ENTREPRENEURIAL FORESIGHT AND THE ENDOGENOUS CHOICE OF MARKET INTERMEDIARIES IN JAPANESE IPOS (INTERACTIVE PAPER)

Nobuhiko Hibara  
*Waseda University*

Theodore Khoury  
*Portland State University*

Prem Mathew  
*Oregon State University*

Yasuhiro Yamakawa  
*Babson College, yyamakawa@babson.edu*

6-9-2012

Recommended Citation

Hibara, Nobuhiko; Khoury, Theodore; Mathew, Prem; and Yamakawa, Yasuhiro (2012) "ENTREPRENEURIAL FORESIGHT AND THE ENDOGENOUS CHOICE OF MARKET INTERMEDIARIES IN JAPANESE IPOS (INTERACTIVE PAPER)," *Frontiers of Entrepreneurship Research*: Vol. 32: Iss. 2, Article 11.  
Available at: http://digitalknowledge.babson.edu/fer/vol32/iss2/11

This Interactive Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
ENTREPRENEURIAL FORESIGHT AND THE ENDOGENOUS CHOICE OF MARKET INTERMEDIARIES IN JAPANESE IPOS

Nobuhiko Hibara, Waseda University, Japan
Theodore Khoury, Portland State University, USA
Prem Mathew, Oregon State University, USA
Yasuhiro Yamakawa, Babson College, USA

Principal Topic

Over the past two decades, finance, strategy, and entrepreneurship research has emphasized the critical role of market intermediaries – venture capitalist firms (VCFs) and underwriters within the initial public offering (IPO) process. Both actors occupy a critical role in financial intermediation by reducing the information asymmetries inherent in the IPO process, where, more typically, venture owners establish ties to VCFs prior to engaging with underwriters. In doing so venture owners are faced with decisions related to ownership retention and the strategic control of the firm. Focusing on the IPO underpricing outcome, we propose that the ex-ante decision to retain greater venture ownership is endogenous to the relationship of VCF and underwriter quality in certifying the IPO firm.

Our study intends to contribute to the literature in three ways. First we re-investigate the certification role played by underwriters in the Japanese IPO market. Second, we extend the framework developed by Habib and Ljungqvist (2001) by assuming that the choice of VCF is endogenously determined. In this context, we examine the effect of VCF reputation on underpricing. Third, we re-explore the conflict of interest hypotheses in Japan. Changes in Japanese venture capital market landscape since Hamao, Packer and Ritter (2000) provide us with a sample of IPOs that is substantially different in structure from the sample used in their study. We believe that the Japanese market is appropriate to test our hypotheses because our sample includes a sufficiently large percentage of IPOs that are backed by independent VCFs and securities-affiliated VCFs.

Results and Implications

Our findings offer a contribution to the IPO literature by showing that intermediary selections are dependent on owner participation, and that there is a negative relationship between IPO underpricing and intermediary quality. Furthermore, we also uncover that the relationship is stronger between owner participation and VCF quality than between owner participation and underwriter quality when accounting for endogeneity. These findings are consistent with the temporal sequence of intermediary selection within the IPO process.

CONTACT: Yasuhiro Yamakawa; yyamakawa@babson.edu; (T) 781-239-4747; (F) 781-239-4178; Arthur Blank Center for Entrepreneurship, Babson Park, MA 02457.