

A 3D puzzle with glowing blue and white pieces against a dark blue background. The puzzle pieces are arranged in a circular pattern, with some pieces missing, creating a glowing effect. The background is a dark blue gradient with some abstract, glowing blue shapes.

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Promoting Innovation

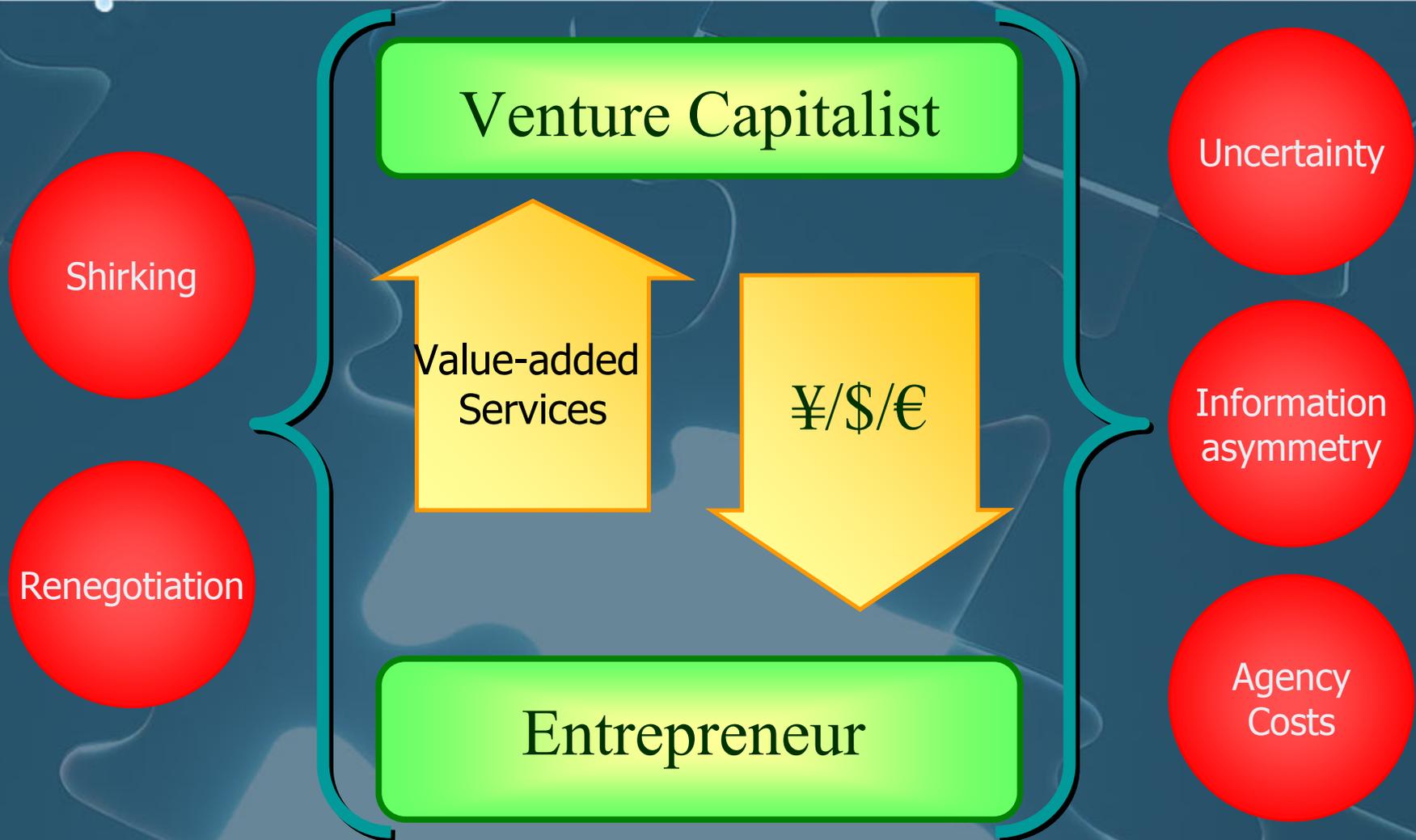


Importance of IPO for Venture Capitalist Exit

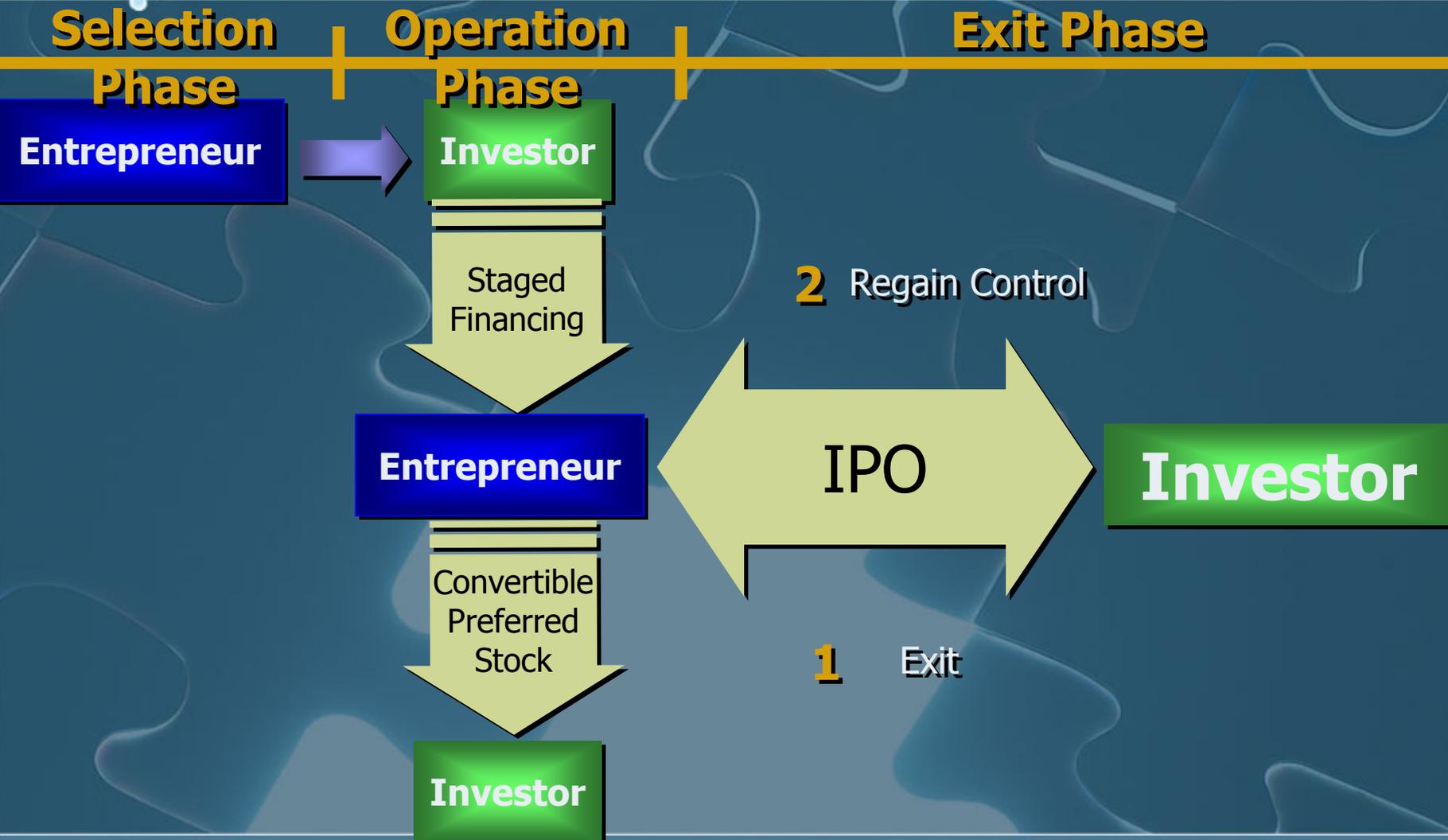
Black and Gilson thesis:

The optimal contract between the entrepreneur and the venture capitalist is structured around the availability of the venture capitalist's exit through an IPO.

Double-sided Moral Hazard Problem



Venture Capital Architecture





IPO Availability Explains National Differences

- IPO availability explains why innovation based spin-offs occur in much greater numbers in the United States than in Germany or Japan.
- Theory: more “vibrant” public equity market in the United States makes this optimal form of venture capital contract more available in the United States than elsewhere.



Further Required Steps toward Better Finance for Innovation

- Flexible Business Forms
- Corporate Governance and Disclosure
- Tax Neutrality
- Entrepreneurism



Flexible Business Forms To Meet Parties' Contractual Needs

Venture Capitalist

- *Agent Constraints Rules
- *Affiliation Terms-Entry
- *Appointment Rights-Selection
- *Decision Rights-Initiation
- *Trusteeship

Limited Liability Partnership

Limited Liability Company

(Close) Corporation

Limited Partnership

- *Agent Constraints Standards
- *Affiliation Terms-Exit
- *Appointment Rights-Removal
- *Decision Rights-Veto
- *Reward

Entrepreneur



Governance and Disclosure

- **Vibrant Equity Market for IPO Exit Requires:**
 - Non-Control Shareholder Protection
 - Initial and Ongoing Corporate Disclosure
 - Market Transparency



Tax

- Tax Neutrality – US-Check-the-Box
 - Corporate vs. Partnership Taxation



Entrepreneurism

- **Need for Mobility:**
 - **Employees of Established Firms Leaving if Good Ideas are not Implemented**
- **Creating an Entrepreneurial Climate**



Thank you!