

***“Contracting Frictions and Cross-Border
Capital Flows: Evidence from
Venture Capital”(in English)***

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Abstract

To test whether contracting frictions are a limiting factor in venture capital flows using a large sample of cross-border investments by U.S. venture capital firms. While we observe no relation between flows and a country's legal origin or other traditional shareholder protection measures, we find that aggregate flows are increasing in the quality of legal enforcement. Moreover, average round sizes and the fraction of financing raised in the first round are larger for companies in countries with poorer legal enforcement, consistent with investors taking larger stakes to mitigate contractual enforcement problems. Using investment-level data, we develop a contracting friction measure based on the pattern of investment staging and find that it is negatively related to aggregate cross-border venture capital flows. We interpret the evidence as consistent with a “staging channel” through which frictions that lead to third-best contracting limit cross-border investment. Thus, while there is evidence that private contracting mechanisms can mitigate shortcomings in a country's initial legal endowment, reliability of enforcement remains a limiting factor.

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Biography

Prof. Michael Hertzelt is the Richard C. Kremer Professor of Finance at ASU W.P. Carey School of Business. Prof. Hertzelt is also a recipient of the Dean's Council of 100 Distinguished Scholar Award. He received his Ph.D from University of Oregon in 1988. Prof. Hertzelt also holds an M.S in finance and applied economics, and MBA in operations management and a bachelor's degree from University of Rochester.

Prof. Hertzelt's research focuses on corporate finance, law and economics, accounting, loan contracting, and behavioral finance. He has produced a vast amount of scholarship in his research areas and has been published in several prominent journals such as Journal of Finance, review of Financial Studies and Journal of Financial and Quantitative Analysis. He was the recipient of the FAMA-DFA Prize, Journal of Finance in 2008.

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