SOCIAL CAPITAL AND THE PERFORMANCE OF ASIAN AMERICAN-FOUNDED VENTURES IN SILICON VALLEY (INTERACTIVE PAPER)

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INTERACTIVE PAPER

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Method

We analyze the relative performance of Asian American-founded ventures (relative to those founded by non-Asian American or “mainstream” entrepreneurs) in terms of time-to-IPO, market valuation at IPO, and post-IPO performance. The study sample is composed of 118 technology companies in the Silicon Valley, 31% of which were founded by Asian Americans. We use Cox hazard model to examine how explanatory variables affect the likelihood that a venture will go to IPO in each period. Natural logarithm regression is used to estimate the market valuation at IPO. In addition, to trace the change of valuation, we examine share price gains after IPO using a multiple general linear (GLM) model.

Results and Implications

Our results indicate that Asian American-founded firms tend to have longer time to IPO compared to other ventures in Silicon Valley, potentially indicating greater difficulties in acquiring resources. Although showing no significant difference in market valuation at IPO, Asian American-founded firms significantly outperform those founded by non-Asian Americans in 12-months post-IPO share price gains. The superior post-IPO performance by Asian American-founded firms may suggest that the Asian American firms may have been undervalued at and prior to IPO – probably because of their founders’ relative deficiency of social capital. Once the companies are public and more accessible to a wider audience of investors, social capital appears to play less of a role.

We also verify that the superior 12-months share price performance of the Asian American-founded firms is less significant among those that have received financing from U.S.-based strategic investors. Similarly, we find that post-IPO 3-year and 5-year performances of Asian American founded firms are better for those that did not receive financing from U.S.-based venture capital firms. Again, it appears, those firms that do not have relationship with U.S.-based strategic investor or venture capital firm are imposed a “discount” in valuation during the private rounds and at IPO.

This study makes contribution to the literature by showing how social capital affects venture performance before and after IPO; introducing the consideration of ethnicity in entrepreneurship literature; and being one of the few that explores the entrepreneurial experiences and performances of Asian American entrepreneurs.

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