PROPERTY RIGHTS, DEPENDENCE ON TRANSACTION PARTNERS, AND FIRM VALUATION: WHO APPROPRIATES VALUE? (INTERACTIVE PAPER)

Jonathan D. Arthurs
Washington State University, USA, jarthurs@wsu.edu

Daeil Nam
Washington State University, USA

Marsha Nielsen
Washington State University, USA

Fariss Mousa
Washington State University, USA

Kun Liu
Washington State University, USA

Recommended Citation
Arthurs, Jonathan D.; Nam, Daeil; Nielsen, Marsha; Mousa, Fariss; and Liu, Kun (2008) "PROPERTY RIGHTS, DEPENDENCE ON TRANSACTION PARTNERS, AND FIRM VALUATION: WHO APPROPRIATES VALUE? (INTERACTIVE PAPER)," Frontiers of Entrepreneurship Research: Vol. 28: Iss. 12, Article 2.
Available at: http://digitalknowledge.babson.edu/fer/vol28/iss12/2

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.
INTERACTIVE PAPER

PROPERTY RIGHTS, DEPENDENCE ON TRANSACTION PARTNERS, AND FIRM VALUATION: WHO APPROPRIATES VALUE?

Jonathan Arthurs, Washington State University, USA
Daeil Nam, Washington State University, USA
Marsha Nielsen, Washington State University, USA
Fariss Mousa, Washington State University, USA
Kun Liu, Washington State University, USA

Principal Topic

A key issue gaining attention in the field of entrepreneurship is answering the question of who will appropriate the rents associated with entrepreneurial activity. While entrepreneurs may expend substantial resources to pursue an opportunity, others may be able to appropriate value if the entrepreneurs have not established protections. For example, a key supplier who provides a critical input into the entrepreneur’s product may be able to negotiate for higher prices over time. As such, the decision to utilize a market transaction poses hazards for the entrepreneurial firm. In this paper we specifically examine a situation where IPO firms are dependent on a key transaction partner. We examine the stock price of these transaction partners to examine whether they enjoy a cumulative abnormal return (CAR) in stock price when the dependent IPO firm registers its first S-1 form (which is the preliminary prospectus) with the SEC. Furthermore, we examine whether the size of the IPO firm has a positive impact on this CAR.

Method

We first identified new ventures going through the IPO in the U.S. between 2001-2005. We next identified all transaction partners on whom the respective IPO firms were dependent (as noted by the IPO firm). We narrowed the sample to those firms which were publicly traded on a U.S. exchange and then collected stock price information on these transaction partners. We used event study methodology to test our first hypothesis and OLS regression to test our second hypothesis (to see whether IPO size had a positive effect on the CAR).

Results and Implications

We find that the transaction partners enjoy a CAR in their stock price on the date when the IPO firms file the first S-1 with the SEC. Contrary to hypothesized results, we find that the size of the IPO firm has a negative impact on the CAR. These results indicate that transaction partners are positioned to reap potential rents based on this dependency by IPO firms. Also, it appears that IPO firm size can help bargain against these potential rent appropriation threats.

CONTACT: Jonathan Arthurs; jarthurs@wsu.edu; (T): 509-335-5628; E Washington State Univ. Management, PO Box 644736, Pullman, WA 99164.