

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.

**Prof. Merritt Fox and Prof. Joseph A. McCahery**

**Promoting Innovation**

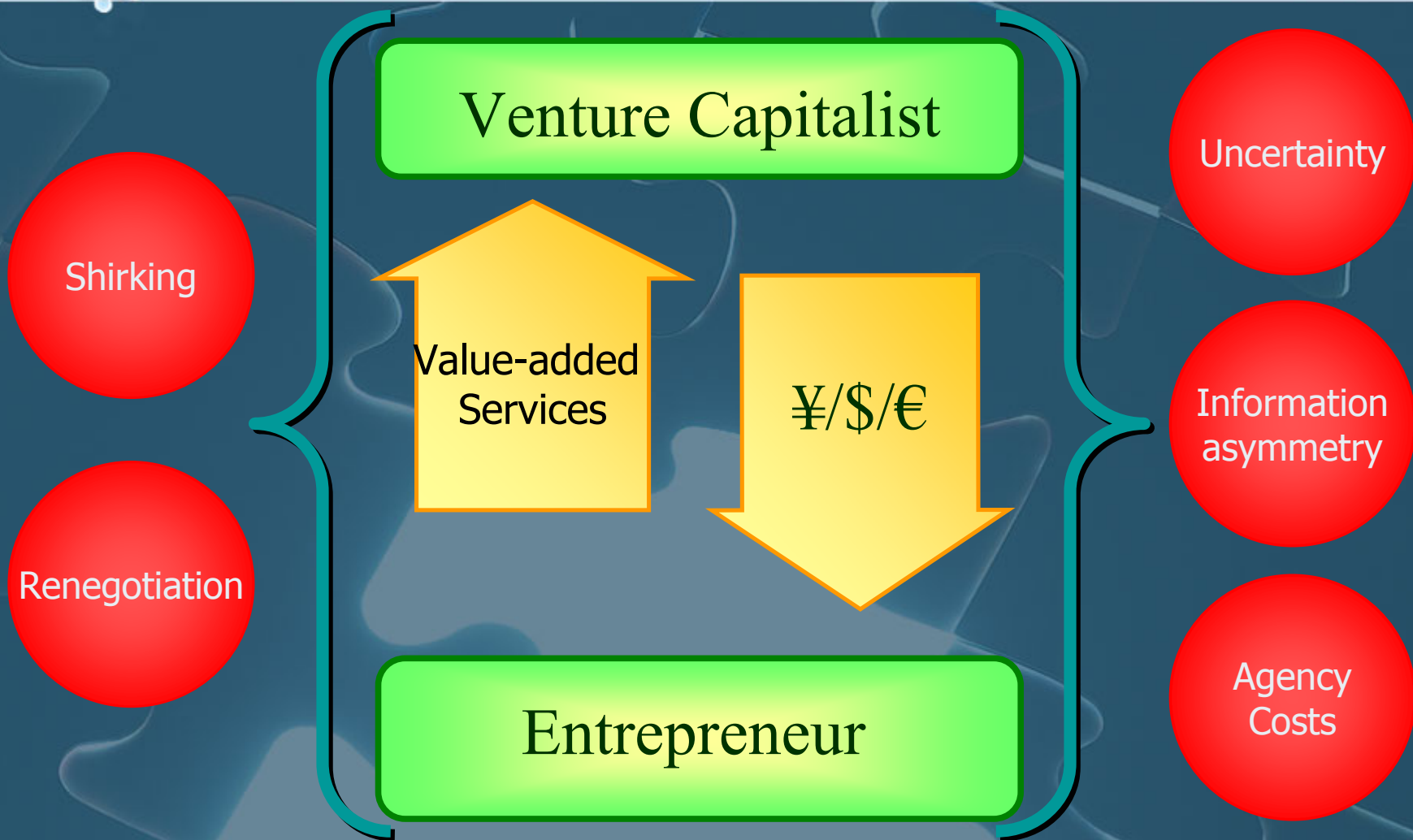


# Importance of IPO for Venture Capitalist Exit

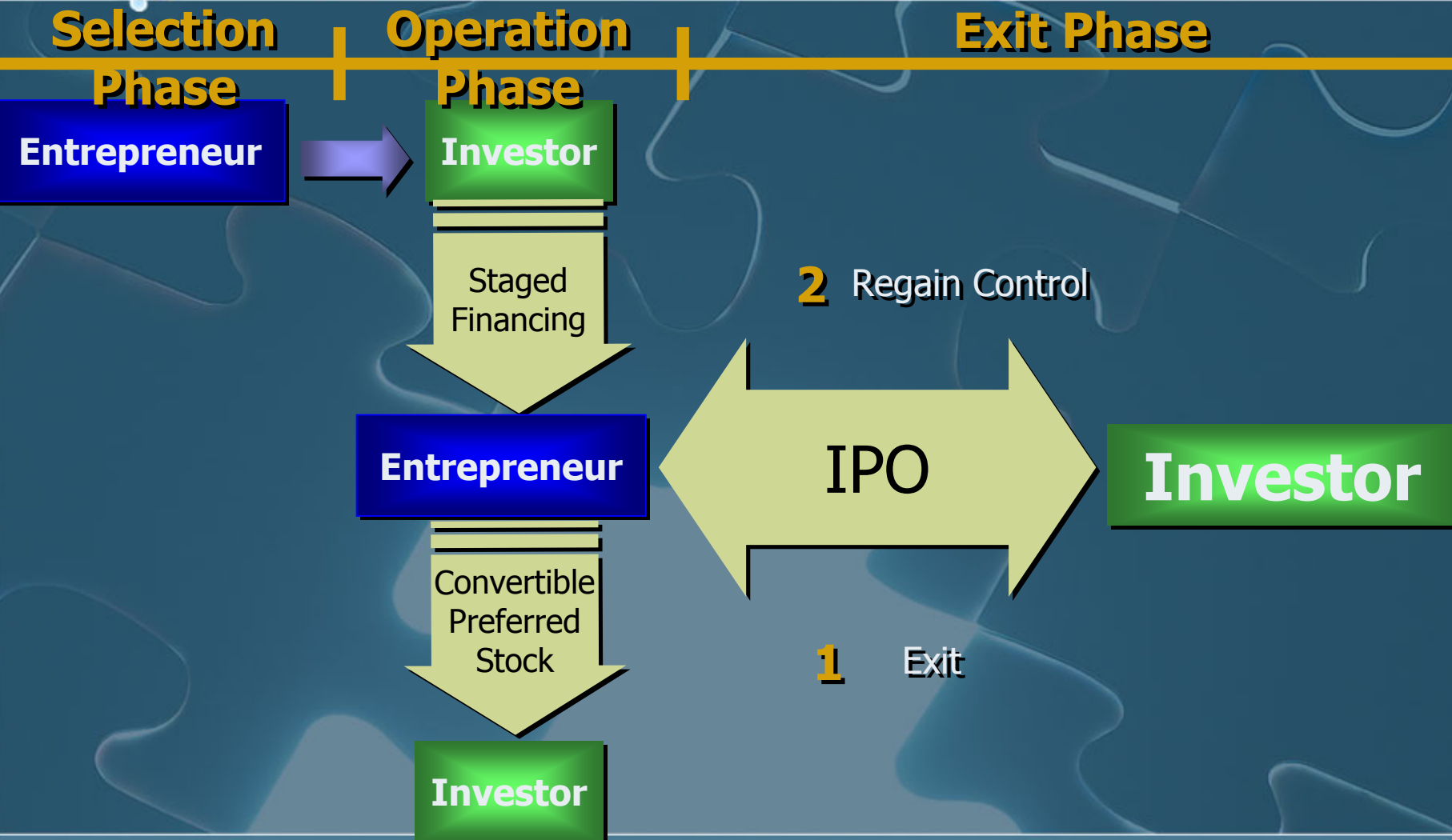
Black and Gilson thesis:

***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!**