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**SECURITIES UNDERWRITERS AND BEST-EFFORTS ISSUERS ARE NEWSBOYS:
THE RISK OF SETTING A FIXED-OFFER PRICE REQUIRES IPO UNDERPRICING***

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We model the costs of over and underpricing in both underwritten and best-efforts securities offerings and solve for the optimal fixed-offer price recognizing this is the analogue of the well-known “Newsboy Problem.” The result is what we call the proceeds-shortfall risk theory, which shows that it is optimal for the underwriter and the issuer to set the fixed-offer price below the expected aftermarket price given typical levels of price uncertainty as well as costs of over and underpricing. Fixing a price above this optimal level leaves the issuer with less expected net proceeds in a best-efforts offering, or a lower guarantee in a firm-commitment since the underwriter would require a higher spread.

JEL Classification: G24

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THE MARKETABILITY DISCOUNT AND ITS IMPACT ON INITIAL PUBLIC OFFERING UNDERPRICING

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The marketability of an asset refers to the chances of that asset being converted into cash quickly without significant transaction costs. The marketability discount is the downward correction to the value of that asset to reflect the difficulty in converting into cash. The marketability discount on the price of an asset will be equivalent to the transaction costs of converting that asset into cash. If the asset cannot be converted into cash quickly, investors will have to bear an opportunity cost for a period of time. The longer the period of time, the higher the opportunity cost, and the greater the marketability discount required for selling the asset. Several factors may explain the marketability discount. An asset will be more or less marketable depending upon how difficult it is to value. Similarly, the more uncertain the value of an asset, the higher its lack of marketability, and the greater the marketability discount required to convert it into cash. Several methodologies have been applied to study the marketability discount. One of them involves the comparison of the price of an asset during a period when the asset is marketable versus a period when the same asset is not marketable. In the particular case of IPOs, pre-IPO studies involve the comparison of the price of the share of stock of the firm while was still private versus the final IPO price. This is the methodology we apply in this proposed research work. We want to measure the impact of the marketability discount on IPO underpricing. One of the main reasons of a firm going public is to raise equity capital for investment purposes. However, firms going public usually sacrifice sizable dollar amounts often referred to as "money left on the table." The main reason is that IPO tend to be underpriced. This means that the closing price of the first trading day of the new public firm is usually higher than the IPO offer price. We believe the pricing process of an IPO may be explained by the marketability discount and marketability-related variables. To the extent of our knowledge, there is no previous academic work that associates underpricing with marketability discount, so our proposed research work constitutes an original contribution.

Sample & Methodology

Our sample consists of 1,171 IPOs offered between 1998 and 2008. The marketability discount is obtained from the Valuation Advisors' Lack of Marketability Discount Study developed by Brian Pearson of Valuation Advisors, LLC (VAL). This study compares the IPO offer price with the price of pre-IPO transactions involving the firm's common stock, common stock options and convertible preferred stocks. These pre-IPO transactions are used to determine the marketability discount since they took place when the firm was private with illiquid common stocks since no market existed for them. The pre-IPO transactions considered are those within two years before the IPO date. The IPO-related data is obtained from Securities Data

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Corporation's (SDC) Global New Issues database. The firms in our sample have stock price data available at the Center for Research in Security Prices (CRSP). The first day closing prices for the IPO are obtained from CRSP. Those IPOs without price data at CRSP are eliminated. Data for our control variables are retrieved from the Securities and Exchange Commission (SEC) filings at the Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) database; specifically from the IPO's initial prospectus and proxy statements. Accounting data are obtained from Standard and Poor's Research Insight. The level of IPO underpricing (UP_i) is measured by the 1-day holding period return for IPO i , as $(P_1 - P_0)/P_0$, where P_0 is the offer price and P_1 is the first-day closing price. The level of underpricing is determined for each firm in our sample of IPOs. We also use the difference-in-mean test to analyze the differences in the marketability discount in our sample. The cross-sectional variations of the level of underpricing (UP_i) are determined by the following OLS regression model: $UP_i = a_1 + b_1MD_i + b_2LnPre_i + b_3NTrans_i + b_4UR_i + b_5LnD_i + b_6NASDAQ_i + b_7DOP_i + b_8PreOwn_i + b_9LnAssets_i + b_{10}Bubble_i + e_i$; where a_1 is the intercept term in each model. The variable MD_i is the marketability discount for IPO i measured as $(OP - Pre-P)/OP$, where OP is the IPO offer price and $Pre-P$ is the price of the last pre-IPO transaction involving the firm's common stock, common stock options and convertible preferred stocks; $LnPre_i$ is the natural logarithm of the number of days between the pre-IPO transaction date and the offer date of IPO i ; $NTrans_i$ is the number of pre-IPO transactions within two years before the IPO i 's date involving its common stock, common stock options and convertible preferred stocks. The control variables include the following: UR_i is the IPO's underwriter reputation measured by the adjusted Carter-Manaster rankings from Jay Ritter's website at <http://bear.cba.ufl.edu/ritter/rank.htm> (see Carter and Manaster, 1990); LnD_i is the natural logarithm of the number of days between the filing date and the offer date; $NASDAQ_i$ is the percentage change in the NASDAQ Composite Index between the filing date and the offer date; DOP_i is the percentage of deviation of the IPO offer price from the middle point of its filing range; $PreOwn_i$ is the percentage of shares of stock outstanding retained by pre-IPO shareholders; $LnAssets_i$ is the size of IPO i measured as the natural logarithm of the total assets of the firm reported before the offer date; $Bubble_i$ is a dummy variable that takes the value of one if IPO i occurs in 1999 or 2000, and zero otherwise. Finally, e_i is the error term.

Results

We ranked our sample based on the level of underpricing from the highest to the lowest IPO. Then we compared the first half of our sample with the highest level of underpricing against the second half with the lowest level of underpricing. We also compared the values above the upper quartile versus those below the lower quartile, and the values above the upper 10th percentile with those below the lower 10th percentile last one. Table 1 shows the independent sample tests of the average marketability discount for each sub group described above. The average marketability discount of the first half of our sample with the highest level of underpricing is 37.22 percent while the second half with the lowest level of underpricing has an average marketability discount of 23.10 percent. Similarly, the average marketability discounts of the IPOs above and below the upper and lower quartiles are 42.44 percent versus 19.54%, the upper and lower quintiles are 43.87 percent versus 17.72 percent, and the upper and lower 10th

percentile are 47.48 percent versus 16.22 percent. All these results are statistically significant at conventional confidence levels. These results clearly suggest a positive relationship between the marketability discount and the level of IPO underpricing. Table 2 shows results of the cross-sectional variation of the level of underpricing based on the proposed regression model. The regression model is evaluated twice: with and without our selected control variables. The variables MD_i and $LnPre_i$ are both statistically significant at conventional levels of confidence with and without control variables. All the control variables are also significant at conventional levels of confidence. These results suggest that indeed the marketability discount has some explanatory power on the level of IPO underpricing.

Table 1: Independent Sample Tests of the Marketability Discount per Transaction.

	Mean	Levene's Test for Equality of Variances	t-test for Equality of Means (Sig. 2-tailed)	
1st vs. 2nd Half (N: 585 vs. 586)				
1 st half	37.22%	F = 19.482 (0.000011096)****	Equal variances not assumed	t = 5.695 (0.0000)****
2 nd half	23.10%			
1st vs. 4th Quartile (N: 292 vs. 293)				
1 st quartile	42.44%	F = 13.7120932 (0.0002333)****	Equal variances not assumed	t = 5.8728 (0.0000)****
4 th quartile	19.54%			
1st vs. 5th Quintile (N: 234 vs. 235)				
1 st quintile	43.87%	F = 12.1313 (0.00054)****	Equal variances not assumed	t = 5.598 (0.0000)****
5 th quintile	17.72%			
1st vs. 10th Percentile (N: 117 vs. 118)				
1 st percentile	47.48%	F = 10.2359 (0.00157)***	Equal variances assumed	t = 3.7588 (0.0003)****
10 th percentile	16.22%			

Notes: The *p*-values are shown in parentheses. *, **, ***, and **** denote statistical significance at 10%, 5%, 1%, and 0.1% significance levels, respectively.

Table 2: Regression Model Results

	Model 1	Model 2	Model 3	Model 4
Intercept	0.34 (10.7)****	1.1 (9.91)****	0.38 (8.7)****	0.59 (2.6)***
MD_i	0.31 (3.42)****	-	-	0.09 (2.06)**
$LnPre_i$	-	-0.14 (-6.48)****	-	-0.04 (-1.89)*
$NTrans_i$	-	-	0.02 (1.26)	-0.001 (-0.04)
UR_i	-	-	-	0.03 (3.08)***
LnD_i	-	-	-	-0.12 (-4.28)****
$NASDAQ_i$	-	-	-	0.37 (3.27)***
DOP_i	-	-	-	1.41 (11.45)****
$PreOwn_i$	-	-	-	0.89 (7.01)****
$LnAssets_i$	-	-	-	-0.03 (-3.17)***
$Bubble_i$	-	-	-	0.28 (7.81)****

R ²	0.033740	0.039157	0.001	0.335056
Adjusted R ²	0.032913	0.038335	0.0004	0.329324
F-statistic	40.81904	47.63956	1.46	58.45079
N	1171	1171	1171	1171

Notes: The t-values are shown in parentheses. *, **, ***, and **** denote statistical significance at 10%, 5%, 1%, and 0.1% significance levels, respectively. The t-statistics are computed using White (1980) covariance estimators. The t-statistics are also estimated using the Newey-West (1987) method with identical results in terms of significance, but they are not included in this article. The independent variables have high levels of tolerance

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IPO UNCERTAINTY AND PARTIAL PRICE ADJUSTMENT IN HOT MARKET

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This paper develops a link between initial public offering (IPO) return, IPO uncertainty and partial adjustment of IPO price to information in hot market. The link is first incorporated in a consumption-based utility function and then empirically supported using a dataset of 302 IPOs of which 90 are graded IPOs unique to India (2000-2007). After controlling for partial price adjustment, mean initial return is significantly less in graded IPO than in non-graded IPO. The novel insight is that the tradeoff between IPO uncertainty and partial adjustment of IPO price to information significantly reduces discrepancies in segregated explanations of IPO underpricing.

Keywords: IPO underpricing, IPO uncertainty, hot market, graded IPOs, information production, partial adjustment phenomenon, consumption-based utility function.

JEL classification: G12, G15, G20

FIRM OWNERSHIP, AGENCY COSTS, AND FIRM PERFORMANCE

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In an entrepreneurial firm with several owners there is information asymmetry between the firm's manager and the investors. The manager has more accurate information about the quality of the firm. Investors incur agency costs because managers can use their superior knowledge and control of resources to expropriate firm value. We focus on the owner who has the greatest managerial responsibility and investigate whether the fraction of the firm's equity held by owner-manager signals future firm performance. We find that increased equity ownership by owner-manager in young closely held firms is associated with better firm performance.

**INVESTOR TYPE AND NEW-VENTURE GOVERNANCE: COGNITION VS.
INTEREST ALIGNMENT***

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Young entrepreneurial firms are an essential vector of economic growth and dynamism. Such ventures face especially strong challenges in managing the dynamics of growth (Hambrick and Crozier, 1985) and attempting to tackle specific strategic hurdles (Graebner and Eisenhardt, 2004). Part of the challenge is to gain access to and assemble various critical resources in an effort to fuel growth and get the venture on an expansion path. Frequently, resource needs come in the form of financial capital. When internal funding and the founder's personal wealth are insufficient to cover the financing needed for further growth, external investors, such as business angels or professional venture capitalists, may contribute critical resources in the form of equity finance. This brings about significant change in the ownership structure.

Bringing in new shareholders then raises the question of the nature and quality of the relationship between the different shareholder categories and the entrepreneur, in as much as the investors may exert significant influence over venture performance (Lindsay, 2004; Mason & Harrison, 2002; Wiltbank, 2005; Wiltbank *et al.*, 2009). The relationships between the entrepreneur and the new external investors are typically mediated by various governance mechanisms such as investor participation on corporate boards (Rosenstein *et al.* 1993; Sapienza *et al.*, 1996), terms of contract (Kaplan and Strömberg, 2004) and incentives linked to ownership structure (Bitler *et al.*, 2006).

The academic literature on the governance of entrepreneur-investor relations has mainly approached the issue from the perspective of agency theory (Daily *et al.*, 2003), according to which the corporate governance system essentially assumes a disciplinary role, improving performance through economizing on agency costs (Jensen and Meckling, 1976; van Osnabrugge, 2000; Bitler *et al.* 2006). More recently, empirically grounded studies have come to question such an exclusive focus on the disciplinary role of corporate governance, especially in the field of young entrepreneurial ventures. Graebner and Eisenhardt (2004), for instance, observed venture capitalists and business angels play a supportive strategic role in corporate governance, the latter working as a "syndicate" of cooperating peers rather than as a "monitor" of principal-agent relationships.

An alternative approach to corporate governance, borrowing from knowledge-based and behavioral theories, has begun to emerge and to present a major challenge to the dominant disciplinary approach. This alternative view may be qualified as cognitive, for it recognizes the

potential role of governance in the process of strategy formulation and in the acquisition of managerial capabilities. Prominent examples of studies devoted to cognitive aspects of governance are Forbes and Milliken (1999), Rindova (1999), Kor and Sundaramurthy (2008). According to these studies, the role played by the various actors involved in corporate governance and their impact on strategic outcomes and performance may be dependent on their specific cognitive background (experience, education, mindsets, decision-making heuristics ...) and interaction (learning, cognitive process ...).

Filatotchev and Wright (2005) promote the idea of the existence of a corporate governance life cycle, thereby suggesting that the specific role played by corporate governance in mediating entrepreneur-investor relationships may actually depend on a firm's stage of development. The present article is focused on the governance of young entrepreneurial ventures which raise external equity to finance further growth. Entrepreneurial firms may be assumed to face especially strong cognitive challenges, for at least three reasons: (1) entrepreneurs have been shown to present specific cognitive features affecting their decision-making process (Busenitz and Barney, 1997 ; Forbes, 1999; Krueger, 2003; Sarasvathy, 2001), (2) entrepreneurs' specific education and experience may lead to the discovery of business opportunities not evident to people with different mindsets (Shane, 2000), (3) entrepreneurs may lack the requisite managerial capabilities to exploit the perceived opportunities and sustain high levels of growth (Hambrick and Crozier, 1985; Hellmann and Puri, 2002; Wasserman, 2001). For all those reasons, the arrival of and interaction with specific investor types may have strong implications for the perception of the venture's best strategic opportunities and of the best way to capture and exploit them. Differences in cognition between entrepreneurs and investors may induce costs or increase value, depending on the precise nature of such differences and the unfolding dynamics of interaction. Hence costs may arise when mutually inconsistent mindsets lead to strong conflict over the best strategic options that should be adopted, whereas value may emanate from the heterogeneous experience and capabilities which certain investors bring to the venture, stimulating processes of organizational learning.

The present study has been designed to deepen our understanding of the specific logic governing entrepreneur-investor relations in young ventures that open their capital to different investor types in pursuit of a strong growth strategy. We are especially interested in the governance process through which investors and entrepreneurs interact in a complex setting, where an entrepreneur faces at least two different investor-types (e.g. business angels and venture capitalists). We do so in an effort to capture the specific role and impact of each for venture dynamics, trying to reach beyond static descriptions of entrepreneurs' and investors' characteristics (be it in terms of cognition or utility). To this end, we conduct a prospective case study (Bitektine, 2008). In fact, case research is especially well suited to study complex phenomena of dynamic interaction (Yin, 1994). Specifically, we use the case of a young growth venture in the process of raising external equity from angel investors and venture capitalists to test two conflicting theories to venture governance at this specific lifecycle stage. So the central question we try to answer is the following: What is the dominant logic behind the governance of entrepreneur-investor interactions at an early stage in the growth process? Is it mainly driven by

considerations of personal interest, as agency theory would have it, or does entrepreneurial and investor cognition play a dominant role?

The prospective case study design is conceived to overcome potential problems of *ex-post* bias. In fact, the study is conducted while the investment process is still unfolding. A first series of interviews with the founders has been conducted before the first financing round. From the extant literature and an analysis of the first interviews, we are able to derive a set of case specific hypotheses for each of the two competing approaches to corporate governance. A second series of interviews with the entrepreneurs, the angel investors and the venture capitalists will be conducted some time after the financing round and should enable us to test the proposed hypotheses.

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**INTRAPRENEURSHIP: A CLOSED FORM SOLUTION FOR MEASURING
INTRAPRENEURSHIP SIZE WITHIN FIRMS**

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VALUATION AND FUNDING OF SEED CAPITAL FIRMS: A PROSPECTIVE PERSPECTIVE

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Usually there is a big problem to raise funds for seed capital firms named asymmetric information about the risk and return of the firm between the firm's current and prospective owners (business angels). Even those firms with a market niche and a clear competitive advantage have this problem to raise new funds and speed up growth. Hence, most of them raise sweat capital from the owners, friends or family members instead from business angels. In this work, one extends the methodology of (Fuenzalida, Mongrut and Nash, 2007) and proposes a consistent valuation methodology to reduce such asymmetric information and increase the likelihood of success and funding of the firm. This methodology encompasses four stages: a prospective stage, risk analysis stage, strategic stage and communication stage. The basic tenant of the first three stages is that a single point estimation of the seed capital firm does not help to reduce the asymmetric information problem; it only helps to size the problem. One instead must use a strategic approach meaning to show business angels that one has contemplated the most extreme, but still feasible, scenarios; assessed the business in each one of them; and devised strategies to face these situations in order to minimize risks and enhance profits. Furthermore, one must be able to communicate these results in a proper way to business angels focusing in their possible returns; risks and exit strategies. The methodology also involves the participation of business angels and other possible providers of funds in the risk analysis stage, which in turn will reduce even more the asymmetric information problem between the parties.

Keywords: Entrepreneurship, startups, seed capital

JEL codes: L26 and M13

**GENDER AND THE AVAILABILITY OF CREDIT TO PRIVATELY HELD FIRMS:
EVIDENCE FROM THE SURVEYS OF SMALL BUSINESS FINANCES**

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This study analyzes differences by gender in the ownership of privately held U.S. firms and examines the role of gender in the availability of credit. Using data from the nationally representative Surveys of Small Business Finances, which span a period of sixteen years, we document a series of empirical regularities in male- and female-owned firms. Looking at the differences by gender, we find that female-owned firms are 1) significantly smaller, as measured by sales, assets, and employment; 2) younger, as measured by age of the firm; 3) more likely to be organized as proprietorships and less as corporations; 4) more likely to be in retail trade and business services and less likely to be in construction, secondary manufacturing, and wholesale trade; and 5) inclined to have fewer and shorter banking relationships. Moreover, female owners are significantly younger, less experienced, and not as well educated. We also find strong univariate evidence of differences in the availability of credit to male- and female-owned firms. More specifically, female-owned firms are significantly more likely to be credit constrained because they are more likely to be discouraged from applying for credit, though not more likely to be denied credit when they do apply. However, these differences are rendered insignificant in a multivariate setting, where we control for other firm and owner characteristics.

Key Words: credit, discrimination, entrepreneurship, gender, SSBF

JEL Classification: G2, G21, G32, J15, J16, L11, L26

ACQUISITIONS OF NEWLY-LISTED FIRMS*

* We thank Dima Leshchinskii for helpful comments. Joel Hull has provided excellent research assistance.

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We provide new insights into the attributes of newly-listed firms which become acquisition targets shortly after their initial public offerings (“IPOs”). Consistent with prior literature we propose three not mutually exclusive hypotheses: target financial (constraint) liquidity, market conditions, and target’s financial visibility. We are able to rely on the variation in the control sample of recent IPOs to test all three hypotheses. In terms of financial liquidity, recently listed targets appear similar to firms that do not engage in acquisitions following their IPOs, while they are significantly more financially constrained than firms that become acquirers shortly after the IPO. Similarly, IPO market conditions hypothesis, as well as, firm’s ability to attract institutional following after the IPO have explanatory power for a newly-listed firm becoming an acquisition target.

JEL Classification: G31, G32, and G34

Keywords: Mergers and acquisitions, initial public offerings, financial constraint, financial liquidity, financial visibility.

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**E-READINESS AND ENTREPRENEURSHIP: A CROSS COUNTRY STUDY OF THE
LINK BETWEEN TECHNOLOGICAL INFRASTRUCTURE AND
ENTREPRENEURIAL ACTIVITY**

DRAFT - Please do not quote without author's permission

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This current study focuses on the relationship between a country's technological environment and entrepreneurial activities. Using data from the World Bank, the Global Entrepreneurship Monitor (GEM) and measures of E-Readiness from the Economist Intelligence Unit, a cross country panel data analysis of the factors influencing two different measures of entrepreneurial activity is presented. New empirical results presented in this study indicate that the degree of a country's E-readiness and legal and business infrastructure support for technological activities all have positive impacts on measures of entrepreneurial activity within the countries studied. Additional findings consistent with past empirical work also indicate that the rate of population growth and the rate of economic growth are significant economic factors that positively influence entrepreneurial activity while the length of time to start a new business is negatively related to some entrepreneurial activity.

**A PERCEIVED SUCCESS MODEL FOR ENTREPRENEURS TO ACHIEVE SUCCESS
OF THEIR TECHNOLOGY START-UPS**

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This qualitative phenomenological study addressed the problem of high failure rate of technology start-ups. The small businesses including start-up organizations are significant to any nation's economic growth because they result in creation of jobs and technological innovation (Harris, Grubb, & Hebert, 2005). Start-up organizations along with small businesses create 60 to 80% of the new jobs annually in U.S. (U.S. Small Business Administration [SBA] Office of Advocacy, 2007). According to a report by Eurostat, European small and medium-sized enterprises (SMEs) represent 99.8% of all European enterprises and accounted for 67.1% of private-sector jobs (European Commission, 2008). Statisticians from National Science Foundation and U.S. Department of Commerce reported start-ups accounted for the invention of about 95% of all radical innovations in the United States since World War II (Timmons, 1999).

The general problem that the current study addressed was the exceptionally high failure rate of technology start-ups (Headd, 2003). The failure of start-up companies indicate some form of organizational closure such as merger or acquisition for loss, selling assets, or failing "to meet its responsibilities to the stakeholders of the organization" (Watson & Everett, 1996, p. 47). Headd (2003) reported about 66% of all U.S. start-ups survive for only 2 years and only 50% of all start-ups survive beyond 4 years after inception. The high failure rate of start-ups is not just limited to U.S. For example, one-third of UK based micro businesses that contain fewer than 10 employees fail within the first year of inception (Beresford & Saunders, 2005). The failure rate is a major concern for prospective venture capitalists (VCs), entrepreneurs, economic growth professionals, and organizational founders (Taylor & Seanard, 2004). Achieving success by overcoming the challenges in technology start-up organizations is essential for creating employment and growth within the economy (Backes-Gellner & Werner, 2007).

The general topic for the current study involved the success of start-ups. This study used definition for success of start-ups as going public through an initial public offering (IPO), or being acquired for profit. The current study examined how the product strategies such as multiple concurrent innovative products rather than a single product; hiring strategies such as

start-up manager's previous start-up experience and management competencies; and offshore-outsourcing strategies could affect the success of technology start-ups. The success of an organization depends on its strategies of product formulation and implementation. A lack of proper product strategies might result in the failure of start-ups (Adams, Bessant, & Phelps, 2006). Both large and small organizations use offshore-outsourcing as a strategy to gain an advantage over the competition and reduce costs. Failure of offshore-outsourcing strategies severely cost to organizations, especially to small businesses. This study attempted to investigate various product and offshore-outsourcing strategies that could achieve success in technology start-ups.

The study involved an exploration into the experiences of 22 entrepreneurs and organizational leaders who had experience in successful start-ups from Silicon Valley, California; and examination of how the product strategies such as multiple concurrent innovative products rather than a single product; hiring strategies such as start-up manager's previous start-up experience, management competencies, and leadership styles; and offshore-outsourcing strategies could contribute to the successful start-up phenomenon. Based on findings of this study, the author attempted to develop a model for entrepreneurs to achieve success of technology start-ups.

The current study represented a qualitative research method with phenomenological research design. The current phenomenological study used purposive sampling and snowball sampling methods to identify and select the specific population from the general population of entrepreneurs and organizational leaders who were involved within successful start-ups. The instrumentation tools used to collect the data for this study included demographic survey and single-instance semistructured face-to-face interview with participants. Data were managed with NVivo 8.0 software and analyzed using Moustakas's modification of the van Kaam method of analysis.

Several significant themes and subthemes emerged through the perceptions derived from the experiences of entrepreneurs and organizational leaders who had experience with successful technology start-ups. The findings reveal product strategies such as concurrent multiproducts; hiring strategies such as start-up manager's previous start-up experience; and offshore-outsourcing strategies could positively affect success of technology start-ups. A new substantive model called the model for successful start-ups was developed.

Recommendations from the study could help start-up's entrepreneurs to overcome the risks and achieve success of their start-ups; and contribute to economic growth and society. The entrepreneurs and organizational leaders of the start-up may wish to consider adopting a concurrent multiproducts strategy rather than a single innovative product and developing only the same portfolio or family of initial products. The entrepreneurs and organizational leaders of the start-up may wish to consider employing managers who had earlier start-up experience and strong project management competencies and project management skills along with technical and domain experience. The entrepreneurs and organizational leaders of the start-ups may also wish to consider adopting offshore-outsourcing strategy; and setting up a design center or branch in the Asia Pacific region, especially in India or China, as an alternative to offshore-outsourcing.

An implication is for entrepreneurs and organizational leaders and managers of start-ups to realize that transactional leadership competencies during the project execution phase and the project monitoring and controlling phase could increase chances of the successful completion of projects, which in turn makes leaders successful. The project management competencies of start-up managers and leaders are another implication of the study. The current study found a positive relationship between start-up managers' leadership style and project management competencies on performance and success of projects. The outcome of the current study indicated start-up managers' leadership traits were instrumental for addressing the team and human aspects of project work and therefore directly affecting project performance.

A substantial contribution of the current study to the body of knowledge was the development of the new model called model for successful start-ups. The significance of the current study is related to five aspects: (a) process improvements in start-up business, (b) economic factors, (c) social factors, (d) financial savings, and (e) scholar-practitioners in the area of start-ups. The findings would be helpful to entrepreneurs and organizational leaders of start-ups as the findings include several product strategies and process improvements in start-up businesses through which start-ups can achieve success. The findings of the study could contribute to the survival and success of start-ups, which in turn contributes to society and the growth of the U.S. economy through innovation, retention of existing jobs, and creation of new jobs. The implementation of offshore-outsourcing strategies and setting-up a design center in India could result in financial savings to start-ups.

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**BANK CREDIT, TRADE CREDIT OR NO CREDIT:
EVIDENCE FROM THE SURVEYS OF SMALL BUSINESS FINANCES**

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In this study, we use data from the SSBFs to provide new information about the use of credit by small businesses in the U.S. More specifically, we first analyze firms that do and do not use credit; and then analyze why some firms use trade credit while others use bank credit. We find that one in five small firms uses no credit, one in five uses trade credit only, one in five uses bank credit only, and two in five use both bank credit and trade credit. These results are consistent across the three SSBFs we examine—1993, 1998 and 2003.

When compared to firms that use credit, we find that firms using no credit are significantly smaller, more profitable, more liquid and of better credit quality; but hold fewer tangible assets. We also find that firms using no credit are more likely to be found in the services industries and in the wholesale and retail-trade industries. In general, these findings are consistent with the pecking-order theory of firm capital structure.

Firms that use trade credit are larger, more liquid, of worse credit quality, and less likely to be a firm that primarily provides services. Among firms that use trade credit, the amount used as a percentage of assets is positively related to liquidity and negatively related to credit quality and is lower at firms that primarily provide services. In general, these results are consistent with the financing-advantage theory of trade credit.

Firms that use bank credit are larger, less profitable, less liquid and more opaque as measured by firm age, i.e., younger. Among firms that use bank credit, the amount used as a percentage of assets is positively related to firm liquidity and to firm opacity as measured by firm age. Again, these results are generally consistent with the pecking-order theory of capital structure, but with some notable exceptions.

We contribute to the literature on the availability of credit in at least two important ways. First, we provide the first rigorous analysis of the differences between small U.S. firms that do and do not use credit. Second, for those small U.S. firms that do participate in the credit markets, we provide new evidence regarding factors that determine their use of trade credit and of bank credit, and whether these two types of credit are substitutes (Meltzer, 1960) or complements (Burkart and Ellingsen, 2004). Our evidence strongly suggests that they are complements.

Key Words: availability of credit, bank credit, capital structure, entrepreneurship, relationships, small business, SSBF, trade credit

JEL Classifications: G21, G32, J71, L11, M13

AN ANALYSIS OF FUNDING DECISIONS FOR NICHE AGRICULTURAL PRODUCERS

This study was funded through a grant from the Leopold Center for Sustainable Agriculture at Iowa State University

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Shawn M. Carraher
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This paper examines the flow of funds from providers of capital to niche agricultural users of capital. Various programs through US government, state/local economic development, and private agencies work to improve the flow of capital to the niche agricultural sector. Despite the expansion of programs aimed at providing financial resources to the agricultural sector though, many sectors remain poorly served. Previous studies have suggested that agencies need to facilitate the flow of capital to small agricultural firms. The results showed that providers of capital believed that more technical assistance was the best way to increase the flow of capital to producers. However, few providers of capital provided technical support. Regression analysis showed that the number of applications funded was significantly associated with the (1) weak/no business plan and (2) age of funding agency, while the percent of funds committed was significantly associated with weak/no business plan. The results provide managerial implications that can be used by funding agencies and niche agricultural producers to better understand obstacles to capital acquisition. Agencies may better understand the lack of technical assistance advice, especially because of the role of technical assistance in developing business plans, financial strategies, and collateral requirements.

Keywords: financing, capital acquisition, small firm assistance

**A SURVEY OF THE DIFFERENTIAL CHARACTERISTICS OF SME USERS OF
COMMERCIAL FINANCE COMPANY VERSUS OTHER PROVIDER FUNDING
INSTRUMENTS**

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Over the last 25 years there has been large and focused attention on certain forms of SME financing. At the same time many other forms have remained largely uninvestigated. In particular, SME financing investigations have primarily examined three sources of small business financing -- commercial bank lending, venture capital funding, and supplier trade credit. However, several other important sources of their financing have largely remained unattended. Among these are leasing, small firm public offerings, insurance company financing, and commercial finance company funding. To date, one of the clearest summaries of many of these is that by Berger and Udell, 2006. Other related and important studies are those by Carey, Post, and Sharpe, 1998, Diamond 1991, Mach and Wolken 2006, Preece and Mullineaux 1994, and, more recently, Neeley and Van Auken, 2009 and Brevoort, Holmes, and Wolken, 2010.

More specifically, commercial finance companies (CFC) provide one of the largest sources of unreported alternative forms of funding for SMEs. According to the latest data supplied by the industry's flagship organization, The Commercial Finance Association (CFA), in 2008 its nearly 300 members provided \$590.0 billion in asset-based loans and \$136.0 billion in factoring to business borrowers, [CFA, 2009]. Of this, based on Sherman, 2007 updated, approximately \$44.0 billion was channeled to SMEs. Despite this volume and the long history of this form of financing, there has been no definitive research conducted on small business usage of this source of funds. There are at least three major reasons for this. First, the industry itself has little interest in exposing its activities to the public and has conducted no studies of firms that use its lending volume. Second, and related to the industry's silence, little is known as to how the industry carries out its activities. A notable exception is the text by Udell, 2004. Thus, even theoretical research on this topic, except as identified above and in a few other articles, has been quite limited. Finally, there is no publicly available database containing information as to the various facets of CFC funding activities. The only source of such data is that included as a part of the only four databases produced by Federal Reserve Board's Survey of Small Business Finances (SSBF) for the years 1987, 1992, 1998, and 2003. However, even this comprehensive

collection of such information is limited in that it contains no user volumes of this or any other form of small business financing.

Despite the latter shortcoming, but given the myriad other data that the SSBF contains, the authors of this paper have begun a structured exploration of the 2003 database to uncover the unique elements that has driven SMEs to quietly utilize CFC funding to support the operation, growth and development of their businesses. The purpose of this paper is to present the authors' initial findings in this regard.

The 2003SSBF database was released in February 2007 and provides the most definitive source of publicly available data on small business financing in the United States. More specifically, it contains information on 21 different *types* of financing offered by up to 20 different possible *sources* of financing per SME. It is based on an extensive survey of 4,240 businesses with 500 or fewer employees. The data cover 72 cross-classified information strata for all of these firms. (See Technical Codebook, 2007). Among the types of information collected are the 1.) characteristics of the surveyed small businesses and their owners, 2.) types of financial services they used, and 3.) the nature of their business relationship with the suppliers of those financial services. Mach and Wolken (2006) provide an excellent summary interpretation of the data contained in the SSBF and of the manner in which the survey was carried out, variables were defined, and data were verified.

This paper reports on our initial findings respecting the differential characteristics and situations that prevail among SME commercial finance borrowers versus those that utilize other forms and sources of funding. Because of the above-indicated extensive categorization of these financing breakdowns, we used a subset of these data on the *types* of financing to create a proxy measure for partitioning SMEs into two groups -- viz., those that borrow from commercial finance companies and those that do not do not so, *at all!* The latter group includes SMEs that raise funds only from one or more of the 19 other types of financing. About one-quarter of businesses in the 2003 survey fall into the former category, with the other three-quarters falling into the latter. (There are also those firms that do not report on their sources of funding and are thus classified within the database as "skips".)

We intend to explore the various aspects and bases for SME choices of funding much more deeply in the future and, as well, from a more theoretical perspective as we proceed. However, at this stage of our investigation, our focus is upon several of the distinguishing core features of SME financing that have been offered by the authors of various articles to date in the literature of small business finance. Using our dichotomous classification of SMEs together with other characteristics of these businesses and their owners that are contained in the 2003 SSBF, we discern patterns in small firm and owner characteristics that distinguish those that used commercial finance funding from their counterparts who did not. The data that we will report upon are magnified to national averages using extension techniques provided by the database methodology.

Among some of our preliminary findings are these. The proportion of small businesses citing commercial finance as at least one of their sources of funding *rises* with firm-employment size. Those with fewer than 19 employees represent 19.5 percent of the total. Rising steadily, firms with between 100 and 499 workers comprise 31.5 percent of those that utilize commercial finance sources. This partition also varies notably with industry division (1-digit SIC), although this masks more notable variation in this proportion that we've observed at the more specific 2-digit SIC level. (The latter comprising approximately 90 categories). Small retailers, those engaged in financing and real estate, and those in manufacturing and that utilize commercial finance make up 25 percent or less than their counterparts in these sectors that do not utilize this form of financing. Small and mid-sized businesses with more than 50-percent female ownership were notably less likely to have claimed to have used commercial finance funding than were their predominantly male-owned counterparts -- 22.5 percent versus 58.5 percent. However, some of this latter observation is likely due to—inter alia—differences in industrial- and employment-size differences between predominantly female- and male-owned businesses. Interestingly, there does not appear to be a discernable pattern in credit scores as between commercial finance company small borrowers and those that utilize other sources of funding. This is somewhat counter-intuitive to prevailing finance theory and to studies of such situations. (See, for example, Berger and Udell, 2006, and Han, Fraser, and Storey, 2008.) The results of the multi-variate analyses of these and other data reported upon in our paper will bring more definitive differences in firm and ownership characteristics into clearer focus.

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**COST OF CAPITAL FOR PRIVATELY-HELD FIRMS AND PRIVATE CAPITAL
SEGMENTS: EVIDENCE FROM THE FIELD**

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While the private capital market is the lifeblood of small businesses, we know little about how this market operates. The Pepperdine Private Capital Market Survey reveals important characteristics of this market. The average age range of businesses is between 2 to 20 years with owners' experience between 10 to 30 years. Most firms have bimodal averages of annual sales between zero to \$500,000 and between \$1 million to \$25 million. Most of the survey takers are business owners who actively manage their own firms. On average, businesses employ 25% debt with an average corporate tax rate of 32% and a weighted average cost of capital of 16.67%. Overall, these private businesses could have become publicly traded companies but they choose to stay private to retain control by relying on the private capital market. The regression analysis shows that business owners tend to rely on "gut feel" for their capital budgeting decisions. However, more sophisticated fund providers such as venture capitalists, private equity firms, mezzanine, and hedge funds are more likely to utilize standard capital budgeting methods (i.e. discounted cash flow and internal rate of return).

JEL Classifications: G10; G20; G24; G31

Keywords: Private capital market, private firms, cost of capital, capital budgeting

*

**“LISTED SMES: HOW THE COST OF CAPITAL IS AFFECTED BY THE DEGREE OF
COVERAGE RECEIVED
FROM FINANCIAL ANALYSTS”**

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This article examines the degree to which the cost of capital and the equilibrium price of shares are influenced by the coverage afforded by financial analysts. The study, the first of its kind to focus on listed SMEs, identifies a link between the significance of beta coefficients and the degree of coverage of share performance by financial analysts. The positive relationship between firm-size and quantity of available information influences the quality of the historic beta.

In terms of predictive power, the multi-factor model with fundamental attributes demonstrates a clear superiority to the Capital Asset Pricing Model (CAPM). However, the efficiency of the multi-factor model and the instrumental variables used in it is substantially affected by the degree to which securities are covered by financial analysts. Thus, although the cost of financial debt, the price-to-book ratio, share liquidity (measured in terms of share turnover) and financial distress (loss) can be used to assess risk affecting firms not receiving coverage from financial analysts, these variables only capable of predicting a small part of the rate of return required by investors (a coefficient of determination between 19% to 32% better than the CAPM according to the threshold of significance retained). This phenomenon underlines the inefficiency of the financial markets in this regard and suggests the existence of other common risk factors not identified in this study. However, in regard to firms about which more information is available (firms covered by two or more analysts), investors demand a rate of return based on fundamental variables: growth in the ability to generate profit, cashflow variations, coverage of financial debt by means of self-financing, past rates of return, and stock market capitalisation (threshold effect).

The degree of influence of public variables on the cost of capital for firms covered by financial analysts and firms receiving little such coverage undermines the idea of the efficiency of financial markets.

**SOVEREIGN FUNDS: AN EXPLORATORY STUDY OF THEIR INVESTMENT
BEHAVIOR**

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**FAIRNESS NORMS AND SELF-INTEREST IN VENTURE
CAPITAL/ENTREPRENEUR CONTRACTING AND PERFORMANCE**

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We consider the combined impact of agency problems and social fairness norms on venture capital/entrepreneur contracting and performance. Particularly, we develop a behavioural game-theoretic model in which a venture capitalist and an entrepreneur negotiate over their respective equity shares, and then exert value-adding efforts in running the business. Double-sided moral hazard exists in that both parties may exert sub-optimal effort (the ‘shirking’ problem). We demonstrate that, for a given level of VC-ability, an increase in social fairness norms induces the VC to offer more equity to the entrepreneur, which in turn induces the entrepreneur to exert more effort. This improves venture performance.

WHAT DRIVES PRIVATE EQUITY FIRM CERTIFICATION AT INITIAL PUBLIC OFFERING?

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Private Equity firms are thought to add considerable value to investee companies through their enhanced access to resources and improved corporate governance. This paper examines buy-side, financial analyst perceptions of the determinants of private equity firm added value – hereinafter called the certification effect – to investee companies at IPO. We adopted a mixed method approach combining factorial experimentation with in-depth interviews to establish the influence of possible determinants of certification. The findings reveal important and statistically significant relationships between the attractiveness of private equity firms' IPOs and (1) their reputations, (2) their level of retained ownership and (3) the duration of their involvement prior to the IPO. The influence of reputation dominates other factors although that of retained ownership is also large. The influence of duration of involvement is moderate. However, the influence of the interaction between duration and intensity of involvement is large and statistically significant and is driven by concerns over window dressing. The research reveals any certification effects are best explained by theories of resource exchange and reduced informational asymmetries with reduced agency risk being a much lesser influence.

**ENTREPRENEURIAL OVERCONFIDENCE, OUTSIDE EQUITY
AND SUCCESSFUL EXITS**

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According to data published by the U.S. Small Business Administration, from 2000 to 2004, there were consistent employment losses among large firms. During that same period, there were consistent employment *gains* among small businesses (defined as less than 20 employees). In 2004, small business generated 29% of total new jobs, but if job losses are netted out for that year, small businesses are actually responsible for 96% of overall employment gains (SBA 2007). As a primary driver of employment growth, entrepreneurship is a net economic benefit to society. Notwithstanding their importance, most new businesses fail within four years. The fact that entrepreneurs expend effort and resources in the pursuit of improbable success can be intuitively interpreted as overconfidence. This paper addresses the questions of how the level of entrepreneurial overconfidence impacts both the success and failure of startup firms, and the degree to which outside investment mitigates the negative effects of overconfidence.

There is a burgeoning body of literature that tries to get inside the seemingly irrational mind of the entrepreneur. Two facts emerge about what makes these people tick: 1) they tend to be overconfident in their abilities and 2) they tend to be overconfident in their likelihood of success (Hayward et al, 2006). This is bad news for outside investors. It is critical that a business plan be realistic and account for risk appropriately.

This paper investigates the relationship between successful exits (acquisition or IPO) and entrepreneurial overconfidence, while controlling for outside equity investment, risk-taking style, and firm characteristics. Using data from the Kauffmann Firm Survey¹ of startup businesses, I create three separate measures of overconfidence and test their relationships with successful exits. I consistently find a negative relationship between overconfidence and exits. When testing for a curvilinear relationship, I find that the measure for overconfidence that I derive from observed entrepreneur changes in level of effort has a positive curvilinear relationship with exits. In other words, managers with either a very low or a very high level of overconfidence have a higher probability of successful exit.

¹ Certain data included herein are derived from the Kauffman Firm Survey release 4.0. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of the Ewing Marion Kauffman Foundation.

The contribution of this paper is to show that there is a significant relationship between overconfidence and firm outcomes, and that the presence of outside investors mitigates the effects of that overconfidence. An additional contribution is the introduction of original empirical measures of entrepreneur overconfidence and the result that there may be a positive curvilinear relationship between overconfidence and exit.

Methodology

There are three possible mutually exclusive states for the firm at the end of the study: failure (worst case), survival, and exit (best case). The central model is a logistical analysis as shown in equation (1)

$$DISP_i = \alpha + \beta_1 OC_i^2 + \beta_2 OC_i + \theta FC_i + \gamma CEOC_i + \varepsilon_i \quad (1)$$

where DISP represents either EXIT or FAIL, depending on which outcome is being tested. OC represents entrepreneurial overconfidence from either attribution bias or escalation of commitment. FC represents the control variables for firm characteristics, such as risk-style, size, leverage and the presence of patents. CEOC represents a vector of traits of the entrepreneur herself. Both the firm and entrepreneur characteristics have been shown to be significant predictors of performance in other research. Overconfidence will be measured in three ways. From the perspective of attribution bias, an entrepreneur can be expected to asymmetrically update his level of confidence each period, depending upon the results of the previous period. As such, poor performance will result in a small decrease in confidence (attributing the failure to external forces), whereas good performance will result in a larger *increase* in confidence (attributing the success to himself). For the sake of simplicity, I assume that the increase is double the size of the decrease. Good performance is defined as the current year's profit being greater than the previous year's profit.

The second measure of overconfidence is based upon self-justification bias, which manifests itself through escalation of commitment. Even when empirical facts indicate that the entrepreneur should abandon the venture, he will continue to invest in order to avoid losing face or admitting failure, although he is unlikely to be aware of these unconscious motivations. This measure of overconfidence is built by simply counting the years in which the entrepreneur invested in his own firm, then dividing by the total number of years in business, yielding the percentage of years in which the entrepreneur invested. Since investment in any given year may or may not actually be irrational, I adjust this number by subtracting the percentage of years in which there was outside equity investment in the firm.

Both of these overconfidence measures rely upon proxies for the theoretical determinants of overconfidence based on either attribution bias or self-justification bias. I also generate a third measure that is based entirely upon the observed effects of overconfidence in ability. An entrepreneur with this type of overconfidence believes that she has the power to generate the desired firm outcome through her own efforts. To measure this overconfidence, I again start with the industry failure probability, then for each of the first three years, I calculate the HOURS_SLICE, which is the percentage of hours that entrepreneur works as a ratio to the total hours for the top five owners. I then calculate the percentage change in hours slice (which can be positive or negative) and add it to the starting overconfidence figure. Since many of these firms have only one owner working in the firm, these firms have a constant HOURS_SLICE of 100%, and hence no change from year to year. To capture the absolute change in manager hours, I also calculate the percentage change in entrepreneur hours for each of the first three years and add it to the measure.

Results

Coefficients on the ability overconfidence measures based on profit changes in the second two years are highly significant and negative. Thus, the results support the idea that overconfidence is negatively related to successful exit. The squared term is never significant, which is not consistent with a curvilinear relationship between overconfidence and exit. The results also support the idea that the motivational effects of overconfidence dampen the effects of overconfidence in the short term, producing a negative relationship between ability overconfidence and failure, at least within the short time frame of this data set. With regard to self-justification bias, I find no evidence that escalation of commitment is related to successful exit. It is negatively related to failure, but this is obviously a somewhat mechanical result.

When overconfidence is measured by its motivational effects (hours worked by entrepreneur), it has a strongly significant positive curvilinear association with both successful exits and failures. This supports the idea that the best outcomes for the firm result from either very low or very high levels of overconfidence. This is a new result that is unique to this paper.

When testing the impact of outside equity, I find that having outside investors at firm startup significantly improves the likelihood of successful exit. Whether or not those investors have control of the firm does not appear to have any effect. Outside control has a significantly positive association with failure, though. This may be because outside investors are more willing than the entrepreneur to abandon a venture if milestones are not met.

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MARKET-WIDE SENTIMENT, UNDERWRITER QUALITY, AND IPO PRICING

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We examine IPO pricing in relation to market-wide investor sentiment and underwriter reputation. We document a significantly positive correlation between market-wide sentiment and IPO offer price returns, indicating higher IPO pricing by underwriters when sentiment is more favourable. Purnanadam and Swaminathan (2004) report a positive correlation between underpricing and offer price return and the IPO literature documents a change in sign for the correlation between underwriter reputation and underpricing from negative in the 1980s to positive in the 1990s, which implies that the correlation between underwriter reputation and IPO offer price return should also change from negative to positive between the two periods. However, we find that underwriter reputation is consistently positively correlated to IPO offer price returns. Our results suggest that among issuers and subscribers, underwriters give priority to issuers' best interest.

**PARSING PEDAGOGICAL PRACTICES IN ENTREPRENEURIAL FINANCE:
A SYSTEMATIC ANALYSIS OF U.S. UNDERGRADUATE COURSES**

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While the acquisition and management financial resources are a critical and time-consuming role for entrepreneurs, it may not be given proportionate attention in entrepreneurial coursework. As the number of academic institutions offering undergraduate majors in Entrepreneurship has grown, the number of Entrepreneurial Finance courses could be expected to grow proportionately. However, the inclusion of courses on the subject does not appear to be as widespread as that of Corporate and Managerial Finance courses in business majors. Based upon our earlier exploration, this paper further examines the prevalence of Entrepreneurial Finance courses in the curricula of universities offering entrepreneurship majors.

The primary purpose of the study is to identify the universities that have Entrepreneurial Finance courses and to categorize the pedagogical approaches of these courses. It analyzes course descriptions and syllabi and develops a typology of Entrepreneurial Finance courses including the *modified corporate*, *public/private equity*, and *life cycle models*.

Methodology

The objective of this applied research is to introduce the reader to the organizing framework as well as the content of the courses addressing Entrepreneurial Finance. The note introduces a protocol that adopts a broad definition of Entrepreneurial Finance, and a sampling method that produces a representative range of course offerings. The method uses a purposive sample from a known population, namely publicly available college and university entrepreneurship programs, to create a representative sample of courses. The conclusion highlights that standardized definitions and representative samples allows the authors to make reliable comparisons across types of courses

Data was compiled from the available Web resources and syllabi to include such variables as: course description, course objectives, topics, required and optional materials, and measurement methodology. Of the 224 institutions in the initial sample, 157 were U.S. institutions, 77 listed courses matching the search criteria, and 44 syllabi were collected and analyzed.

The number of U.S. institutions in the sample that offer an undergraduate major and at least one Entrepreneurial Finance course was 77 out of 157 or 49.0 percent of the total. Specific

course names vary significantly and the contents are diverse within similar names. There are 33 different course name variations among the 79 courses. Table 1 identifies the key features of the sample. Of these, 27 courses are named Entrepreneurial Finance, but their descriptions and contents are sufficiently diverse as to warrant 3 separate classifications.

Table 1: Key Features of the Sample

<i>Variable</i>	<i>Explanatory data</i>	<i>Per cent</i>
Undergraduate institution offering a major or concentration in entrepreneurship	United States	70.1%
	Outside of United States	29.9%
Offering a course in Entrepreneurial Finance	U.S. offering	49.0%
	U.S. not offering	51.0%
Course approach	Public/Private Equity	38.0%
	Modified Corporate	31.6%
	Life Cycle	30.4%

Analysis

Most undergraduate finance courses emphasize the financial management of publicly traded corporations with a brief acknowledgement of other forms of business. They are created under the assumption that students will be working for major corporations and that they have had several courses in accounting (Adelman and Marks, 2009). These may be valid assumptions; however, the course content and pedagogies may not always apply to a small or emerging business and these finance courses typically do not provide specific examples for the non-corporate market. While much of traditional financial analysis may not be ideally suited to the venture context, there is great value in applying venture adaptations (Leach and Melicher, 2008).

The data present an opportunity to further analyze course topics by classification and assemble models of course topics pertinent to a single semester course in Entrepreneurial Finance. While some courses do not fall precisely within the bounds of one type or another based upon the course description alone, analysis of specific topic introduced reinforces classifications and provides insights into differences. Table 3 provides models for each course type based upon the prevalence of topics demonstrated via the Web sites and syllabi.

The analysis of course data gave rise to a typology with three classifications of courses. We have labeled the three primary classifications the *modified corporate model*, the *public/private equity model* and the *life cycle model*. By parsing the course descriptions using the keywords corporate finance, finance theory and financial principles the first group has been

identified. We have labeled this the modified corporate model. The modified corporate model includes the courses with names such as Entrepreneurial Finance and Small Business Finance with objectives and topics aligning closely with those of Corporate/Managerial Finance instructional models. The public/private equity model is dominated by courses entitled Venture Finance and New Venture Finance, as well as some with the name Entrepreneurial Finance that focus on the processing of preparing a company for a significant private or public offering, often with a transactional approach. Keywords used to identify these courses include venture finance, initial public offering, private equity and venture capitalists without using words describing a range of options. The third model, called the life cycle model, is defined by keywords such as various aspects of financing, entrepreneurial process, broad range, stage of the entrepreneurial process, and commonly used means of funding. The distribution of courses between the categories identified in this study is 32 percent modified corporate, 38.0 percent public/private equity, and 30 percent life cycle. These 79 courses reflect just under half of the institutions in the sample, as a narrow majority of the institutions did not have undergraduate Entrepreneurial Finance courses.

This enhanced study of Entrepreneurial Finance courses fills an important void in entrepreneurship education research. The most significant outcome of this research is the conclusion that it provides a threefold benefit:

- Providing a basic rationale for creating entrepreneurial finance courses in additional entrepreneurship programs by documenting nationwide development
- Developing aggregate data and profiles that institutions can access to provide an excellent starting point for strategic decision-making regarding the type of Entrepreneurial Finance course(s) to offer and key topics to consider, and
- Creating a baseline for existing course revision through the survey of course structure.

The data adduced from this study confirms the triad of approaches. In other words, the approaches have had an important catalytic effect in stimulating topical coverage

While it also appears that the research has some empirical validity in delineating pedagogical methods, the frailties of the evaluation strongly suggest that it should not serve as the exclusive method for evaluation of pedagogical practice. Ideally, multiple indicators, such as a combination of faculty surveys, author interviews, should be utilized in measuring intent.

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USING BEHAVIORAL FINANCE PRINCIPLES IN TEACHING ENTREPRENEURIAL FINANCE

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Use of behavioral finance models and theories in teaching entrepreneurial finance is important because traditional finance has remained silent on almost all the key decisions faced by entrepreneurs. Even the Agency Theory (financial contracting), which is effectively the only theory that is applicable to venture capital investing, has produced mixed empirical results[1]. Case is made for applying the tenets of behavioral finance to better understand the related evaluation and judgment processes, and consequently help improve the whole decision making processes for both entrepreneurs and venture capitalists. Relevant literature is reviewed and cataloged and key psychological phenomena that especially affect entrepreneurial decision making are discussed.

[1] See for example Bitler, et, al, 2009

**AN ECONOMIC ANALYSIS OF THE STATE-OWNED CHINA'S VENTURE
CAPITAL FIRM SHIC**

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Taking High-Tech Investment Co., Ltd. (SHIC) of SDIC (State Development & Investment Corporation of China) as a research object, this paper analyzes how an state-owned venture capital firm chooses and evaluates projects, invests and monitor the projects, manages the capital exiting from their ventures. Although learning and absorbing the investment and management experiences from the developed nations, but on the influence of its management philosophy, agency problem, and the disposition rules of sate-owned assets, SHIC lacks of incentives to invest in the early stage of ventures, and did not applied some contracting technologies used widely by the venture capital firms of developed nations.

Keywords: Venture capital; State-owned venture capital firm; Venture capital theory; Contract theory.

SB-2 IPOs: TESTS OF THE SMALL-FIRM UNIQUENESS HYPOTHESIS AND THE EFFICACY OF THE SMALL BUSINESS INCENTIVE ACT OF 1992

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We explicitly test the small-firm uniqueness hypothesis of Ang (1991) through the vehicle of the SB-2. We document that the intent of the SB-2 program, to allow small firms easier access to public equity markets, has not been achieved. The existence of the SB-2 program offers a new definition for *small firm*. Comparing SB-2 IPO to S-1 IPO firm and offering characteristics, we find material differences between the offering types along many dimensions. Finally, we document the existence of mainline IPO anomalies in SB-2 IPOs. Overall, we find support for the small-firm uniqueness hypothesis.

Academy of Entrepreneurial Finance- AEF

Program- 2010

September 15-17, 2010

**DePaul University- Conference Center
Chicago, Illinois, USA**

Proceedings of the 22st Annual Conference; Academy of Entrepreneurial Finance

September 15-17, 2010, Chicago, Illinois

Dear Colleagues,

It is with great pleasure to welcome you to Chicago and the 2010 Annual Meeting of the Academy of Entrepreneurial Finance. Our conference will highlight some of the current and on-going work from an array of accomplished researchers and practitioners from across the world. Additionally, we are very much lucky to have a world-renowned scholar as the Keynote Speaker at this year's event. Over the course of the next three days, you will share knowledge, ideas, and fellowship with some of the best minds in the field. Moreover, just like past year, the two sister academies of Entrepreneurial Finance and Behavioral Finance & Economics will hold their joint annual meetings in September of each year.

This conference will feature the latest research from both U.S. and international scholars on a variety of topics relevant to entrepreneurial finance including agency costs, valuation, financing sources, the role of venture capital and private equity, initial public offerings, performance, global issues, and data sources. Additionally, the complementary behavioral finance and economics sessions will further help us better understand how choices and decisions are actually made in the real world. As a presenter, you will receive feedback on your work, and there will be ample time for networking.

For those who are interested in submitting their paper for the upcoming Special Issue of The Journal of Entrepreneurial Finance- JEF, please submit your paper online as indicated in below with copy to afatemi@depaul.edu after the conference is over, but no later than October 31. If you already submitted your paper, please resend it as stated after incorporating feedback from this conference. Online Submission instructions: Please click on the link below and follow the instructions. When you get to the last step of Submission Fee, given there is a 50% discount for Conference presenters, just enter half of the amount which is only \$50.00. http://www.aeof.org/Editorial_Office/JEF_submissions.htm. JEF's URL is: http://www.aeof.org/Editorial_Office/JEF_home.htm.

We want to thank you for attending this year's conference. We hope you take full advantage of the banquet of informative sessions as well as the feast of Chicago's cultural and entertainment offerings. We would like to extend our sincere thanks to DePaul University officials and especially Dr. Werner DeBondt who kindly accepted to speak at our joint Meetings and Dr. Harold Welsch who helped us from the start.

Finally, we would like to thank the AEF's Advisory Board and the reviewers, chairs, and discussants who have made this event something very special.

Enjoy the Conference and we are looking forward to meeting each of you.

Regards,

Ali Fatemi
2010 Program Co-Chair

Bill Petty
2010 Program Co-Chair

2010 Conference Venue:

Please note that all the conference functions take place at DePaul University Conference Center located at 1 E. Jackson Street, 8th Floor, DePaul University, Chicago, IL 60604. Please see our web site for more details. Assigned room for each session/function is listed right after the listed Time and or Session Name for that Session/Function. Specifically,

All AEF sessions will take place in Room 8009.

All General/Joint sessions/functions will take place at Room 8005.

Wednesday Program, September 15, 2010

4:00-6:00 PM; Room 8005

Reception, Networking, Conference Package Pick up, and Registration at DePaul University Conference Center located at 1 E. Jackson Street, 8th Floor, DePaul University, Chicago, IL 6060.

The Journal of Entrepreneurial Finance- JEF

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Thursday Program, September 16, 2010

Morning Sessions	Morning Sessions
<p>7:30-8:30</p> <p>Registration and Breakfast</p> <p>Room 8005</p>	<p>Registration and Breakfast</p>
<p>8:30 to 8:45</p> <p>Welcome and Overview</p> <p>Room 8005</p>	<p>Welcome and Overview</p> <p>Yazdipour, Fatemi, Petty, Nofsinger, Welsch</p>
<p>8:45-10:15</p> <p>Session 11: Pricing the Initial Public Offering</p> <p>Room 8009</p>	<p>Session 11: Pricing the Initial Public Offering</p> <p>Session Chair: Ann Sherman, DePaul University</p> <p>Securities Underwriters are Newsboys: The Risk of Setting a Fixed-Offer Price Requires IPO Underpricing</p> <p>Steven L. Jones, Indiana University</p> <p>Discussant: Re-Jin Guo, University of Illinois at Chicago</p> <p>The Marketability Discount and its Impact on Initial Public Offering Underpricing</p> <p>Juan M. Dempere, Metropolitan State College of Denver</p> <p>Discussant: Thomas Nohel, Loyola University</p> <p>IPO Price Correction for Risk Adverse Sentiment</p> <p>Taufique Samdani, University of Paris</p> <p>Discussant: Bjorn Johnson, DePaul University</p>
<p>10:15-10:30</p> <p>Room 8005</p>	<p>Refreshment Break</p>

<p>10:30-12:00 Room 8009</p> <p>Session 12: Agency Costs, Information, Ownership, and the Entrepreneurial Firm</p>	<p>Session 12: Agency Costs, Information, Ownership, and the Entrepreneurial Firm</p> <p>Session Chair: Keith Howe, DePaul University</p> <p>Firm Ownership, Agency Costs, and Firm Performance</p> <p>William Bradford, University of Washington Tatyana Sokolyk, University of Wyoming</p> <p>Discussant: Keith M. Howe, DePaul University</p> <p>Investor Type and New-Venture Governance: Cognition vs. Interest Alignment</p> <p>Christophe Bonnet, Grenoble Ecole de Management (GEM) Peter Wirtz, Université Lumière (Lyon 2) and COATIS research center</p> <p>Discussant: Tatyana Sokolyk, University of Wyoming</p> <p>Intrapreneurship: A closed-Form Solution for Measuring Intrapreneurship Size within Firms Sarkis Joseph Khoury, Ph.D., UC- Riverside.</p> <p>Discussant: Maretno Harjoto, Pepperdine University</p>
<p>Afternoon Sessions</p>	<p>Afternoon Sessions</p>
<p>Noon to 1:30 Room 8005</p> <p>Luncheon and Keynote Address</p>	<p><u>Luncheon and Keynote Address</u></p> <p><u>Keynote Address:</u></p> <p>Werner DeBondt</p> <p>DePaul University</p> <p><u>Room 8005</u></p>
<p>1:30-1:45</p>	<p>Short Break</p>

<p>1:45-3:00 Room 8009</p> <p>Session 13: Valuation and Capital Raising</p>	<p>Session 13: Valuation and Capital Raising Session Chair: Adam Gehr, DePaul University</p> <p>Valuation and Funding of Seed Capital Firms: A Prospective Perspective Samuel Mongrut, Graduate School of Business and Leadership (EGADE-ZC)</p> <p>Discussant: Adam Gehr, DePaul University</p> <p>Consortium Deals and the Market for LBOs</p> <p>André F. Gygax, University of Melbourne Sarah Hower, Barclays Capital Chander Shekhar, University of Melbourne</p> <p>Discussant: Karim Pakravan, DePaul University</p> <p>Gender and the Availability of Credit to Privately Held Firms: Evidence from the Field</p> <p>Rebel A. Cole, DePaul University Hamid Mehran, Federal Reserve Bank of New York</p> <p>Discussant: Jose Liberti, DePaul University</p>
<p>3:00-3:30 Room 8005</p>	<p>Refreshment Break</p>
<p>3:30-5:00 Room 8009</p> <p>Session 14: Investing in the Entrepreneurial Firm</p>	<p>Session 14: Investing in the Entrepreneurial Firm Session Chair: Jim Booth, DePaul University</p> <p>Acquisitions of Newly-Listed Firms</p> <p>Soumendra De, Menlo College Jan Jindra, Menlo College</p> <p>Discussant: Jim Booth, DePaul University</p> <p>E-readiness and Entrepreneurship: A Cross-Country Study of the Link between Technological Infrastructure and</p>

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	<p>Entrepreneurial Activity</p> <p>Richard L. Constand, University of West Florida Arthur H. Gilbert, Jr., University of West Florida</p> <p>Discussant: Wei Xu, DePaul University</p> <p>A Perceived Success Model for Entrepreneurs to Achieve Success of Their Technology Start-Ups</p> <p>Jayaram Madireddy, DeVry University</p> <p>Discussant: Michael Sherman, The University of Toledo</p>
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Friday Program, September 17, 2010

Morning Sessions	Morning Session
7:30-8:30 Room 8005	Breakfast
8:30-8:45 Room 8005	<p>Welcome for Day 2</p> <p>Fatemi, Nofsinger, Petty</p> <p>Room 8005</p>
8:45-10:15 Room 8009	<p>Session 25: Raising Capital</p> <p>Session Chair: Bill Petty, Baylor University</p> <p>Bank Credit, Trade Credit, or No Credit: Evidence from the Surveys of Small Business Finances</p> <p>Rebel A. Cole, DePaul University</p> <p>Discussant: George Kaufman, Loyola University of Chicago</p> <p>An Analysis of Funding Decisions for Niche Agricultural Producers</p> <p>Howard Van Auken, Iowa State University Shawn M. Carraher, Cameron University</p>
Session 25: Raising Debt Capital	

	<p>Discussant: Troy Carpenter, Brigham Young University</p> <p>A Survey of the Differential Characteristics of SME Users of Commercial Finance Company Versus Other Provider Funding Instruments</p> <p>Michael D. Sherman, The University of Toledo Richard Boden, The University of Toledo</p> <p>Discussant: Rebel A. Cole, DePaul University</p>
<p>10:15-10:30 Room 8005</p>	<p>Refreshment Break</p>
<p>10:30-noon Room 8009</p> <p>Session 26: Financing Capital Structure and the Cost of Capital</p>	<p>Session 26: Issues in Financing and Investments</p> <p>Session Chair: Sanjay Deshmukh, DePaul University</p> <p>Cost of Capital for Privately-Held Firms and Private Capital Segments: Evidence from the Field</p> <p>John K. Paglia, Pepperdine University Marento A. Harjoto, Pepperdine University</p> <p>Discussant: Olivier Marrot, SKEMA Business School</p> <p>Listed SMES: How the Cost of Capital is Affected by the Degree of Coverage Received from Financial Analysts</p> <p>Olivier Marrot, SKEMA Business School Jean-Louis Paré, Advancia-Négocia</p> <p>Discussant: Keith Gamble, DePaul University</p> <p>Sovereign Funds: An Exploratory Study of their Investment Behavior</p> <p>Ali Fatemi, DePaul University Iraj Fooladi, Dalhousie University</p> <p>Discussant: Carl Luft, DePaul University</p>
<p>Afternoon</p>	<p>Afternoon Session</p>

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	<p>Discussant: Bjorn Johnson, DePaul University</p> <p>Using Behavioral Finance Principles in Teaching Entrepreneurial Finance Rassoul Yazdipour, California State University and AEF/ABF</p> <p>Discussant: Sonia Lim, DePaul University</p> <p>An Economic Analysis of the State-Owned China's Venture Capital Firm SHIC</p> <p>Yang Jiandong, University of Electronic Science and Technology of China Guo Wenxin, University of Electronic Science and Technology of China Zeng Yong, University of Electronic Science and Technology of China</p> <p>Discussant: Jin Choi, DePaul University</p>
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California State University and AEF

Forthcoming 2010:
Advances in Entrepreneurial Finance:
With Applications from Behavioral Finance & Economics
Rassoul Yazdipour (ed.) New York, NY: Springer, Forthcoming 2010.

<http://www.springer.com/business+%26+management/entrepreneurship/book/978-1-4419-7526-3?changeHeader>

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