after a successive procedure. After every stage a decision should be taken for either dismissing or further considering the business proposition. Literature suggests that at every stage the quantity of examined proposals diminishes, with under 10% coming to the last assessment stages and around 2% receiving funding (Hall & Hofer, 1993; Zacharakis & Meyer, 2000). This is not unanticipated given the asset intensive procedure (Petty & Gruber, 2011). Wells (1974, referred to from Hall and Hoffer, 1993) as one of the first academics to portray the venture capital procedure, presented a six-stage model which goes as follows: (1) Investment opportunities are hunt down; (2) Proposals are screened taking into account an arrangement of institutionalized questions; (3) Holistic assessments of the proposition are then trailed by dismissal or funding; (4) and (5) Active involvement in the venture's executive gatherings and operations; (6) Cashing out of the investment. Tyebjee and Bruno (1984) translated the VC exercises as a procedure comprising five stages: (1) Deal origination including the quest for imminent ventures; (2) Screening proposals as indicated by the VC's' venture criteria; (3) Evaluation of the proposition in detail; (4) Deal structuring enveloping the understanding of the particular terms and conditions between the VC and the entrepreneur; (5) Post-investment activities, characterizing the VCs' contribution in the management of the new venture. Contrary to Wells, Tyebjee and Bruno presented the new phase of deal structuring and compressed all exercises in the venture after the investment underneath post-investment activities and disregarded the exit-out stage. Hall and Hofer (1993) recognized eight particular phases of VCs. (1) Generation of an deal flow; (2) Proposal Screening; (3) Proposal appraisal in more detail; (4) Project assessment incorporating an individual experience with the entrepreneur; (5) Due diligence; (6) Deal structuring together with the entrepreneur; (7) Venture operations; (8) Cashing out of the venture. By including the proposition appraisal and the due diligence stage, Hall's model burdens the significance of the thorough examination of the venture before contributing. Robbie and Wright (1998) go above and beyond and propose a comprehensive and complete way to deal with envisioning the entire life cycle of a VC in ten stages; (1) Fund raising by VC; (2) Deal generation; (3) Initial screening of the opportunity; (4) Second screening, valuation and due diligence; (5) Deal approval and deal structuring; (6) Post-investment monitoring; (7) Investment realization concerning questions in regards to the exit circumstances and the realization of the investment; (8) Entrepreneur's exit and evaluation by VC; (9) Post-exit monitoring by VC; (10) Post-exit career planning including retirement, consultancy, venture by another financial investor and the managerial career of the entrepreneur. This methodology is exceptionally thorough and demonstrates all the activities that are included in the VC cycle. Particularly the raising money stage before the real process and the last stage demonstrating that leaving an organization does not finish the exercises of a VC help to round off the procedure. For VCs it is critical to stay informed concerning the investments they put resources into, to be prepared for future ventures. The model proposed reflects in more detail the methodology by Gomper and Lerner. Getting from the diverse methodologies, and also from samples utilized as a part of practice this thesis characterizes the phases of the venture decision making process as: "deal generation", "screening", "evaluation", "due diligence", "deal structuring", "monitoring" and "exit". Despite the fact that this model disregards the pre-venture investing stage, and the post-exit exercises, it concentrates on the most critical stages significant for this thesis (for review see Table 2).

<table>
<tr><th>Gomper & Lerner (2001)</th><th>Wells (1974)</th><th>Tyebjee & Bruno (1984)</th><th>Hall & Hofer (1993)</th><th>Robbie & Wright (1998)</th><th>Terminology for the Thesis</th></tr>
<tr><td>Fundraising</td><td></td><td></td><td></td><td>Fundraising</td><td></td></tr>
<tr><td rowspan="8">Venture Investing</td><td>Search</td><td>Deal Origination</td><td>Generating Deal Flow</td><td>Deal Generation</td><td>Deal Generation</td></tr>
<tr><td>Screening</td><td>Screening</td><td>Proposal Screening</td><td>Initial Screening</td><td>Screening</td></tr>
<tr><td rowspan="3">Evaluation</td><td rowspan="3">Evaluation</td><td>Proposal Assessment</td><td rowspan="3">Second Screening, Evaluation and Due Diligence</td><td rowspan="2">Evaluation</td></tr>
<tr><td>Project Evaluation</td></tr>
<tr><td>Due Diligence</td><td>Due Diligence</td></tr>
<tr><td>Venture Board Meetings</td><td>Deal Structuring</td><td>Deal Structuring</td><td>Deal Approval and Structuring</td><td>Deal Structuring</td></tr>
<tr><td rowspan="2">Venture Operations</td><td rowspan="2">Post-Investment Activities</td><td rowspan="2">Venture Operations</td><td>Post-Investment Monitoring</td><td rowspan="2">Monitoring</td></tr>
<tr><td>Investment Realisation</td></tr>
<tr><td rowspan="3">Exit VC Investments</td><td rowspan="3">Cashing Out</td><td rowspan="3"></td><td rowspan="3">Cashing Out</td><td>Entrepreneur's exit and Evaluation by VC</td><td rowspan="3">Exit</td></tr>
<tr><td>Post-Exit Monitoring by VC</td></tr>
<tr><td>Post-Exit Career</td></tr>
</table>

2.6 Drivers of the investment decision-making process

As a result of the developing private equity and venture capital investments, research had an interest for the investigation of the fundamental decision-making process of investors. Research in distinctive territories of this field has been done for nearly forty years (e.g. Broiled & Hisrich, 1994; Hall & Hofer, 1993; MacMillan, Siegel, & Narasimha, 1986; Petty & Gruber, 2011; Shepherd, Zacharakis, & Baron, 2003; Wells, 1974; Zacharakis & Meyer, 1998; Zacharakis & Meyer, 2000; Zacharakis & Shepherd, 2001). So as to highlight the most important results for this thesis, the deal generating and screening stages will be stressed. Petty and Gruber's work made an attempt to examine the distinctive criteria along the decision-making procedure. They figured out that the criteria with which ventures were rejected for investments changed throughout the venture process. While in the screening and further assessment stage, product related criteria ruled, later on financial valuation and deal structure criteria as well as firms not reacting were more applicable.

2.6.1 Deal Generation

Several studies distinguish three fundamental deal generation sources: referrals, direct approach by the entrepreneur, and dynamic inquiry by the VC. Three sorts of referrals are recognized. Referrals begin from the funding group. Regularly bringing about a typical practice called syndication, where the alluding financial speculator takes the part of the lead financial specialist searching for a co-investor. The primary point of interest is that the co-investor is empowered to expand his portfolio without having the managerial hassle (Tyebjee & Bruno, 1984). Referrals also come from previous portfolio organizations, individual connections or, through banks and investment dealers (Tyebjee & Bruno, 1984). The deal origination through referral is thought to be a standout amongst the most essential sources, albeit direct inquiry by investors themselves is turning out to be more successive Wells (1974. Emerging industries as well as the entrepreneurial nature of young ventures are described by high vulnerability and information asymmetries (Gompers & Lerner, 2001). Hampl, Wuebker and Wüstenhagen (2012) state that under such circumstances immediate, through individual connections between the investors and the referrer (Shane & Cable, 2002) and indirect, beginning from relative status of the referrer in its network system ties assume a urgent part. Regardless, individual ties (direct ties) are seen to be more vital in high instability settings.

2.6.2 Screening

A major part of studies concentrated on the diverse criteria connected by financial investors in their investment decision-making procedure. As a rule, two stages can be recognized: Firm-particular screening and a non-exclusive screen. While the firm particular screen checks for coordinating criteria between the investor and the investee, the non-specific screen then spotlights on the investee's qualities by and large by assessing the business plan (e.g. Seared & Hisrich, 1994; Tyebjee & Bruno, 1984). A few studies express that the beginning screening procedure of customary financial investors is guided by trust related general criteria, for example, the industry and geographic center, the favored financing stage (e.g. seed capital, which are related to their risk preferences and ultimately the fund policy (e.g. amount of investments) (Hall & Hofer, 1993; Tyebjee & Bruno, 1984).

On the off chance that these general criteria do not coordinate, the proposition is rejected and the non-specific screening begins. This infers for investors that the business plan should be adjusted to the necessities of the speculators. Artisan and Stark (2004) accentuate the requirement for strategies for success to be adjusted to the sort of speculators and along these lines suggest that distinctive investors are searching for diverse components in a business plan. Inside of non-specific screening, the business plan of the proposed venture with its distinctive segments, for example, the product idea, the management group, the marketing, the business framework and association, the realization schedule, the risks and the financing is dissected (Kubr, et al., 1998; Zacharakis & Meyer, 2000). Adjusted from an order by Hisrich and Jankowicz (1990), characterizing the distinctive components pivotal in the appraisal procedure of a strategy for success, Fried and Hisrich (1994) present three primary classifications: the idea, the management and returns. The idea includes components in regards to the development capability of the business, the evidence of idea of the business, the competitive advantage, the time to market and the achievability of capital necessities. Inside of the management, individual trustworthiness, initiative aptitudes, general management experience and reputation in applicable commercial ventures assume a pivotal part. Under the umbrella of profits, prospected way out open doors and the inside return rates, which ought to range somewhere around 30 and 70% and the general total return potential are taken a gander at. Different researchers distinguished comparative criteria, yet did not structure them in the exhibited way (Zacharakis & Meyer, 1998). Albeit broad research on the relative significance of the distinctive components of a business plan inside of the decision-making procedure has been led, there is no agreement. In any case, it is ordinarily concurred that the competitive advantage of the venture from a product and business sector perspective are imperative, and also a high development potential. Also, the management (because of components, for example, individual involvement in the field of the venture and the capacity of the group to experience great and terrible times) is by all accounts vital. To wrap things up, the normal monetary returns are stressed (e.g. Singed & Hisrich, 1994; Hall & Hofer, 1993;; Robbie & Wright, 1998).

2.6.3 Role of Behavioral finance in Decision Making Processes

As said beforehand, later research began to scrutinize the research design of the present led VC research (Petty & Gruber, 2011; Zacharakis & Meyer, 1998). These reflections are not new - Simon (1955) presented the idea of bounded rationality, expressing that people in their decision-making process confront three obstacles: Only a constrained information, restricted limit of preparing this information and time confinements. Under those unpredictable circumstances objective choices are improbable and force make-do rather than augmenting or improving decisions. This methodology might likewise be received in VCs' decision-making process, which regularly experiences the ill effects of those imperatives. Behavioral finance consequently guarantees that people are not completely levelheaded in their decision behavior (Akerlof & Yellen, 1987). Amos Tversky concluded pioneer work in the field of behavioral finance in the 1970s. In light of the idea of bounded rationality, they ventured to explore inclinations in decision-making process through the utilization of psychological neuroscience. In this connection they discovered that in circumstances of high instability, for example, the venture decision making procedure, people construct their choices with respect to alleged grapples, along these lines heuristics supporting their choice, which may prompt methodical defects in their judgment (Tversky & Kahneman, 1974). The prospect theory expresses that under circumstances of instability and risks, gains are weighted uniquely in contrast to misfortunes, while misfortunes have a higher emotional effect. Inside of decision-making process the individual in this way essentially concentrates on evading misfortunes and afterward on realizing gains (Kahneman & Tversky, 1979). Behavioral finance empowers the recognition of numerous inconsistencies inside of a VC's decision-making process. This is additionally reflected in the research that has recognized the part of cognitive biases and heuristics inside of the VC's decision-making process. Zacharakis and Shepherd (2001) recognize pomposity of the VC as a psychological inclination, contrarily influencing the nature of the decision-making procedure. Additionally, the arrogance corresponds absolutely with expanding measures of information accessible. Another intellectual predisposition as of late considered is the impact of experience on the precision of the choice. Experienced VCs are expected to apply an arrangement of heuristics built up through their expanded experience, unwilling to the consideration of new variables, which can prompt wrong choices (Shepherd, et al., 2003; Tversky & Kahneman, 1974). These are only a couple of cases speaking to the predispositions that are found in VCs' venture conduct. Keeping in mind the end goal to conquer these predispositions and to build the decision consistency distinctive models are recommended. Actuarial decision models separate the entire VC proposition into single segments, for example, the management, the product and the business sector and afterward reassemble them again to achieve a decision (Zacharakis & Meyer, 2000). Zacharakis and Shepherd (2001) further propose the presentation of counterfactual thinking where the VC should challenge the decision made by imaging distinctive situations or the utilization of a scorecard of criteria considered in past choices as a rule. Regardless, countering those researchers accepting that people under vulnerability and time confinements are not judicious and consequently may take secondary choices because of the use of heuristics in their choices, there is another field of examination that contends in an unexpected way. The intuitive use of heuristics and subsequently the decrease of accessible information in complex decision-making process can bring about better choices. Before an official decision in light of heuristics the quality is not clear. Whether heuristics impact the decision making process positively relies upon the structure of the decision making environment (e.g. Gigerenzer & Gaissmaier, 2011)

2.7 Evaluation Criteria

The key considerations at the pre-deal stage are entrepreneurs and the market while product/service and financials are less significant (Smith, Harrison and Mason, 2010). Indeed, most believe that getting to know the principals is the most important step of the process (Smith et al., 2010). It might consist of few calls or meetings but they usually do not conduct formal analysis. On the contrary they mostly rely on their gut feelings and intuitions instead (Haines et al. 2003). At this stage the importance of the entrepreneur and the management teams ability becomes essential. They look for experienced business professionals especially in the sector of their venture. Integrity, passion and commitment are a must (Payne, 2011; Mason and

Stark, 2004). In addition the management and the entrepreneur must show a real understanding of how to run and to value the business as well as a strong work ethic, honesty, integrity and openness. VCs like investing in entrepreneurs who have several successful startups on their resume. VCs expect a more hands-on role in the project than private equity, since they are then more concerned about the "chemistry" between the entrepreneur and themselves at this very early stage (Van Osnabrugge & Robinson, 2000; Haines et al, 2003; Mason & Stark, 2004). However, this is contradictory to the earlier findings of Riding et al. (1995) that "investor fit" is less of a consideration at this stage. Entrepreneurs who are unlikely to be successful in getting financing are those who (i) ignore the advice from a business angel on a revised business plan; (ii) see venture capitalists as a last resort of getting finance; and (iii) simultaneously approaching several venture capitalists at the same time (Mason & Harrison, 1996a). A critical aspect is the entrepreneur's willingness to surround him/herself with the most qualified and capable management team. Indeed, according to Haines et. Al (2003), people in the project are one of the most critical factors in VCs decision process. Since VCs will have to spend a lot of time with the entrepreneur/management, they consume considerable time investigating their background in order to understand whether they are the right people to work with and if they are qualified for that job. Feeney et al. (1999) noted that investors' perceptions of poor management is the primary deal killer. Nonetheless, it seems that VCs are not that worried about potential missing in the management team expertise because they believe they can fill the gap with their own experience and involvement (Van Osnabrugge & Robison, 2000). Although management ability is primarily important, they stressed that VCs put a great emphasis on the growth potential of the opportunity and the entrepreneurs' capability to realize it.

Mason & Roger (1996,1997) found that VCs give a more significant importance to the market conditions than to the entrepreneur's capability at the initial screening phase. This theory was supported by a research made by Mason and Harrison (1996 a,b) which highlighted that market-related issues were the most weighted deal-killer (entrepreneur-related considerations stood out at the second place instead). On top of this Megginson (2004) highlighted that the outline and the extent to which the VC industry is produced in developing economies is reliant on the institutional voids that are spoken to be in said framework, with the nations judicial framework being paramount. Moreover Cumming and MacIntosh (2002) have discovered that VC managers have a more prominent propensity to put resources into cutting edge SMEs in high requirement nations, whilst leaving through IPOs as opposed to buybacks, which prompt higher re-turns. Cummings et. al (2004) highlight that lawful frameworks impact administration structure and thus under better or more proficient legitimate frameworks, the quicker the beginning and screening of arrangements; the higher the probability of syndication; less every now and again supports of the same association are utilized to put resources into a given organization; the less demanding the board representation of investors; reducing the likelihood that speculators oblige intermittent money streams before exit; and the higher the likelihood of interest in cutting edge companies.

The next stage of the evaluation normally involves VCs reading the business plan, general trading history and financial projections. They might want to examine the realism of financial information, to drill into the details, to gather additional information about the potential market and to assess the management team (May and Simmons, 2001; Feeney et al. 1999). They usually don't perform formal analysis of the business but rely on the information they gather from their networks and make decisions based on these information, their intuitions and their gut feelings (Haines et al.2003). They usually rely on market evaluation conducted by the entrepreneur: they can derive the competences and other attributes of the entrepreneur (Fiet 1995; Haines et al. 2003). In addition they use to schedule a series of formal and informal meetings in order to assess the balance in skills, experience, competences and teamwork of the management team (Freeney et al., 1999; May and Simmons, 2001).

VCs appear to be quite tolerant about the industry sector, understanding the generic business is the sufficient requirement (Van Osnabrugge & Robinson, 2000). On the contrary, other studies showed that the majority of VCs tend to invest only in business in which they have experience and knowledge in order to minimize risks and to add value to those opportunities that they invest in (Mason & Rogers 1996,1997).

In terms of products characteristics, they look to be more open-minded to novelty products (Suanpong, 2011). Several studies supported also that VCs are looking for exciting investments in new and unique products (Mason & Harrison, 1996a; Freeney et al., 1999; Mason & Stark, 2004).

From the literature, just briefly explored above, we can extrapolate six main key factors that VCs look at during their evaluation process of new investments.

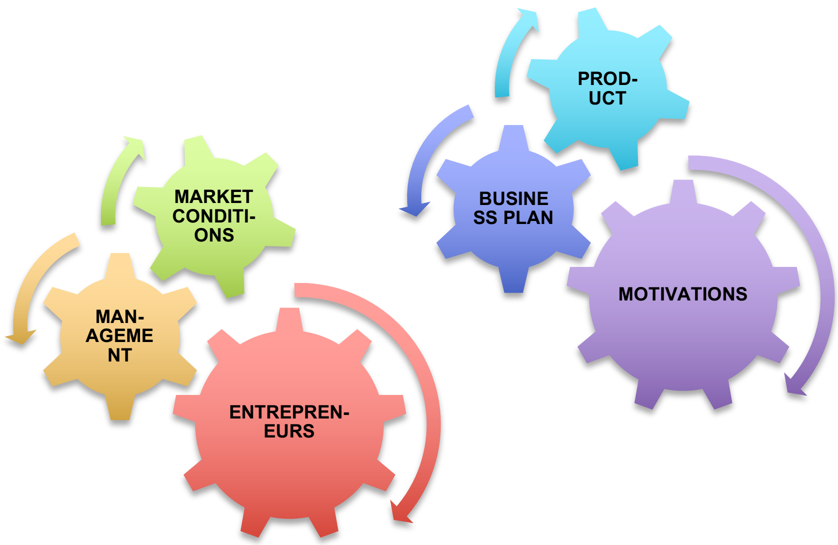

Figure 7: Decision-making criteria Source: Own Diagram

2.8 An Actionable Framework

Based on their definition of structural emerging economies, Khanna and Palpeu (2010) have outlined a so-called *Actionable Framework* that will allow market players to develop a fundamental understanding of the underlying market structures of the emerging economies they are investigating. Familiarity with these indicators will allow them to not only "catalogue the symptoms in an overall risk assessment but tailor their strategies so as to avoid mistakes and to beat their rivals" (Khanna & Palepu, 2010). By doing so the players can address the following four questions:

1. In this particular market, which market institutions are working, and which institutions are missing?
2. Which parts of our business model can be adversely affected by these institutional voids?
3. How can we build competitive advantage based on our ability to navigate institutional voids?
4. How can we profit from the structural reality of emerging markets by identifying opportunities to fill voids, serving as market intermediaries?

Since different companies have different objectives the set of strategic choices to be assessed may vary, depending on the market environment and history. According to Khanna and Palepu (2010) the following four strategic choices exist:

- **Replicate or Adapt?** Institutional voids affect the execution of business models. Can the business be replicated or does it have to be altered to surpass institutional voids?
- **Compete alone or collaborate?** Both emerging market-based companies and multinational giants have advantages in the settings of emerging economies. Which synergies exist and how can they be exploited? As a foreign MNC, does one have to acquire local talent to compete?
- **Accept or attempt to change market context?** Will the business model strive to exploit and change the market environment by filling the gaps of institutional voids or will it accept them and derive a strategy to work around the difficulties?
- **Enter, wait, or exit?** Grounded on a fundamental assessment of the institutional voids in the market place, should an entry be attempted, today or in the future? Or does the market environment rule out any success of the business model within the given emerging economy?

3 Methodology

The theoretical findings and the brief historical review of the VC ecosystem in Brazil provide the basis for the practical analysis, which will be carried out in this part of the work. We will start by introducing the goal, the target audience, the methodology and the limitations of the study.

3.1 Methodological Procedures

We used a mixed methods research methodology "which combine qualitative and quantitative approaches in the methodology of a study" (Tashakkori & Teddlie 1998). In a first step we will closely examine a multitude of VC funds and their experience with institutional voids in Brazil to deduce critical parameters that affect the entry decision-making process of VC firms to Brazil. In order to determine the relative importance of each of the decision-making criteria we designed a survey based on predetermined parameters that, according to literature, make-up each of the identified evaluation criteria.

We can acknowledge from the literature that the figure of the entrepreneur and the management team are the most significant variables taken into consideration by VCs during their investment process (Payne, 2011; Mason & Stark, 2004; Van Osnabrugge & Robinson, 2000; Riding et al., 1995; Mason & Harrison, 1994, 1996a, 2002; Haines et. al., 2003; Freeney et al., 1999; Wetzel, 1981, 1998; May & Simmons, 2001; Haines et al (2003); Mason & Stark, 2004). Especially the literature seem divided into two main streams when it comes to set a ranking: some identify the entrepreneur as the key factor whereas others the management team.

The research question of the thesis focuses on this topic: are those two variables the most important ones for foreign VCs who are contemplating on coming to Brazil? And, in particular, which one is the most crucial during the VCs decision-making process?

As highlighted by the above research questions, the purpose of the thesis is twofold: from one hand to analyze whether the main criteria of evaluation derived by the literature are also the most significant for VC when analyzing the entrance to an emerging country such as Brazil and, on the other hand, to investigate how the presence of institutional voids change the landscape derived from the literature review.
In order to do this we set up a questionnaire based on point unipolar scale.

The questionnaire identifies 40 criteria used by venture capitalist as examined in the literature review. These criteria were distributed into six groups based on the most important factors:

- Criteria related to reputation and competence of the **entrepreneur**
  Literature: Payne (2011), Mason and Stark (2004), Van Osnabrugge and Robinson (2000), Riding et al. (1995), Mason and Harrison (1994, 1996a, 2002), Haines et. Al (2003), Freeney et al. (1999), Wetzel (1981, 1998)
- Criteria related to the quality of the **management team**
  Literature: Freeney et al. (1999), May and Simmons (2001), Riding et al (1995), Haines et al (2003); Mason and Stark (2004)
- Criteria related to the **market**
  Literature: Khanna and Palepu (2010), Mason and Roger (1996,1997), Mason and Harrison (1996 a,b), Van Osnabrugge and Robinson (2000)

- Criteria related to the **product**
  Literature: Suanpong (2011), Mason and Harrison (1996a), Freeney et al. (1999), Mason and Stark (2004)
- Criteria related to **financial aspects**
  Literature: May and Simmons (2001), Feeney et al. (1999), Haines et al.(2003), Fiet (1995), Mason and Roger (1997), Dixon, 1991; Wright and Robbie, 1996
- **Other criteria**: quality of the business plan, bureaucratic issues and approval required, personal enjoyment and satisfaction
  Literature: Tversky and Kahneman (1974), Smith et al. (2010)

The questionnaire (below) was sent to a sample of 10 venture capital firms from foreign countries that have all had experience with building up a presence in Brazil. The criteria underneath indicate the choice of the sample group:

- Active Venture Capitalist
- Currently operating in Brazil
- In charge for any position (President, Managing Director etc.) which enables him/her to make investments in early-stage companies belonging to any kind of industry

The author used Qualtrics Survey Software (QSS), a free online program that enables to easily build and distribute the survey. This function provides you with a link, which directly connects you to the questionnaire. Having done some research the author contacted the potential interviewees via e-mail, ultimately gaining replies of 17 different venture capital investors from 10 different VC firms who gave their contribution to the research providing a pretty fair database for further analysis. Indeed, QSS collects all the answers and allow the downloading of the data in order to make further operations (reports, graphs, calculations, etc.). The questionnaire was organized as followed:

The Entrepreneur:

Past leadership record
Coachable, open to suggestions and critics
Attention to details
Reliable Personality (Integrity and honesty)
Long-term vision
Passionate and committed
Past Entrepreneurial Experience
Exhibit a strong work ethic
Compatible Personality
Past relationship with found providers
Business realism
Ability to raise external finance
Relevant Industry Experience
Relevant Education
Willingness to relinquish control
Determination and ability to sustain efforts

The Management Team:

Marketing, finance and management skills of the team
Quality of the referrers
Team with mutual acquaintance
Team of people with different background

The Market:

Efficiency of capital markets
Property rights
Market accessibility
Transaction costs
Legal Framework
Market size
Market Transparency
Market competition
Market Infrastructure
Investor's knowledge, experience and network in the market
Market growth rate

The Product

Innovative product
Existence of product functioning prototype or with demonstrated market
Product Differentiation and uniqueness

Financial Aspects

Project return
Credit history of the business and of the entrepreneur
Time to market

Other Criteria

Bureaucratic issues and approval required
Quality of the business plan
Personal enjoyment of the investor in the business

In a next step we will undergo qualitative analysis by using a "case study approach" that is a reliable way of generating knowledge in fields of study, where research is generally scarce (Eisenhardt, 1989). Eisenhardt and Graebner (2007) highlight that "cases are discrete experiments that serve as replications, contrasts, and extensions to the emerging theory" (p. 25) and are thus capable of composing new research results. According to Ji (2008), case study research is the preferred method for research involving where the main questions are "how" or why", where a researcher has little or no control over behavioral events and where the focus is a contemporary (as opposed to an historical) phenomenon. In term of this research paper, the research focus fulfills all of these criteria as it is a) seeking to define how institutional voids affect the entry decision making process, b) the researcher has no impact on the behavior of VC funds and c) the topic is not well researched and historical data is not manifold. Furthermore, with the case study approach we seek to test our propositions against two different examples of venture capital investments that are on the one side internet-based early stage investments that are still in the start-up phase and on the other hand, hard infrastructure ventures that are in the development stage of a firms life cycle.

3.2 Data analysis process

As mentioned before the research was conducted following a two-step analysis that will first look at VC funds that are already in Brazil, followed by an analysis of VC funds that have made plans to enter the market have however yet to do so. Through an ongoing re-evaluation process we will re-define the limits of this research paper. The following list of events will take you through the step-by-step analysis process of the research paper:

1. Development of a long-list of possible interview partners. Clearly separate between two different categories: Foreign VC firms that have yet to arrive in Brazil and foreign VC firms that are active in Brazil.
2. On the basis of the literature review and the Actionable Framework by Khanna and Palepu (2010), create a semi-structured interview primer that will be sent to the interview partners before the interview.
3. Interview Phase I: Hold the interviews with active VC firms in Brazil. Try to establish lessons learned with handling institutional voids in Brazil. How did they respond? How did institutional voids affect their decision?
4. Analysis Phase I: Analyze the research results for active VCs in Brazil using mean-average analysis. Develop first framework of lesson learned.
5. Implement Research Results from Analysis Phase I into the interview primer that you will use to contact VC firms looking to enter Brazil (Interview Phase II). Focus on the Question of how these findings will affect their decision-making process? Based on the Actionable Framework, will they enter, wait or not move at all?
6. Analysis Phase II: Conclude findings into answering the research question. How do institutional voids affect the entry decisions of foreign VC firms that want to come to Brazil? Analysis will be conducted on the basis of commonly mentioned factors to withhold or to enter. We will develop possible implications for future action.

3.3 Target Audience and Test Group

The target audience of the research paper will foremost include all academics who are currently researching in the filed of venture capital, institutional voids and FDI to Brasil furthermore it will be aimed at any potential foreign VC investor looking to move to Brazil as well as local entrepreneurs who are keen to learn about the decision-making criteria of foreing investors. It is the goal of this study to be published to serve as an indicator and toolkit for foreign venture capital firms that want to come to Brazil and for the ones that are already present and are looking for further investment opportunities. Possible relevance might also exist of any other foreign investment and entrepreneurship vehicle including but not limited to PE funds, angel investors, accelerators or incubators.

The test target group consists in part of the leading foreign VC funds that have already entered Brazil and in part of leading VC funds that have the intention to move to Brazil, have however not yet done so. Since the raw number of foreign VC funds that have come to Brazil is relatively small, we will concentrate on the firms that have a history of investments in various fields and that have been in Brazil since quite some time. Generally speaking, since returns have often not been materialized yet, it is very difficult to separate the successful from the not so successful ones. For the foreign VC firms that have not yet come to Brazil we will consider the following criteria: visibility, investment activity, success rate and reputation as a globalized VC firm. If the shift in investment behavior, as anticipated by Wallaca & Holda (2013) (Chapter 1.1 Introduction), will take place and the Brazilian ecosystem will evolve from a me-too industry into a technological pioneer, we will look to focus our target group on investors who have a history in investing in groundbreaking ventures rather than existing ideas in different contexts. Since we will be learning a lot along the way, we will hold a flexible schedule of possible experts in order to craft the study in such a way that it will best reach its objective. A first scan of the landscape has lead to a short-list of host firms for interview partners:

Figure 8: List of Interview Partners Source: Own Diagram

For the second part of the analysis, we have conducted expert interviews on selected cases with experts of two leading German VC capital funds who have in the past been hesitant to enter the Brazilian market but are planning to do so in the near future. The following two venture cpaital funds have been interviewed during the case analysis part of this research paper.

Figure 9: Case Study Participants Source: Own Diagram

3.4 Limitations

Since the perspective study is aimed at achieving the academic degree of Master of Science there will be certain limitations in depth as opposed to more detailed analysis undertaken by dissertations and PHD thesis. For instance, after having achieved a long-list of target companies to be interviewed, we will focus only on two funds that have not yet come to Brazil in our case-study analysis. Whilst we will not feature all research results, we will highlight major findings of the expert interviews. Furthermore this research paper is ultimately aimed at the entry decision-making process of foreign VC firms that want to come to Brazil, have however not yet done so. Meaning we will solely focus on the entry decision-making process of these perspective firms. We will not investigate possible industries; make any suggestions about financial volume, geographical areas of interest or any other operational decisions undertaken after having arrived. This would go far beyond the boundaries of this research paper.

4 Research Findings

The research was conducted according to a two-step approach. The first part was conducted through the use of structured interviews based on a 5-point unipolar scale that aimed at determining the importance and the weight that was put upon the various evaluation criteria of possible ventures. The second part of the research was a case study analysis with one of Germanys leading Venture Capital Firms, Early Bird, which used the findings of Part 1 to figure out the importance of institutional voids in the deal decision-making process.

4.1 Part 1: Evaluation Criteria

For the first part of the research the author conducted structured interviews with 25 VC firms that have either invested in Brazil from abroad already, or that have past experience in any capacity with foreign investment in Brazil. The reason for this being that the original sample size was too small to be representative.

The unipolar scale is used to determine the relevant importance of specific characteristic for an issue. Therewith the target can, not only make judgments about distinct issues but subconsciously also ranks these variables against each other. Below is a graphical depiction the 5-point unipolar scale used in the research.

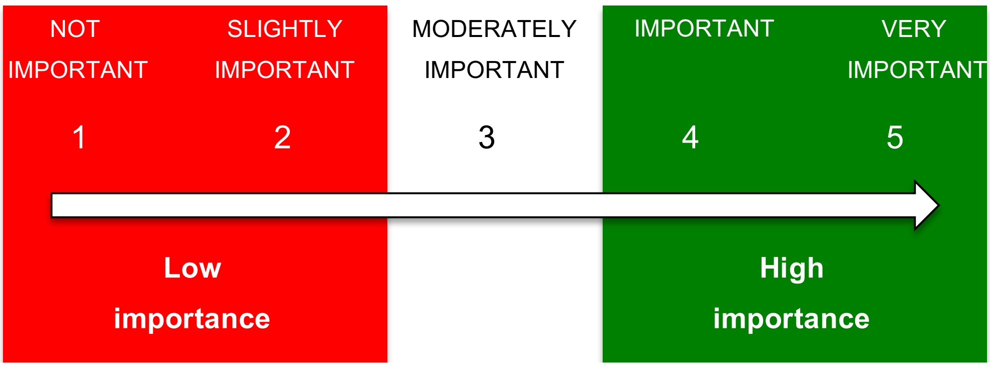

Figure 10: Five point unipolar scale Source: Own Diagram

The assumptions that are related to the 5 data points are the following:

- An average of 1 to 2 signifies a criteria of low importance;
- An average of 4 to 5 signifies a criteria of very high importance;
- An average of 3 signifies a criterion of medium importance.

4.2 General Results

As mentioned beforehand the 6 categories that where primarily researched where: the entrepreneur, the management team, the market environment, the product, the financial aspects and other criteria.

Each variable was valued based on a set of sub-questions that belonged to each one of the categories and the mean response to these questions was brought together to form a mean for the variable.

The total average responses for each category can be seen in the table below:

VENTURE CAPITAL EVALUATION CRITERIA	MEAN OF RESPONSES
Entrepreneur	**3,90**
Management Team	**3,93**
Market	**4,31**
Product	**4,12**
Financial Aspects	**3,84**
Other Criteria	**4,04**

Table 2: VC Evaluation Criteria Source: Own Diagram

The following graphical representation of our results helps us to adequately analyze the data to see which evaluation criteria are most important to foreign VC investors in Brazil:

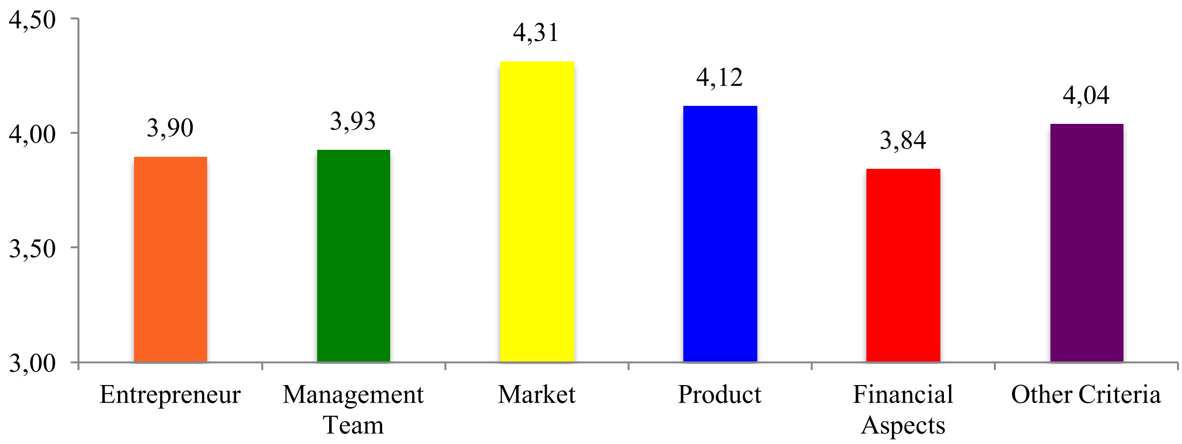

Figure 11: Overall Results Source: Own Diagram

As we can see from the Data above, we find that the Market, as well as the Product holds the most significant importance to foreign VC investors currently invested in Brazil. Both of these categories have average means of beyond 4, which signifies that they are of high importance. Although the other four criteria all average in the high threes section, we allocate to them a mediocre importance for foreign investors coming to Brazil. One Aspect that becomes evident is that none of the criteria is ranked in the low importance category of our 5-point unipolar scale. This however does not come as a surprise as our criteria have been previously approved through other research and are in any case all relevant criteria for financial investors when making a decision about specific ventures in the screening and evaluation phase.
In order to dig deeper into our understanding of these criteria we will, in the next step, take a look at each criteria and the results gathered therein. Therewith we will try to find key insights on how institutional voids in Brazil affect these individual aspects and whether the results explain the allocation.

4.2.1 Entrepreneur

The entrepreneur is an essential key to any venture. He is the founder, the visionary, and the heartbeat of a newly formed company. Hence it does not come as a surprise that the interviewees have ranked this criterion with 3,90 indicating a moderate to high importance when screening investment opportunities. Below we find a graphical representation of how this mean came about and which aspects of the entrepreneur are most highly valued by the investor:

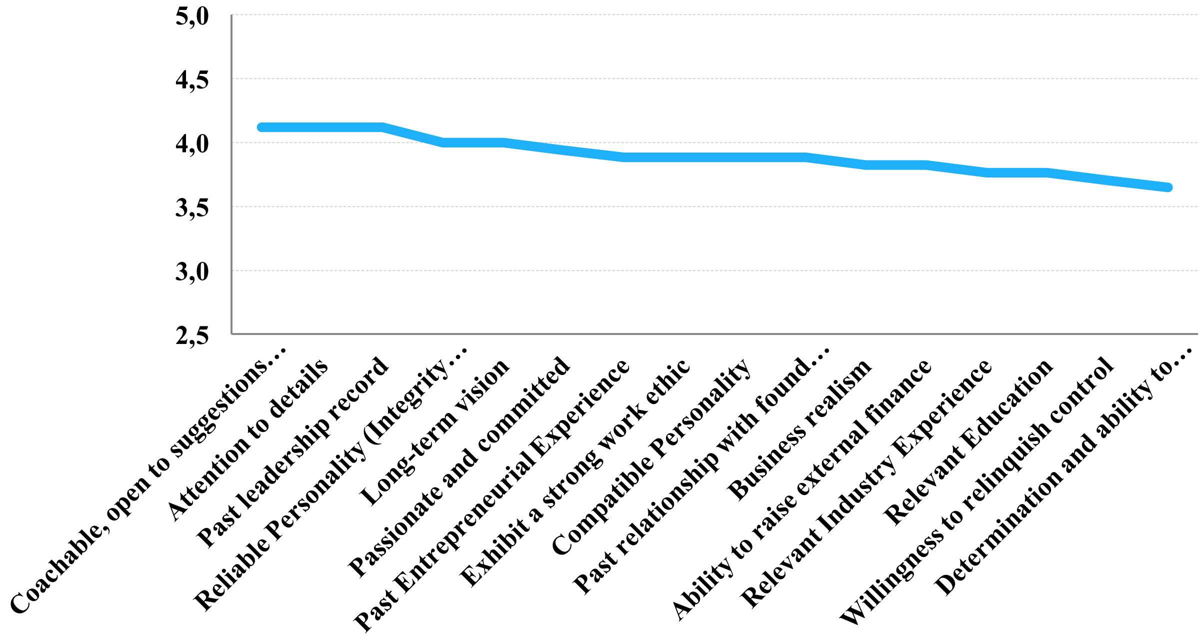

Figure 12: Entrepreneur Results Source: Own Diagram

As we can see from the four highest ranked results (coachable, past leadership experience, past entrepreneurial experience and reliable personality) we find that all aspects are related to the innate character of the entrepreneur. When coming to Brazil, foreign investors value experience, the professionalism and the ability to execute of an entrepreneur. When linking this to Brazil's fragile market environment, pegged with institutional malfeasance, we find that investors rely on entrepreneurs that can get things done and know their way around the market environment. Given Brazil's high level of bureaucracy we understand that investors seek an entrepreneur that has experience with doing business in Brazil and is innovative to find ways through the barricades of environment.

On the other end of the spectrum we find aspects like the long-term vision, the determination to sustain and the willingness to relinquish control. From an institutional standpoint we can identify the "low" rating of long-term vision and the willingness to relinquish control as interesting aspects to our research question. It has become increasingly evident that foreign investors see the entrepreneurs as the army on the ground who fight the dirty fight. They are involved in the day-to-day business of the venture and should not focus on the vision and the long-term prospects. These are aspects that are more of a concern for the investors who have the luxury of having a less influenced viewpoint and can hence more adequately determine the performance of the venture in terms of its long-term goals. The willingness to relinquish control, is another aspect that fits to the aspect that foreign investors are not keen on taking away the control of the entrepreneur as they tend to live in other countries and are not capable of taking over the control of the firm as they do not have the expertise to do so in the first place.

4.2.2 Management Team

The graphical representation below highlights the different aspects that we where relevant for the criterion of the management team. When ranking them according to their importance to investors we see that there is a minor gap between the values that average out at 3,93. Whilst it does not come as a surprise that the marketing, finance and management skills of the team are of integral importance to the investor we see that the quality of referrers score is very high. With respect to institutional voids we assume that this is due to the fact that the transparency of the market for foreigners is quite low. Hence when foreign investors come to Brazil they largely base their opinions about the management team on the reviews that they get from third parties and the analysis of the referrers. As we heave learnt earlier, network effects are very important in growing economies. If you want to get something done you need to know the people in the right places, hence the resume of the management team and their standing the economy is of pivotal importance. The lowest ranked aspect is the cultural diversity within the venture, which does not strike us as a surprise since foreign investors usually invest in businesses that are meant for the Brazilian market (maybe South America but generally not beyond), which explains why the cultural diversity is not an integral part to the investor’s decision making. Quite to the contrary, in foreign countries you are aiming to find a management that has the local expertise, which they most likely do not have if they come from somewhere else.

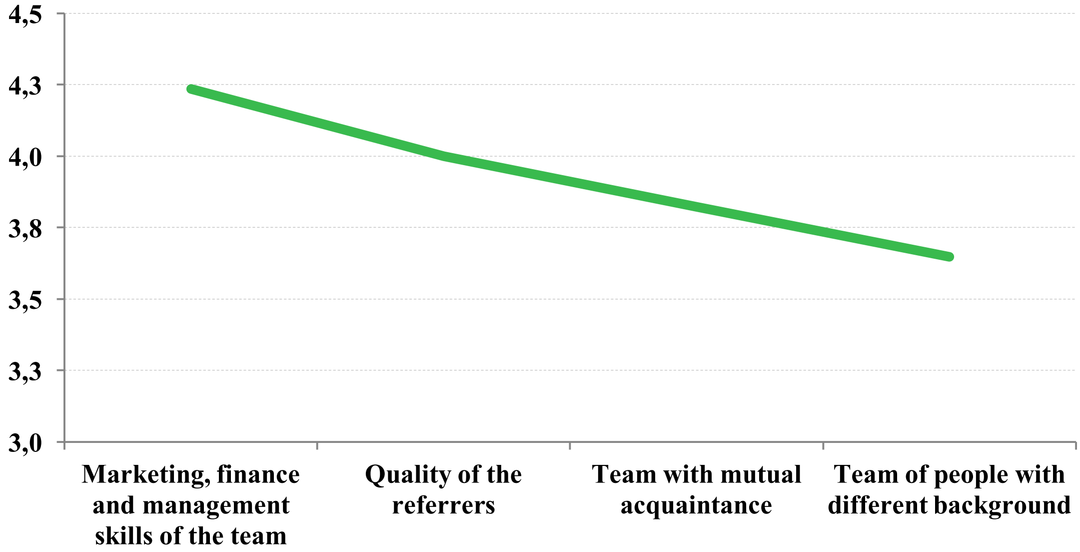

Figure 13: Management Team Results Source: Own Diagram

4.2.3 Market

According to our results, the market environment is the most important aspect for foreign investors when contemplating a business investment into the Brazilian market. The average response of 4,31 to our questions indicates this quite significantly. As we have learnt previously from Khanna and Palepu (2010), transaction costs, the efficiency of capital markets as well as the legal framework and property rights are key determinants to a countries "ease of doing business", which is ultimately and indicator for the entry decision process of foreign investors.

Below you will find a graphical representation for our responses, ranked from highest to lowest:

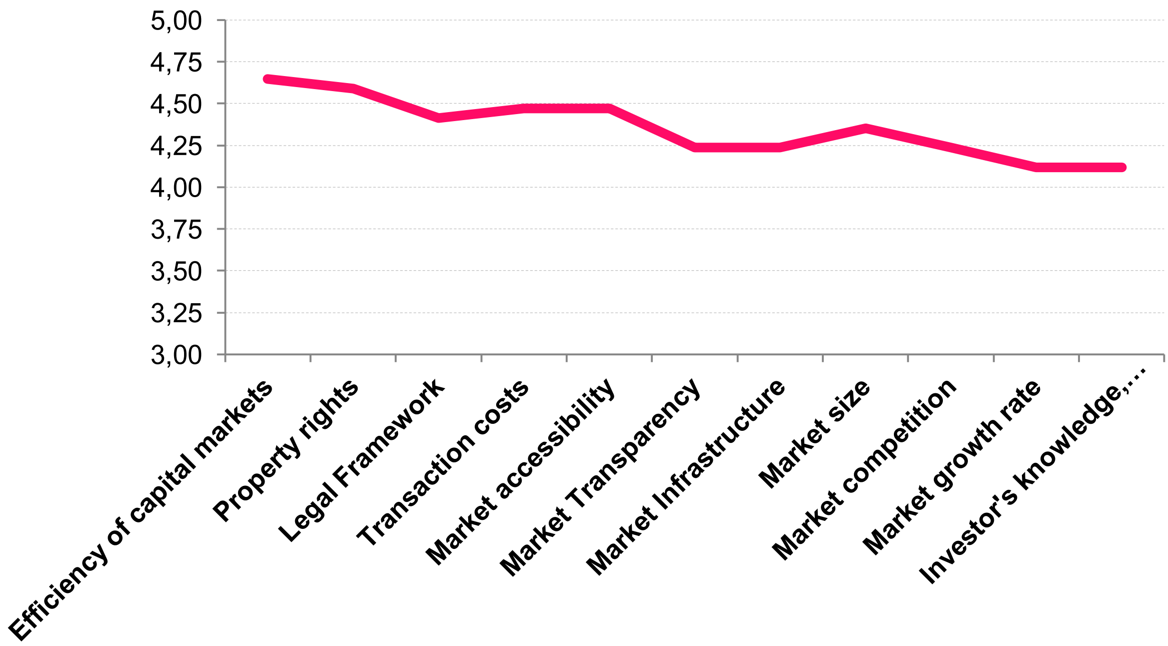

Figure 14: Market Results Source: Own Diagram

As becomes evident, all four proprietary aspects as indicated by Khanna and Palepu (2010) are ranked among the first four figures in terms of their importance. Efficiency of capital markets is, along with property rights, the highest-ranked aspect in our research. This is not very surprising as it is a crucial part to any financial investment. When thinking back to the six different stages of the VC cycle it becomes evident that it is present in every of the three main stages, investment, holding period and exit. When you make the investment it is crucial that you have capital markets to finance the investment, when you are holding the business you need have access to finance to ensure the longevity of the venture and when you exit your investment you need capital markets, especially when the sale is made through trade-finance or an IPO. Hence this indicates that the presence of efficient capital markets offers a safe haven for investors to successfully prosper with their ventures.

Property rights are also a major issue when it comes to venture capital investments in emerging economies such as Brazil. Whenever you invest into a new market, VC investors are concerned with the level of protection they have from competitors, intruders and copiers. This is especially the case with VC investments as they typically finance growth companies in niche markets where either the product or the market is not mature and there will be an upraise in the market. Naturally the investors hence seek to protect his venture through the proper framework as to ensure that his intellectual property is sustained and properly protected. The third measure is the legal framework, which is closely linked to the property rights. In terms of VC and financial investments it is particularly relevant in terms of the regulations on foreign direct investment (FDI). The legal framework governing foreign investments in Brazil was enacted in 1962 and has not been substantially changed since, promoting a sense of stability to the investors. The National Monetary Council under the supervision of the Ministry of Finance establishes Exchange control and foreign investment policies in Brazil and the supervision of the day-by-day control over foreign capital inflows and outflows is performed by the BACEN. Since 1995, the Brazilian Government does not differentiate between foreign and domestic investments ruling, that:

- No prior government authorization neither minimum investment approval nor local participation condition is required for FDI;
- No government approval or consent is required for remittance of profits abroad, as long as the company does not have a negative net equity;
- Brazilian law to the repatriation of foreign capital imposes no minimum period.

This outline briefly highlights why the legal framework is of such great importance: whenever a VC investor makes an investment in a foreign economy he is subject to the rules and regulations of that economy. This means that no matter what terms of trade exist in his domestic market, the investor is subject to Brazilian law when doing business in Brazil, hence giving rise to the importance of the transparency and enactment of a solid legal framework, which protects all market participants equally.

The fourth measure of our questionnaire is the transaction costs within an economy. Transaction costs by definition are the costs that arise when doing business in a marketplace; they serve as an indicator for efficiency, fairness and the absence of bureaucracy. For VC investors environments with high transaction costs are especially harmful since they hinder and slow down the growth phase of any given venture. High transaction costs are one of the key variables considered by the World Bank in their “ease of doing business” measure since they make it more difficult for companies to maintain their profitability and to ensure their efficiency. Of course however it must also be mentioned that in the past there have been many VC backed investments into ventures that ensure the reduction of transaction costs, which indicates that the high rating of this category is not only backed by its fundamental importance but also by the strategic purpose that motivates some VC investors.

Market competition, market size and market growth are all ranked relatively lower than the previously mentioned categories. This has two reasons in our opinion: (1) VC investors typically look for niche markets where there is little to no competition yet present and (2) the market size and the market growth rate is typically high in emerging economies (especially when considering BRICs). Hence investors do pay attention to the fact that the market in which a venture is present is growing and of respectable size, yet this comes as somewhat of a precondition anyway, which is why it is not ranked much higher. In regular VC investment decisions the market growth rate is a key determinant for VC backed firms since it typically helps as an indicator to the sustainability of a firms growth rate. If the market grows, the firm (given it is run efficiently) most likely will grow as well, over the long run diverging towards the market growth rate.

4.2.4 Product

Product, the second highest-ranking criteria in the decision-making process of VC investors is the product. As we can see from the graph below we find that especially in the innovative content of the product that is being marketed is highly relevant for the investors. The following two criteria are also highly important as they support the fact that is any investor's credo, which states that no matter how good the entrepreneur, if the product is bad and there is no market for it, you will not succeed in the long run. With regard to institutional voids we largely see this criterion to be unrelated to the state of the market. Although it has to be mentioned that in particular with respect to emerging economies it becomes evident that products or markets that have a higher chance of being innovative and disrupting since institutional voids serve as niches for new products and markets to create a new horizon.

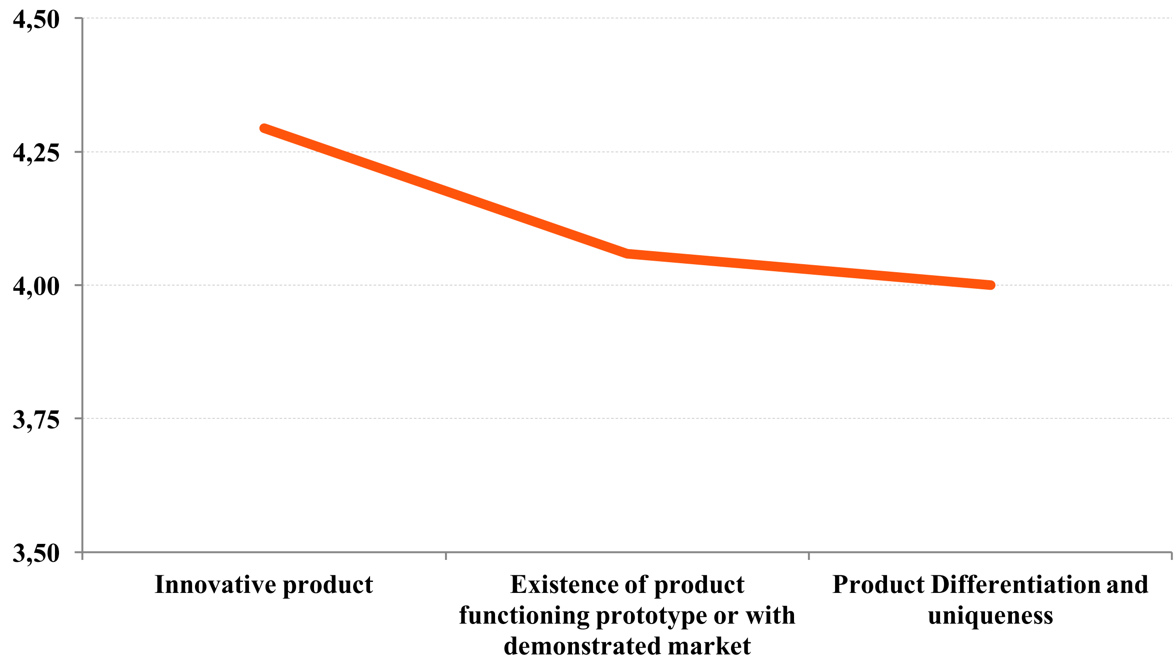

Figure 15: Product Results Source: Own Diagram

4.2.5 Financial Aspects

The financial aspects of a venture are of medium importance to the foreign investors, ranking the lowest among all six categories with an average mean of 3,80. Though venture capitalists are by nature financial investors who should be motivated by monetary gain, it does not strike us as a surprise that the financial aspects are somewhat neglected in relation to the other factors. Especially when working with emerging economies, foreign investors are taking a bet. They are taking a risk that they might not encounter if they would be doing business in their home country (in this case mostly Germany). This is undermined by the score of the latter to categories, the credit history and the time to market. As we have mentioned earlier, Brazil as an emerging economy is ranked poorly in the “Ease of Doing Business” Analysis of the World Bank, and, with the absence of reliable financial data also lacks transparent information that could adequately sustain the credit history of the business or the entrepreneurs. Hence it does not come as a surprise that foreign investors who are aware of the risk they are taking of entering Brazil sometimes neglect these factors.

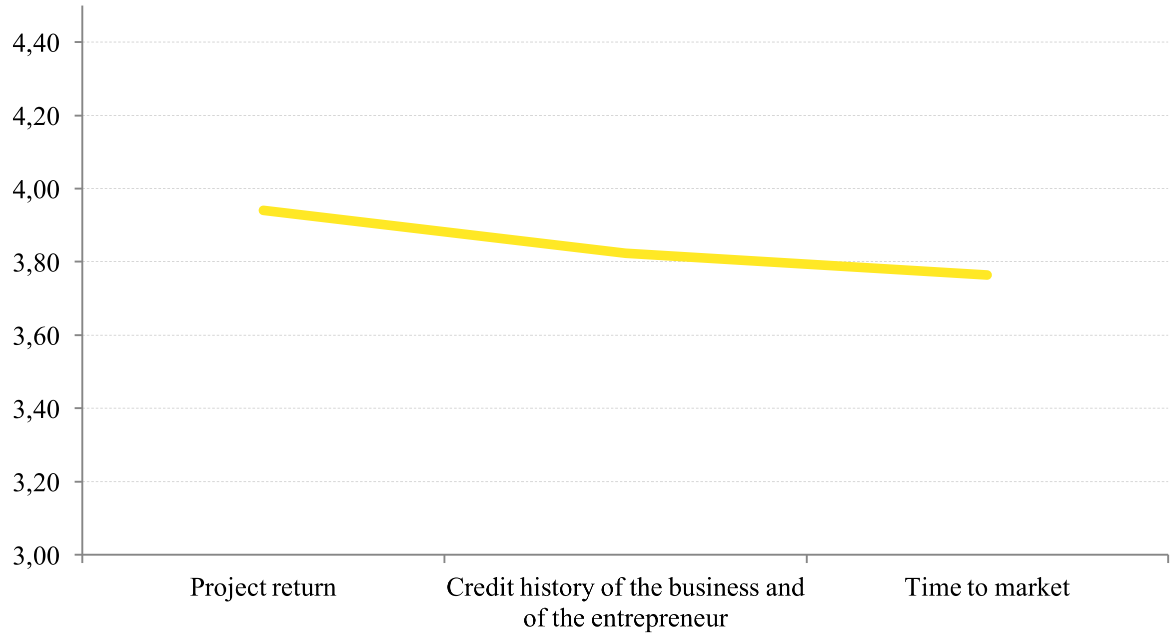

Figure 16: Financial Aspects Source: Own Diagram

4.2.6 Other Criteria

Other relevant criteria that affect the decision-making process of foreign investors coming to Brazil are the bureaucratic state of the economy, the quality of the business plan and the personal enjoyment of the entrepreneur of the venture. Whilst the latter comes as no surprise to be largely irrelevant to financial investors entering an emerging economy, the quality of the business plan and bureaucratic issues are of high importance. In terms of institutional voids, the bureaucracy is a huge determinant and effect of the presence of institutional voids. Institutional voids by nature are caused by and cause a lack of transparency and inefficiency, which are multiplied if the bureaucracy is high. Brazil, being one of the most bureaucratic states in the world as earlier derived, is a poster book model for this. When entering a foreign market, foreign financial investors enter a realm that he has little insight to and little know-how with. They rely largely on expertise of local personnel, which hinders them of every finding a direct path to a transparent oversight of the project. A bureaucratic environment multiplies this problem and the presence of information asymmetries and hence is a huge factor for investors when making the decision to enter an economy such as the Brazilian one.

As in most VC decision-making processes the business plan is the main tool, which assists the investor to understand the business model and gain insights into the viability of the product. With the business plan the entrepreneur has the chance to present his business to investors and hence has offers a reasoning as to why the investor should invest. For foreign investors, as opposed to domestic investors, the business plan is therein even more relevant since they gain insight into the economy and the depth with which the venture has analyzed uncertain market economy they are about to move into. Hence, the business plan is especially important for ventures that seek foreign investment as they try to lure the foreigners in and pose their investment as attractive as possible.

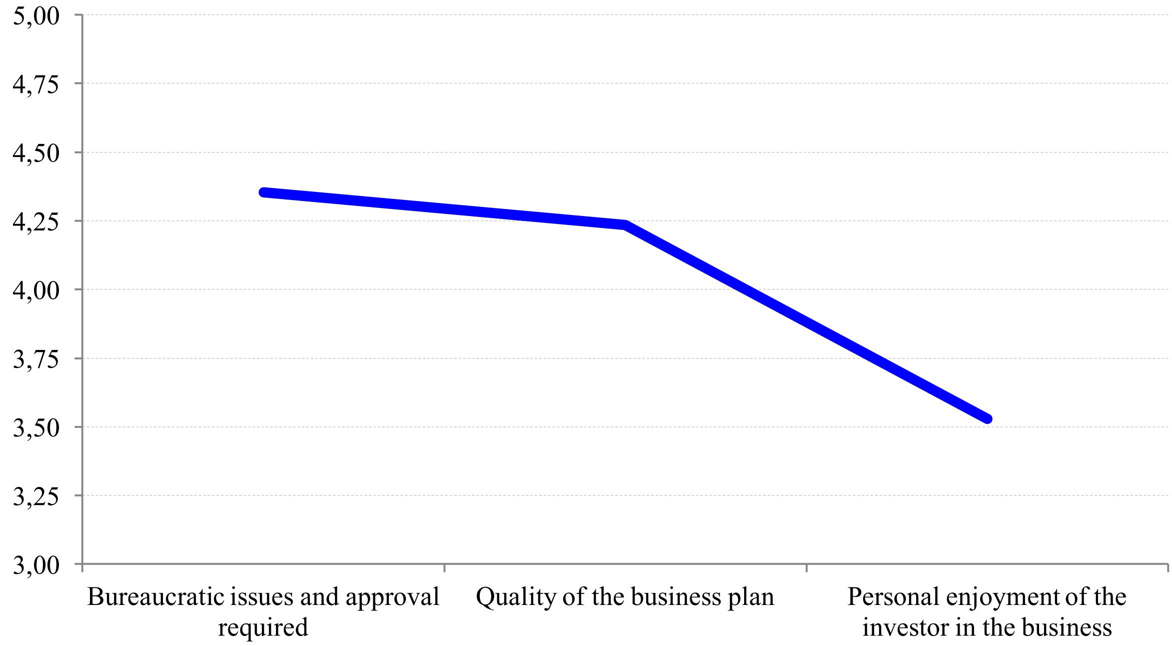

Figure 17: Other Criteria Results Source: Own Diagram

4.2.7 Key Takeaways

As has become evident in this first part of our research, we find that the market environment is the key evaluation criteria for foreign VC investors that have come to Brazil. Whether it is the legal environment, the accessibility to capital markets or more rudimentary demographic facts like potential market size and growth-rate, the ecosystem within which a VC ventures operates is crucial to the investor. With respect to the other criteria this makes sense since the market environment is generally the aspect that foreign investors from more developed countries try to exploit when leaving their domestic economy for an emerging one. Emerging economies like Brazil offer more market niches, and more easily exploitable opportunities for venture investments. However it is not only a question of opportunity but also a question of possibility since the framework has to exist for a successful FDI to take place. Which is why this criterion carries so much interest with foreign investors.

Furthermore we find that the target environment of the investment affects many of the other decision criteria. For instance when examining the entrepreneur, foreign VC investors seek experienced professionals who can adapt to the demands of foreigners and have a high capability of executing the business plan. In terms of the product, investors rely heavily on the innovative nature of the product, so as to disrupt the status quo in the emerging economy. Thereby it has often become evident that foreign investors invest in business models that have already been successful in their home markets (e.g. e-commerce start-ups). Moreover we have seen that in Brazil, the quality of the referrers and the strength of the network therein are of a very importance to international investors. Since their expertise with the foreign landscape is only of theoretical nature they rely on the know-how of experienced professionals who should be well connected in the market in order to overcome obstacles that the presence of institutional voids present.

Hence we can deduct the twenty most important aspects that determine the entry decision of foreign VC investors coming to Brazil to be the following:

#	Question	Criteria	Mean
1	Efficiency of capital markets	Market	4,65
2	Property rights	Market	4,59
3	Market accessibility	Market	4,47
4	Transaction costs	Market	4,47
5	Legal Framework	Market	4,41
6	Market size	Market	4,35
7	Bureaucratic issues and approval required	Other Criteria	4,35
8	Innovative product	Product	4,29
9	Marketing, finance and management skills of the team	Management Team	4,24
10	Market Transparency	Market	4,24
11	Market competition	Market	4,24
12	Market Infrastructure	Market	4,24
13	Quality of the business plan	Other Criteria	4,24
14	Past leadership record	Entrepreneur	4,12
15	Coachable, open to suggestions and critics	Entrepreneur	4,12
16	Attention to details	Entrepreneur	4,12
17	Investor's knowledge, experience and network in the market	Market	4,12
18	Market growth rate	Market	4,12
19	Existence of product functioning prototype or with demonstrated market	Product	4,06
20	Reliable Personality (Integrity and honesty)	Entrepreneur	4,00

4.3 Part 2: Case Study Analysis

The next step of our analysis will take the most relevant aspects found in Part 1 and cross-examine them with two case studies taken from expert interviews with VC investors from Germany. By doing so we will seek to prove our propositions made beforehand and analyze how, in a variety of contexts, the level to which our answer could differ from being a) an opportunity or b) a threat.

The investors where chosen in such a way to ensure that they cover a broad range of incentives. One being a VC firm interested e-commerce and web 2.0 applications and the other investing in infrastructure projects to increase the efficiency of transportation in developed as well as emerging economies. In order to analyze the results according to the information that we gathered in the first part of the research paper, we used a traffic-light-analysis that asked the interviewees to chose between three criteria: disagree (red), impartial (yellow) and agree (red).

4.3.1 Nordwind Capital GmbH

<u>Introduction:</u>

Through Nordwind Capital, renowned ultra-high net worth individuals and endowments invest personally in majority stakes of companies' that have significant growth potential. Nordwind Capital's investors bring a variety of entrepreneurial backgrounds to the table and can open doors that would otherwise be closed for the company. The investors are very approachable and happy to support the management or share their experience if management asks for it. In the past, the network possibilities provided by the investor basis has proofed extremely helpful for the management of the portfolio companies. The investor base of Nordwind Capital consists of individuals and families, most of who are well known in Germany and even beyond. In the past, the partners of Nordwind Capital successfully financed a variety of transactions (e.g. majority acquisition in the online printing industry, residential and commercial real estate, several venture capital investments) on this "investment club" basis. In this way, a total transaction volume of more than 200 million euros has been invested in recent years. Contrary to traditional venture capital funds, Nordwind Capital invests through a simple and transparent German holding company solely established for the purpose of one transaction, i.e. there are no offshore holding structures.

Due to the entrepreneurial background of the investors, the preservation of the "life-time achievement" of the seller and the responsible treatment of the portfolio companies (e.g. through a conservative and solid financing structure) are crucial elements of the strategy of Nordwind Capital.

<u>The Project:</u>

One of Nordwind Capitals major investments is the majority stake in the transportation venture called Cargobeamer. CargoBeamer is a new technology to increase the efficiency of land transport of goods. It consists of a new, proprietary rail-car and terminal technology, which enables trains to automatically load and unload all standard road transport semi-trailers without their engines (trucks) and thus combine rail and road transport with hitherto unachievable efficiency. The resulting cost reductions are enormous: Depending on local cost structures and distances travelled, CargoBeamer transport is both 20 to 50 % cheaper and significantly faster than normal road transport. CargoBeamer therefore is not an evolution but a revolution for the transport of cargo on land, which fundamentally changes the „rules of the game“. CargoBeamer is for land transport what the invention of containers was for sea transport. In addition, CargoBeamer will be a major contributor to the reduction of CO_2 and “SMOG” pollution, the avoidance of further traffic congestions and accidents and will provide major savings in highway build and maintenance costs: Only 30-50 CargoBeamer trains are needed to realize the life time gasoline savings equivalent of 1 Mio electric passenger cars. CO_2 emissions are reduced by 63%. Energy consumption of land transport is reduced by 74% CargoBeamer is cheap to implement and will be highly profitable: Even if produced in Germany, one train consisting of 36 cars costs only 5.8 Mio €uros and one station only 12 million euros. Even if extremely high cost savings are being passed on to other transport participants (railways, logistic companies), pay back times will be very short and return on assets and equity extremely high CargoBeamer is not a project but operational reality: the system has completed testing and received official approval by the European Railway Authority (EBC-CERT) and is being supported by the EC Commission (Marco Polo Project). Financing is available and CargoBeamer is presently tooling up for mass production of trains and stations. Since 2013, CargoBeamer is operational with daily rail transports and an automated road/rail terminal on the site of Volkswagen AG

Wolfsburg plant. Given the growth of the modern economies and the associated increases in land transport, and given that road infrastructures in many countries can not follow the growth rate, CargoBeamer will be an extremely beneficial – if not essential – technology to increase the efficiency of land transport, to avoid increasing traffic congestions, accidents, pollution and waste of energy.

Having become operational in Germany, the company was looking to expand internationally including FDI into Brazil. According to the CEO Brazil was an ideal destination due to the high congestion on the highways and the large inter-city transportation of goods (especially in the Sao Paulo and Rio de Janeiro region).

Interview Results

Although the investment seemed promising, Nordwind Capital was hesitant to invest in the next round of investment that was due to finance Cargobeamers expansion to Brazil. Below you will find a graphical representation of the interview results (exact comments from the investor are found in the appendix):

#	Question	Criteria	Traffic Light
10	Market competition	Market	disagree
11	Management skills	Management Team	disagree
14	Coachable	Entrepreneur	disagree
16	Market growth rate	Market	disagree
20	Past leadership record	Entrepreneur	disagree
27	Team with mutual acquaintance	Management Team	disagree
29	Compatible Personality	Entrepreneur	disagree
33	Team of people with different background	Management Team	disagree
34	Credit history	Finance	disagree
37	Willingness to relinquish control	Entrepreneur	disagree
38	Time to market	Finance	disagree
40	Personal enjoyment	Other Criteria	disagree
6	Market Transparency	Market	partial
9	Market size	Market	partial
12	Innovative product	Product	partial
15	Attention to details	Entrepreneur	partial
17	Investor's knowledge	Market	partial
21	Product Differentiation and uniqueness	Product	partial
22	Project return	Finance	partial
28	Exhibit a strong work ethic	Entrepreneur	partial
31	Past relationship with fund providers	Entrepreneur	partial
1	Efficiency of capital markets	Market	agree
2	Property rights	Market	agree
3	Legal Framework	Market	agree
4	Transaction costs	Market	agree
5	Market accessibility	Market	agree
7	Bureaucratic issues	Other Criteria	agree
8	Market Infrastructure	Market	agree
13	Quality of the business plan	Other Criteria	agree
18	Quality of the referrers	Management Team	agree
19	Functioning prototype	Product	agree
23	Past Entrepreneurial Experience	Entrepreneur	agree

24	Reliable Personality (Integrity and honesty)	Entrepreneur	agree
25	Passionate and committed	Entrepreneur	agree
26	Relevant Industry Experience	Entrepreneur	agree
30	Business realism	Entrepreneur	agree
32	Ability to raise external finance	Entrepreneur	agree
35	Relevant Education	Entrepreneur	agree
36	Long-term vision	Entrepreneur	agree

As we can see from our traffic-light analysis, we find that in the infrastructure investment case of Nordwind Capital, there have been several factors that where judged differently to our previous findings. From our previous short-list of the twenty most important factors, we find that ten have been ruled either partially relevant or not relevant at all, whilst on the other hand, nine factors where ruled to have a higher importance than previously examined.

Of the irrelevant measures, it becomes evident that regular management text-book approaches are benevolent to infrastructure projects, where the ability to drive, to innovate and to pursue new territories are more important, hence the high importance of entrepreneurial experience. Furthermore the coachabaility of the entrepreneur was not valued during this project, since the investors themselves would have been new to this field of business and hence would not have had any valuable, proven advice to give. This is proven by the fact that investor's knowledge was also only partially valued by Nordwind Capital when making their decision on the investment. What is interesting is that one of the highest ranking measures, market transparency, was seen as only partially important to the project because the venture aimed at increasing efficiency and transparency in the market and hence was hooked to the existence of such inefficiencies in the market.

Contrary to our previous results, some aspects where see as highly relevant for Nordwind Capital when contemplating the decision to make a move to Brazil, which all concerned the criteria of the entrepreneur. With respect to the project that Nordwind was looking to undergo, this does not seem very surprising. Building a freight transportation network in Brazil under the current market situations seemed highly doubtable and adventures. Hence the entrepreneur needed to be someone who would go to great lengths to achieve his goals, have a lot of experience with the industry and be able to execute based on a network within the organizations that had their grip hold on this industry. Furthermore, apart from the entrepreneurial toolkit, the entrepreneur needed to be able to find external finance for the mini-projects that the project entailed. According to CargoBeamers business plan, individual freight trains would be and terminals would have to financed individually and through SPV's that would have needed to be set up within the confines of the Brazilian economy.

Overall, according to our interview results with Nordwind Capital, it has become evident that the project of CargoBeamer was an overambitious endeavor that needed a lot of work and a long-term vision. Due to the limited visibility, the bureaucracy, the bad infrastructure in place and the inefficiencies of the capital market, Nordwind Capital rejected the project and CargoBeamer has yet to make a move to markets outside of Europe.

4.3.2 Early Bird – Venture Capital

Introduction

Early Bird Venture Capital Fund is a leading VC fund from Germany that manages roughly 1 billion USD in assets. In the fourth generation of investing, they focus on technology and health technology sectors along the four primary stages of a firm's life cycle. Currently it is the largest venture capital firm in Europe outside of the UK.

Their main investment philosophy is to invest with non-linear disruptive companies that are entering a market with a strong technology or a strong product. Their average investment size ranges from 200 thousand Euros to 20 million Euros.

Due to hype in the German start-up scene they have relocated their offices from Hamburg to Berlin, Germany. During their four generations of establishment they have sought investments in over 26 different countries in five different continents, however are yet to enter the Brazilian market.

The target

In 2011/2012 Early Bird was approached to co-head an investment into the e-commerce start-up Oppa with headquarters in Sao Paulo Brazil. The start-up was due to change the landscape of the furniture retail market in Brazil, which was dominated by brick-and-mortar stores. Harvard Graduate and Founder Maximilian Reichel was keen to monetize on the rising and moneyed middle class in Brazil that have been seen to change their purchasing behavior, focusing more and more on online sold goods. The most attractive purpose to this investment was that the big European brick-and-mortar retailers of furniture like IKEA, where not present in Brazil yet and the industry was set for a paradigm shift. Early Bird however decided not to invest in the company and it was later made public that Peter Thiel, one of the original investors in Facebook made a substantial commitment to fund the company in early 2012.

Interview Results

The results to our traffic light analysis can be found in the table below:

#	Question	Criteria	Traffic Light
14	Coachable	Entrepreneur	disagree
15	Attention to detail	Entrepreneur	disagree
17	Investor's knowledge	Market	disagree
19	Functioning prototype	Product	disagree
20	Past leadership record	Entrepreneur	disagree
27	Team with mutual acquaintance	Management Team	disagree
29	Compatible Personality	Entrepreneur	disagree
33	Team of people with different background	Management Team	disagree
34	Credit history	Finance	disagree
40	Personal enjoyment	Other Criteria	disagree
2	Property rights	Market	partial
7	Bureaucratic issues	Other Criteria	partial
8	Market Infrastructure	Market	partial
12	Innovative product	Product	partial
16	Market growth rate	Market	partial
21	Product Differentiation and uniqueness	Product	partial
22	Project return	Finance	partial
23	Past Entrepreneurial Experience	Entrepreneur	partial
26	Relevant Industry Experience	Entrepreneur	partial
28	Exhibit a strong work ethic	Entrepreneur	partial
32	Ability to raise external finance	Entrepreneur	partial
35	Relevant Education	Entrepreneur	partial
37	Willingness to relinquish control	Entrepreneur	partial
1	Efficiency of capital markets	Market	agree
3	Legal Framework	Market	agree
4	Transaction costs	Market	agree
5	Market accessibility	Market	agree
6	Market Transparency	Market	agree
9	Market size	Market	agree
10	Market competition	Market	agree
11	Management skills	Management Team	agree
13	Quality of the business plan	Other Criteria	agree
18	Quality of the referrers	Management Team	agree
24	Reliable Personality (Integrity and honesty)	Entrepreneur	agree
25	Passionate and committed	Entrepreneur	agree
30	Business realism	Entrepreneur	agree
31	Past relationship with fund providers	Entrepreneur	agree

36	Long-term vision	Entrepreneur	agree
38	Time to market	Finance	agree
39	Determination and ability to sustain efforts	Entrepreneur	agree

Since Early Bird, primarily makes investments in foreign markets into technology based Internet platforms; it does not come as a surprise that they considered the investment in Oppa in 2012. When analyzing the interview results of our traffic light analysis, it becomes evident that there are again several factors that contradict our research results from the first part of the study.

First and foremost we find that coachability, again, is not seen as a major factor to the investment decision, which hints that, when going to a foreign economy, like Brazil, VC investors rely on the expertise of the entrepreneur to achieve their goals and weigh the creative autonomy higher than the autocratic control over the venture. Strikingly, property rights, bureaucratic issues and market infrastructure, three of our highest ranked aspects in part one, where ruled partially relevant by the investors of Early Bird. The reason for this being that although these issues remain relevant to the business environment, they constitute the playground for the opportunity the Early Bird sees in the market. This is interesting as it characterizes a behavior that has been seen in other markets by other venture capital firms like Rocket Internet for instance, who deliberately exports proven business models to emerging economies that exploit inefficiencies within the soft or hard infrastructure in the market, like the absence of e-commerce shopping opportunities etc. Henceforth, the presence of institutional voids do not repel the investor, contrary to this, they attract the investor with the opportunity to make profits of these market failures.

Our previous point is highlighted when we compare our findings to our previous findings from the Nordwind case. There, market size and market growth where illustrated as not important but not crucial factors. In the case of Oppa, market size is seen as highly important as it indicates the customer base of the e-commerce start-up. Over the Internet all Internet users are potential customers, hence the venture relies heavily on vast market in order to generate high volumes of sales. In the initial months of such investments, ventures even tend to sacrifice the bottom line with low prices in order to gain as many customers as possible, marketing their product very heavily. Morevover, as previously with the Nordwind case, we see an overabundance of entrepreneurial aspects that have been rated higher than previously expected. The root cause of this being that in the Oppa case, although the product, i.e. the furniture is custom designed, it is not the key competitive factor of the business. It is the supply-chain excellency and the ease-of-use that gives Oppa its competitive edge over other brick-and-mortar businesses, allowing customers to deliberately chose their furniture at home and have it delivered in time to their home without too much hassle. Hence entrepreneurial skills like business realism, passion and commitment, long-term vision and then time-to-market are accredited to be the success factors with these types of businesses.

According to Early Bird Investor Christian Nagel, the reason why Early Bird did not partake in the investment in Oppa was because of the uncertain exit opportunities. Although even in 2012 there have been some namely investment, primarily through redpoint ventures who set up a Brazilian fund, investments where yet to materialize, hence causing for an absence in a safe exit environment that is a key part of Early Birds investment decision. Furthermore, despite being an interesting business plan, Oppa was driven by inexperienced foreign entrepreneurs. This fact, in addition to the necessity to bolster a vast supply chain in a market that seemed to be slowing down after the global financial crisis seemed not to be the right move at the right time.

5 Conclusion

5.1 Key Findings

Brazil has in the past ten years seen substantial growth to its economy and is slowly moving towards becoming a developed country. Although Brazil is undoubtfully a country of the future, the presence of institutional voids prevents it from reaching its promised potential. With regard to its PEVC ecosystem this translates into what, amongst experts, is considered to be a fragile growth environment with limited deal flow and minimal FDI. Due to VCs quintessential importance for the entrepreneurial economy in terms of job creations and start-ups support, many academics have tried to investigate their nature, their evaluation criteria, their market and performances (chapter 3). Indeed it is of extreme importance for entrepreneurs to understand VCs' investment decision-making process: they can design their project presentation in a way that is likely to suit the expectations of this category of financiers. However, on top of what is universally known, it has become a necessity to adapt the rules of the game according to the market environment that a proposed venture lies within. Henceforth this thesis was designed to analyze how the classical decision-making model changes in the Brazilian context that is depicted by institutional voids.

As studied in the literature VCs traditionally invest in companies that they will “scale”: they are willing to take part of the management and help the company grow until they exit after a certain period (Payne, 2011). According to the literature retention rate at the initial stage as well as at the final one is really high. The “negative mind-set” described by Mason and Rogers (1996) seems to be confirmed in reality. As the VCs find a potential pitch, they undertake a quick review of whether the investment fits their funds investment criteria. During the initial screen VCs do no appear to be really interested in financial or bureaucratic issues. Indeed, according to the interviews and the questionnaire results, venture capitalists sometimes do not request for a concise business plan but prefer to be briefed about the business verbally or in person. For Smith and Harrison and Meson the key criteria at the initial stage are the entrepreneur and the market while the product/service and the financial issues are less significant.

According to the literature, the screening process adopted by venture capitalists normally involves several talks and meetings. The due diligence is pretty fast and the main evaluation criteria of this further stage normally involve VCs reading the business plan, general trading history and financial projections. Indeed, both for the literature and for the interviewees, “getting to know the entrepreneur “ is seen as a very important step of the process (Smith et al., 2010b).

The questionnaire was not divided into an initial and a further stage. So the respondents tried to weight all the variables of the questionnaire taking the entire investment decision process into account.

The results of the questionnaire also supported the literature review: the figure of the entrepreneur and the management team got high averages. The questionnaire highlighted that the criteria related to the product are of importance since the category product hit a high average. According to the research made by Mason and Harrison, the questionnaire results and the interviewees market-related issues are of extremely importance. With regard to the research we have seen that in the Brazilian context the figure of the market has skyrocketed to the top.

Within the figure of the entrepreneur both the results of the questionnaire and the interviews supported the literature. Indeed, VCs do not seem to be really interested in the entrepreneur past relationships with other fund providers, past records or financing activities. On the contrary, they look way more at the entrepreneur's passion and commitment, personality and experience. The questionnaire results and the two case studies suggested that passion and commitment, integrity and honesty, work ethic and determination are very significant variables. As highlighted by the studies of Smith et al. (2010) and by the interviews, VCs prefer to invest in the industry they are familiar with, which indicates that moving out of the sphere of original influence does propose a "big-step" for VCs. The questionnaire results also confirmed the necessity of an educated management team since they substitute for the gap with their own experience and involvement (Van Osnabrugge and Robison, 2000).

Regarding financial considerations, the venture capitalists in this study tend to favor product/service with some degree of novelty.

According to the literature and to the interviews the financial aspects do not have significant importance but, within the category, the questionnaire results highlight that project return has a quite high importance. A particular element that comes to light from the interviews and from the analysis of the case studies is that the bureaucratic issues are really important to foreign VCs whereas for the other investors they would not be that significant.

With regards to our significantly high averages and weightings of the market environment we relate this to Megginson (2004) who highlighted that the outline and the extent to which the VC industry is produced in developing economies is reliant on the institutional voids that are spoken to be in said framework, with the nations judicial framework being paramount. Moreover Cumming and MacIntosh (2002) have discovered that VC man-agers have a more prominent propensity to put resources into cutting edge SMEs in high requirement nations, whilst leaving through IPOs as opposed to buybacks, which prompt higher re-turns. Cummings et. al (2004) highlight that lawful frameworks impact administration structure and thus under better or more proficient legitimate frameworks, the quicker the beginning and screening of arrangements; the higher the probability of syndication; less every now and again supports of the same association are utilized to put resources into a given organization; the less demanding the board representation of investors; reducing the likelihood that speculators oblige intermittent money streams before exit; and the higher the likelihood of interest in cutting edge companies.

As we can see from the brief synopsis above, literature has extrapolated the meaning and impact institutional voids have on the investment decision-making process of venture capital firms. Especially the judicial environment has, in previous research been seen as the major determinant for successful conduct. It has been valued as a necessity for healthy investments to be made. Contrasting this with our research that on the one hand validates the proposition that institutional voids especially in the presence of poor legal systems offer benefits to fast-growing VC backed ventures like Oppa.

Furthermore, when relating our findings back to the impact of behavioral finance on the decision making process where we determined that experienced VCs are expected to apply an arrangement of heuristics built up through their expanded experience, unwilling to the consideration of new variables, which can prompt wrong choices (Shepherd, et al., 2003; Tversky & Kahneman, 1974), we find that especially with respect to experienced VC firms new variables often become neglected. This fact has been especially confronted by our research, which signifies that information transparency, especially when entering new markets and environments is particularly important.

Concluding both the survey results and the case study analysis, what remains is: Mille viae ducunt homines per saecula Romam – many roads lead to Rome. From our findings we can extrapolate a finding that characterizes the nature of our research. No matter in which country you, where you want to invest or with which people you do it, there will always be an opportunity somewhere.: an opportunity to grow businesses, reap profits and exit delicately. Although it is out of question that institutional voids affect the entry decision of foreign VC investors coming to Brazil, it remains to be judged by the specific context of the investment whether it is in positive or in a negative way. With regards to our learning's from the Literature review we can relate this takeaway to the research conducted by Bjerregaard & Lauring, (2012: 31) who, amongst the entrepreneurs they studied found one who is effective in "bridging institutional contradictions" by distancing himself from local traditions and thus openly bringing in new values, while the other entrepreneur draws heavily on traditional normative patterns to ensure legitimacy for his entrepreneurial activities.

As far as this research paper has it limits, it seems as though for the coming years, Brazil will be a flourishing ground for internet based venture capitalism who will reap the profits of the existence of niche markets, undeveloped institutions, lack of information and so on. Other more sophisticated, deep rooted, institutions like the countries infrastructure, the transportation system etc. will continue to be within the sphere of influence of Brazilian investors who understand the technology and the habits of the markets better than foreigners, who are scared by the unknown jungle of bureaucracy, concrete and confusion that Brazil undoubtedly seems.

5.2 Proposition Test

This research paper aims to portray the affect present institutional voids have on the entry decision-making process of foreign VC investors coming to Brazil. Summarizing our two-stage analysis we have come to a diverse set of results whose definitive analysis goes beyond the confines of this research paper. Yet, based on our proposition we can derive a set of conclusions that give an outline to the answer of our research paper.

Proposition A: Synergies with local Funds will drive growth

Though not definitely answered, in the ongoing analysis of this paper we have seen that local expertise is a deciding factor that drives entry decisions. Hence partnering up through limited partnerships with Brazilian VCs could prove to be a winning strategy.

Proposition B: Institutional voids bear opportunity

Evidently, this is a key insight derived from Part one of our research and backed up by the Early Bird case analysis which highlight foreign VCs see institutional voids as an opportunity to enter the market in a niche segment ad monetize on the growing base of internet users in Brazil.

Proposition C: Institutional voids will fend off investments that rely on an efficient and transparent market economy.

Proven by our CargoBeamer example, which clearly highlights that, the importance of market structures to be in place for tangible innovations to be made that go beyond the sphere of the Internet.

As we can see all three of our propositions have been proven according to the context that they are applied to, yet do not hold true with respect to the entire universe of samples.

5.3 Further Research

In the opening chapter of this paper, we introduced the matrix of the VC market landscapes that exist in todays world, placing Brazil in the fragile growth segment according to the research done by Wallace et. al. (2013). Although all three of the forneamed scenarios are likely, it is probably safe to assume that Brazil will remain a fragile growth environment that is set to use the attention focused on the country by the two sportive events to their advantage. Yet the presence of institutional voids like bureaucracy, corruption and increased crime cripple the country to achieve their goals. Whilst this paper highlights how these voids affect the entry decision a possible further study could aim to understand how the Brazilian ecosystem is transforming through time and how the evaluation criteria are customized according to which segment the market is currently moving in. On top of this it might be of interest to researchers in this particular field to investigate what impact institutional voids have had so far on actual foreign investments that have already taken place.

The conclusion of this study reflects the great diversity in venture capital population, informality and the personalized nature of their evaluation criteria. Thus it is advised that entrepreneur who is seeking venture capital investment to make himself familiar with the VCs profile in order to better understand the motivations and expectations behind their investments and be more persistent in the search for a VC.

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7 Appendix

7.1 Raw Research Results

Entrepreneur

THE ENTREPRENEUR							
QUESTION	**ANSWER**					**TOT. N°**	**MEAN**
	1	**2**	**3**	**4**	**5**		
Past Entrepreneurial Experience	0	0	6	7	4	17	**3,88**
Relevant Industry Experience	0	0	7	7	3	17	**3,76**
Relevant Education	0	0	7	7	3	17	**3,76**
Past leadership record	0	0	5	5	7	17	**4,12**
Reliable Personality (Integrity and honesty)	0	0	6	5	6	17	**4,00**
Exhibit a strong work ethic	0	0	7	5	5	17	**3,88**
Compatible Personality	0	0	7	5	5	17	**3,88**
Determination and ability to sustain efforts	0	0	9	5	3	17	**3,65**
Long-term vision	0	0	6	5	6	17	**4,00**
Business realism	0	0	7	6	4	17	**3,82**
Willingness to relinquish control	0	0	9	4	4	17	**3,71**
Coachable, open to suggestions and critics	0	0	5	5	7	17	**4,12**
Attention to details	0	0	5	5	7	17	**4,12**
Past relationship with found providers	0	0	7	5	5	17	**3,88**
Passionate and committed	0	0	7	4	6	17	**3,94**
Ability to raise external finance	0	0	6	8	3	17	**3,82**
Average Mean	**3,897058824**						

Management Team

MANAGEMENT TEAM							
QUESTION	ANSWER					TOT. N°	**MEAN**
	1	2	3	4	5		
Team of people with different background	0	3	4	6	4	17	**3,65**
Team with mutual acquaintance	0	2	5	4	6	17	**3,82**
Marketing, finance and management skills of the team	0	0	4	5	8	17	**4,24**
Quality of the referrers	1	0	3	7	6	17	**4,00**
Average Mean	**3,93**						

Market

Market							
QUESTIONS	ANSWER					TOT. N°	MEAN
	1	2	3	4	5		
Investor's knowledge, experience and network in the market	0	0	4	7	6	17	4,12
Market size	0	0	1	9	7	17	4,35
Market growth rate	0	0	5	5	7	17	4,12
Market Transparency	0	0	3	7	7	17	4,24
Market competition	0	0	3	7	7	17	4,24
Market accessibility	0	0	1	7	9	17	4,47
Market Infrastructure	0	0	3	7	7	17	4,24
Legal Framework	0	0	2	6	9	17	4,41
Efficiency of capital markets	0	0	0	6	11	17	4,65
Transaction costs	0	0	1	7	9	17	4,47
Property rights	0	0	1	5	11	17	4,59
Average Mean	**4,31**						

Product

PRODUCT							
QUESTIONS	ANSWER					TOT. N°	**MEAN**
	1	2	3	4	5		
Product Differentiation and uniqueness	0	0	5	7	5	17	**4,00**
Innovative product	0	0	2	8	7	17	**4,29**
Existence of product functioning prototype or with demonstrated market	0	0	4	8	5	17	**4,06**
Average Mean	**4,12**						

Financial Aspects

FINANCIAL ASPECTS							
QUESTION	ANSWER					TOT. N°	**MEAN**
	1	2	3	4	5		
Project return	1	0	4	6	6	17	**3,94**
Credit history of the business and of the entrepreneur	1	0	5	6	5	17	**3,82**
Time to market	0	0	8	5	4	17	**3,76**
Average Mean	**3,84**						

Other Critieria

OTHER CRITERIA							
QUESTION	ANSWER					TOT. N°	**MEAN**
	1	2	3	4	5		
Quality of the business plan	0	0	3	7	7	17	**4,24**
Bureaucratic issues and approval required	0	0	2	7	8	17	**4,35**
Personal enjoyment of the investor in the business	1	0	8	5	3	17	**3,53**
Average Mean	**4,04**						

Overall Data Table

#	Question	Criteria	Mean
1	Efficiency of capital markets	Market	4,65
2	Property rights	Market	4,59
3	Market accessibility	Market	4,47
4	Transaction costs	Market	4,47
5	Legal Framework	Market	4,41
6	Market size	Market	4,35
7	Bureaucratic issues and approval required	Other Criteria	4,35
8	Innovative product	Product	4,29
9	Marketing, finance and management skills of the team	Management Team	4,24
10	Market Transparency	Market	4,24
11	Market competition	Market	4,24
12	Market Infrastructure	Market	4,24
13	Quality of the business plan	Other Criteria	4,24
14	Past leadership record	Entrepreneur	4,12
15	Coachable, open to suggestions and critics	Entrepreneur	4,12
16	Attention to details	Entrepreneur	4,12
17	Investor's knowledge, experience and network in the market	Market	4,12
18	Market growth rate	Market	4,12
19	Existence of product functioning prototype or with demonstrated market	Product	4,06
20	Reliable Personality (Integrity and honesty)	Entrepreneur	4,00
21	Long-term vision	Entrepreneur	4,00
22	Quality of the referrers	Management Team	4,00
23	Product Differentiation and uniqueness	Product	4,00
24	Passionate and committed	Entrepreneur	3,94
25	Project return	Finanacial Aspects	3,94
26	Past Entrepreneurial Experience	Entrepreneur	3,88
27	Exhibit a strong work ethic	Entrepreneur	3,88
28	Compatible Personality	Entrepreneur	3,88
29	Past relationship with found providers	Entrepreneur	3,88
30	Business realism	Entrepreneur	3,82
31	Ability to raise external finance	Entrepreneur	3,82
32	Team with mutual acquaintance	Management Team	3,82
33	Credit history of the business and of the entrepreneur	Finanacial Aspects	3,82
34	Relevant Industry Experience	Entrepreneur	3,76
35	Relevant Education	Entrepreneur	3,76
36	Time to market	Finanacial Aspects	3,76
37	Willingness to relinquish control	Entrepreneur	3,71
38	Determination and ability to sustain efforts	Entrepreneur	3,65
39	Team of people with different background	Management Team	3,65
40	Personal enjoyment of the investor in the business	Other Criteria	3,53

7.2 Nordwind Capital Interview Results

Christian Plangger, Senior Deal Partner at Nordwind Capital GmbH concerning their Venture Proposal with CargoBeamer AG returned interview Mask on the 11th of March 2015.

All information disclosed therein is strictly confidential.

Question	Traffic Light	Comment
Market competition	disagree	No competition yet in place.
Management skills	disagree	Important for more common projects.
Coachable	disagree	New markets demand for pioneering capabilities
Market growth rate	disagree	Not a determinant for this project as growth was substantial in other areas too
Past leadership record	disagree	Not of specific importance to this project
Team with mutual acquaintance	disagree	Not of high significance
Compatible Personality	disagree	People needed to fit the demands of the project
Team of people with different background	disagree	Assumed to be largely Brazilian
Credit history	disagree	New project
Willingness to relinquish control	disagree	No applicable
Time to market	disagree	Not relevant since this project needed a long time to market not matter how it was implemented
Personal enjoyment	disagree	Not applicable
Market Transparency	partial	Cargobeamer aims to increse the transparency, hence the absence of such was inherit to the project.
Market size	partial	Brazil is a huge economy and many goods are transported via rail between cities
Innovative product	partial	Cargobeamer is innovative but maybe one step to far ahead for Brazil.
Attention to details	partial	Very tech savy industry
Investor's knowledge	partial	Infrastructure projects demand key insights from investors
Product Differentiation and uniqueness	partial	Difficult to judge for infrastructure projects. Too different is not good either.
Project return	partial	Only important in the long-run.
Exhibit a strong work ethic	partial	Assumed in any investment that is made
Past relationship with fund providers	partial	Was the case with the CargoBeamer investors yet, it only made things quicker. Not a necessity.
Efficiency of capital markets	agree	CargoBeamer is a substantial investment that requires access to capital markets for financing
Property rights	agree	Intelecutal property of the new technology is crucial for the success and the protection against competitors
Legal Framework	agree	Legal framework ensures that foreign capital can be administered freely.

Transaction costs	agree	CargoBeamer aims to reduce the transcaction costs of the logistics industry but also suffers from the inefficiencies in the market
Market accessibility	agree	In order to be successfull CargoBeamer needs access to National Railways.
Bureaucratic issues	agree	Especially in Brazil the bureacracy is a major setback for infrastructure projects.
Market Infrastructure	agree	The infrastructure in Brazil was not ideal since the railway systems where old . Incapable of supporting a project like CargoBeamer
Quality of the business plan	agree	Important so as to ensure that a long-term perspective was in place
Quality of the referrers	agree	Whenever a technology is disrupted, especially when it comes to public services, network as very important
Functioning prototype	agree	Cargobeamer terminals functioned well in Germany
Past Entrepreneurial Experience	agree	Since this project demanded a lot of knowledge, past experience was crucial
Reliable Personality (Integrity and honesty)	agree	Especially within the corrupted framework of Brazilian a key driver
Passionate and committed	agree	Since this was a fundamental change, managers needed to be passionate and aware of the longevity
Relevant Industry Experience	agree	Essential to understand the whereabouts in the industry
Business realism	agree	Project has to be viable and needs to be implementable
Ability to raise external finance	agree	Especially the financing of new terminals need access to external finance.
Relevant Education	agree	Education and know-how are very important
Long-term vision	agree	Infrastructure projects always demand a long-term vision and value creation plan
Determination and ability to sustain efforts	agree	High input endeavour.

7.3 Early Bird

Interview Mask was returned on the 14th of April 2015 by Christian Nagel, Senior Founding Partner at Early Bird concerning their Venture Proposal with Oppa in Sao Paulo Brazil.

All information disclosed therein are strictly confidential.

Question	**Traffic Light**	**Comment**
Coachable	disagree	Minority stake to be invested made this neglegibale.
Attention to detail	disagree	Roll-out has to efficient
Investor's knowledge	disagree	Irreleveant due to minority stake.
Functioning prototype	disagree	Not applicable
Past leadership record	disagree	Young entrepreneurs did not have a lot of experi-ence in entrepreneurship
Team with mutual acquaintance	disagree	Not applicable
Compatible Personality	disagree	Goal driven
Team of people with different background	disagree	Not applicable
Credit history	disagree	Not applicable
Personal enjoyment	disagree	Not applicable
Property rights	partial	e-commerce companies does not have significant intellectual property to protect.
Bureaucratic issues	partial	No brick and mortar allowed for easy set-up of the company. Partially in terms of the distribution net-work
Market Infrastructure	partial	Distributio network has to be in place
Innovative product	partial	Innovation was not too high but it created a new market. Hence the innovation of the raw product was not too important.
Market growth rate	partial	Depending. Market growth rate of the furniture bu-siness is low but the company aimed to change the way it is sold.
Product Differentiation and uni-queness	partial	Market Differentiation was important.
Project return	partial	In the long-run.
Past Entrepreneurial Experience	partial	Not applicable but certainly not a let down.
Relevant Industry Experience	partial	Necessity to understand market trends
Exhibit a strong work ethic	partial	Ability to execute the business model
Ability to raise external finance	partial	Important for short term solvency
Relevant Education	partial	Educated in entrprepreneurship
Willingness to relinquish control	partial	At a certain time there will be a need for new control to be implemented
Efficiency of capital markets	agree	Aim was to exit via an IPO after 5-7 years.
Legal Framework	agree	FDI has to be protected

Transaction costs	agree	High volume of sales and send-backs in the e-commerce business causing high volumes of to go across the board.
Market accessibility	agree	Ability to reach the customer quickly and efficiently
Market Transparency	agree	Products have to be sourced quickly and brought to the customer
Market size	agree	Because there was the aim to grow quickly with a high customer penetration. Profitability was not yet important
Market competition	agree	Very important since e-commerce aimed to disrupt the traditional ways of selling the product
Management skills	agree	Ability to execute the business model in the shortest amount of time.
Quality of the business plan	agree	Roadmap to success
Quality of the referrers	agree	Very important because the online presence needed to be established quickly and suppliers developed
Reliable Personality (Integrity and honesty)	agree	Especially within the corrupted framework of Brazilian a key driver
Passionate and committed	agree	Commited to execute the business plan
Business realism	agree	Project has to be viable and needs to be implementable
Past relationship with fund providers	agree	Trust entrepreneur to have relevant market knowledge since the fund had no presence on the ground
Long-term vision	agree	Has to understand where the business models leads to
Time to market	agree	Very important since the market penetration had to be achieved quickly to become the market leader
Determination and ability to sustain efforts	agree	Execution is the key