

International issues in entrepreneurship

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Abstract In recent decades, there has been a substantial increase in private and public investment in entrepreneurship. This trend has important managerial, financial, and public policy implications. There is also considerable interest in understanding the financial practices of early stage companies. The recent global resurgence of leveraged buyouts and the concomitant rise of “private equity” markets have also heightened interest in entrepreneurship (e.g., Cumming et al. 2007). In this essay, we provide focused summaries of the papers in this special issue, which address these issues.

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1 Introduction

We have recently witnessed a rapid increase in entrepreneurial activity in many advanced industrial countries. National governments have provided support for numerous entrepreneurial initiatives, via legislation to facilitate technological diffusion from universities and national laboratories to firms (e.g., the U.S. Bayh-Dole Act of 1980), subsidies for research joint ventures involving universities and firms (e.g., the European Union’s Framework Programmes and the U.S. Commerce Department’s Advanced Technology Program (ATP)), public support and financial assistance to firms during the initial stages of their development (e.g., the U.S. Small Business Innovation Research Program), and shared use of expertise and laboratory facilities (e.g., the U.S. National Science Foundation’s Engineering Research Centers, Science and Technology Centers, and Industry-University Cooperative Research Centers). National, state, and regional government authorities have also provided support for entrepreneurial initiatives. These programs have influenced *agents* such as individual academic and industry scientists and entrepreneurs, as well as key entrepreneurial *institutions*, such as incubators and science parks.

The growth in private and public investment in entrepreneurship has important managerial, financial, and public policy implications. Given that many of these initiatives are relatively new, policymakers seek

guidance on “best practices.” There is also considerable interest in understanding the financial practices of early stage companies. The recent global resurgence of leveraged buyouts and the concomitant rise of “private equity” markets have also heightened interest in entrepreneurship (e.g., Harris et al. 2005; Cumming et al. 2007). Accordingly, there is a strong need for evidence on this phenomenon especially from non-U.S. institutions and agents.

Our goal in this special issue is to fill this gap. The papers in the special issue were presented at the 2006 Lally-Darden-Humboldt Young Entrepreneurship Scholars Retreat, which was held in Berlin in October 2006. This event was jointly sponsored by the Lally School of Management and Technology at Rensselaer Polytechnic Institute, the Darden Graduate School of Business at the University of Virginia, and the School of Business and Economics at Humboldt-Universität zu Berlin. In addition to the review for selection into the workshop, the papers received two rounds of external reviews.

The title of the retreat, “Entrepreneurial Decision Making”, was mirrored in all presented papers, including those appearing in this special issue. Their joint understanding is that actions of policymakers, institutional changes etc. may only be considered important when they actually play out at the level of the individual decision maker, such as the entrepreneur or financial intermediaries such as venture capitalists. Whereas studies on decision making are often associated with experimental research and/or concern themselves with theory development (e.g., Burmeister and Schade 2007; Schade and Koellinger 2007; Schade 2005), the studies contained in this special issue are excellent examples for how large databases and econometrics can be used to analyze decision making.

In the remainder of the introductory essay, we provide focused summaries of each paper.

2 Focused summaries of papers in the special issue

The first paper, by Iftekhar Hasan and Haizhi Wang, conjectures that U.S. personal bankruptcy law may affect the supply of venture capital to entrepreneurs. Specifically, the authors examine the relationship between U.S. bankruptcy law and financing for

private equity investments. It is important to note that the United States have a highly debtor-friendly personal bankruptcy law system. The authors hypothesize that liberal personal bankruptcy laws are critical to entrepreneurs, since failed entrepreneurs can take advantage of such laws to shelter a portion of their wealth if their new ventures fail. This study builds on previous work by Fan and White (2003), who found that high bankruptcy exemptions constitute an incentive for entrepreneurs to start/own new businesses.

The authors test their hypotheses using comprehensive company-level information from the SDC VentureXpert database, which provides detailed deal-level information on venture financing. The SDC VentureXpert database allows the authors to identify the number of rounds of funding received, the average amount of funding received per round, the date of the first and the last round of funding, the number of venture capital funds involved, and the location of each company. The last item is critical, since there is considerable state-level variation in the nature of the bankruptcy laws. Consistent with their expectations, the authors find that the amount of venture financing received is negatively related to bankruptcy exemption levels and the number of rounds of financing. They also report a negative association between the number of VC funds and bankruptcy exemptions.

The next contribution, by Philipp Koellinger, focuses on the individual entrepreneur. The author asks the following simple, yet fundamental, research question: Why are some entrepreneurs more innovative than others? Innovation is critical, since entrepreneurship is often defined on the basis of innovation (e.g., Davidsson 2005). Based on a judgment and decision-making framework, Koellinger identifies a set of factors that contribute toward the individual perception of decision alternatives.

The author tests his theoretical predictions using data on 9,549 nascent entrepreneurs in 30 countries, derived from the Global Entrepreneurship Monitor file. He finds that entrepreneurial innovativeness is related to individual factors and on the environment in which the individual acts. Three factors are found to be positively related to entrepreneurial innovativeness: (1) an individual’s level of education, (2) the rate of unemployment, and (3) an individual’s degree of self-confidence. There also appears to be considerable variation in innovative and imitative entrepreneurship across countries. The findings suggest that

entrepreneurs in advanced countries are more likely to engage in innovative activities, as opposed to imitative activities.

The next paper, by Andy Lockett, Mike Wright, Andy Burrows, Louise Scholes, and David Paton, assesses a critical dimension of the performance of venture capital (henceforth, VC) firms. Specifically, the authors study how VC firms influence the export behavior of their investee companies. They begin by pointing out that VC firms perform an important governance function for investee companies, by monitoring these firms and also adding value by providing managerial talent and enhancing the social network of the firm.

Based on agency theory, the resource-based view of the firm and governance life-cycle theory, they generate a set of hypotheses relating to the relationship between VC governance resources and investee exporting behavior. They note that early and late-stage companies exhibit important differences, with respect to the nature of governance resources they require. This implies that the relationship between the provision of VC firm governance resources and investee firm export intensity will be moderated by investment stage. The authors test these hypotheses based on a sample of 340 VC-backed firms. Specifically, they find that monitoring resources are most effective in enhancing the export intensity of late-stage ventures, while value-added resources are most effective in promoting export activity of early stage ventures.

The final paper, by Douglas Cumming, Grant Fleming, and Armin Schwenbacher, considers the role of financial intermediation in entrepreneurial activity using international data. Financial intermediaries, such as VC firms, help transform savings into investment, and also serve as a commitment mechanism and provide delegated monitoring to the organization to which they provide capital. Specifically, the authors assess how the provision of venture capital to entrepreneurial firms is influenced by the ownership structure of the venture capital provider.

Their empirical analysis is based on comprehensive data on the investment activities of 127 Japanese VC funds. These data enable the authors to directly compare the behavior of individual owner–manager venture capitalists versus financial intermediation (e.g., bank’s venture capital divisions). Their findings suggest that owner–manager venture capitalists (financial disintermediation) tend to have smaller portfolios of firms they invest in and also tend to provide more advice to entrepreneurial firms. There also appears to be considerable variation in the provision of governance and value-added advice provided by different types of investors (i.e., banks, life insurance companies, securities firms, corporations, and government institutions) to small firms. The authors also find that US-based funds in Japan are more likely to have smaller portfolios and tend to provide more advice to entrepreneurial firms.

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