

# The Development Processes and Performances of Asian American-Founded Ventures in Silicon Valley

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Asian American entrepreneurs, particularly those in high technology, have made a significant contribution to the Silicon Valley economy over the last three decades. By the late 1990s, Chinese American and Indian American entrepreneurs were running 29% of technology firms in Silicon Valley, accounting for more than \$19.5 billion in sales and 72,839 jobs (Saxenian [2002a]). Furthermore, Asian American entrepreneurs have been critical in building a bridge between the U.S. and Asian economies, successfully managing otherwise culturally and linguistically complex business relationships (Saxenian [2002b]).

Nevertheless, extremely little research exists in management literature on the experiences of Asian American entrepreneurs or the performances of their companies. We know very little about their access to venture funding, ability to recruit, or effectiveness in raising capital in the public market. We have virtually no information about their companies' growth patterns or performances. A better understanding of Asian American entrepreneurs' experiences and strategies could provide useful insights for other minority entrepreneur groups and perhaps all entrepreneurs. Information about their companies' performances could be useful for the investment community as well.

This article examines the growth patterns and performances of Asian American-founded ventures by addressing the following questions:

- Do Asian American entrepreneurs exhibit significant differences in hiring patterns that may (or may not) impact company performance? For example, do they hire more Asian Americans than non-Asian American founders do?
- Do ventures founded by Asian Americans have the same access to venture capital and strategic investments as those founded by other entrepreneurs in Silicon Valley? If not, where and how do they obtain the needed venture financing?
- Do Asian American entrepreneurs maintain the same level of (equity) ownership as their counterparts at the time of their IPOs? Are there differences in ownership levels due to Asian American entrepreneurs' inability to raise capital?
- Do Asian American entrepreneurs take about the same amount of time to grow their companies (e.g., as measured by time to reach an IPO) or are their performances vastly different? At the time of IPO, are Asian American ventures as valuable as other companies?
- After IPO, do companies founded by Asian Americans exhibit the same level of stock price performance as those founded by non-Asian Americans?

## LITERATURE REVIEW

Extremely little research exists in management literature on the experiences of Asian American entrepreneurs or performances of their companies. In fact, Cheng and Thatchenkery [1997] note that "Asian Americans have hardly been studied by organizational science scholars." Most of the traditional work on Asian American entrepreneurs has been sociological or historical in nature and has explored such issues as exploitation or the impact of immigrant entrepreneurship on the broader society (Portes and Bach [1985]; Light and Bhachu [1993]). Even the more recent entrepreneurship literature on Asian Americans mostly examines small businesses in low-skilled professions (Bates [1999]; Park [2001]).

A few researchers have compared entrepreneurial activities of different racial or ethnic groups from sociological and public policy perspectives. Bates [2000] conducts statistical analysis to compare and contrast the self-employment experiences of Asian immigrants to U.S.-born African Americans. Fernandez and Kim [1998] analyze inter-group differences in self-employment rates and business activities of four different groups of Asian immigrants. While these publications present examples of successful inter-group comparisons, they measure and compare sociological variables.

Some regional studies have examined certain ethnic groups' entrepreneurial activities in a particular city or region. Halter [1995] presents a collection of essays on ethnic entrepreneurs in the Boston area, and Park [1996] and Saxenian [2002a] study skilled Asian immigrant entrepreneurship in Silicon Valley. While both Park [1996] and Saxenian [2002b] provide valuable demographic information and sociological insight, they do not examine the issues from a management viewpoint.

An area of research highly relevant to our study, which has gained significant attention in management literature in recent years, is the social capital theory (Nahapiet and Ghoshal [1998]; Florin et al. [2003]; Bosma et al. [2004]). Social capital theory is founded on the premise that a network provides value to its members by allowing them access to the social resources that are embedded within the network (Bourdieu [1985]; Seibert et al. [2001]). In the context of entrepreneurship, social capital is believed to be useful in the same way that financial capital is for initiating, creating, and building a business (Lin [1999]). Indeed, there is growing evidence that social capital has a significant impact on the performances of entrepreneurial companies. It has been shown to play an important role in the survival of small businesses (Granovetter [1984]),

growth of firms (Ostgaard and Birley [1994]), companies' ability to accumulate financial capital during its growth stages (Florin [2003]), and organizations' competitive advantage (Nahapiet and Ghoshal [1998]).

## SOCIAL CAPITAL THEORY AND HYPOTHESES DEVELOPMENT

Our core thesis is that Asian American entrepreneurs, many of whom are first or second generation immigrants, may not have access to the same level of social capital as non-Asian American or "mainstream" entrepreneurs in Silicon Valley.<sup>1</sup> Thus, although we are examining only those ventures that were entrepreneurially successful (as measured by reaching an IPO), we suspect that we may still observe notable differences in their development patterns and performances. We formalize our thesis in the next six sets of hypotheses.

First, Asian American entrepreneurs may differ from others in whom they found their companies with or whom they hire as executives. Granovetter [1973] and Seibert et al. [2001] find that people tend to hire others from their social and business networks. We posit that Asian American entrepreneurs have more Asian Americans in their social network than non-Asian Americans, and vice versa. Thus, our first hypothesis:

**H1:** *Companies founded by Asian American entrepreneurs have more Asian Americans on the executive team than do companies founded by non-Asian Americans.*

Ventures accumulate financial capital to survive and fund development (Dean and Giglierano [1990]; Starr and MacMillan [1990]). Florin et al. [2003] show that social capital can affect a venture's ability to accumulate financial capital during its growth stages. Given their limited connection with the mainstream business community, Asian American entrepreneurs may face greater difficulty in raising capital. Consequently, Asian American entrepreneurs might be forced to surrender more of the equity stakes of their companies to their investors.

**H2a:** *Asian American founders have lower equity ownership at the time of IPO than their counterparts (non-Asian American founders).*

**H2b:** *Venture capital companies have a larger share of the equity in companies founded by Asian Americans than in companies founded by their counterparts.*

We conjecture that some of the Asian American entrepreneurs are able to leverage their social capital to obtain financing from Asia-based venture capital firms or large corporations, which non-Asian entrepreneurs might not have access to. On the other hand, Asian American entrepreneurs may face more difficulty in raising venture capital and strategic investments from U.S.-based firms than their counterparts.

**H3a:** *Companies founded by Asian American entrepreneurs more commonly obtain venture capital/strategic investment from Asia-based firms/corporations than do companies founded by their counterparts (non-Asian American founders).*

**H3b:** *Companies founded by Asian American entrepreneurs less commonly obtain venture capital/strategic investment from U.S.-based venture capital firms/corporations than do companies founded by their counterparts.*

Zhao and Aram [1995] argue that businesses with less diverse networks may grow more slowly. Florin et al. [2003] in a study of 275 ventures that went public show that social capital leverages the productivity of a venture's resource base and provides the venture with a durable source of competitive advantage. Based on such findings, we conjecture that companies with stronger social capital will grow more quickly and experience a shorter "time to IPO," i.e., the time between the date of company founding and the date of its IPO.

**H4.** *The time to IPO is longer for companies founded by Asian Americans than those founded by their counterparts (non-Asian Americans).*

Companies with more social capital, and thus those with a stronger organizational competitive advantage and

other aforementioned benefits, are likely to be more valuable. Indeed, Florin et al. [2003] have shown that social capital can affect a venture's ability to accumulate financial capital in an IPO. Thus, our hypothesis:

**H5:** *Company valuation at IPO is lower for companies founded by Asian Americans than those founded their counterparts (non-Asian Americans).*

Finally, we hypothesize that companies with greater social capital will perform better even after the IPO. Companies with larger IPOs would leverage their expanded financial base to fuel continued growth. In addition, Florin et al. [2003] show that social capital can affect a venture's performance two years after its IPO. Thus, our final hypothesis:

**H6.** *Post-IPO performances of companies founded by Asian American entrepreneurs are inferior to those of companies founded by their counterparts.*

## RESEARCH METHOD

We obtained from the Securities Data Corporation (SDC) database a list of 6,201 companies in the U.S. that went public in the 10-year period from January 1, 1992, to December 31, 2001. We narrowed down the list of our sample using the criteria that the companies:

- Were located inside the traditional definition of "Silicon Valley" (displayed in Exhibit 1).
- Were in specific high-tech areas, i.e., semiconductor, software, and computer components. Their SIC codes are listed in Exhibit 2.
- Had complete SEC S-1 filing documents available.<sup>2</sup>

## EXHIBIT 1

### Definition of Silicon Valley Obtained from Saxenian [2002a]

<b>Santa Clara County</b> Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, Sunnyvale	<b>San Mateo County</b> Atherton 94027 Belmont 94002 East Palo Alto 94303 Foster City 94404 Menlo Park 94025 Redwood City 94070 San Carlos 94070 San Mateo 94400-03 Woodside	<b>Alameda County</b> Fremont 94536-39, 94555 Union City 94587 Newark 94560	<b>Santa Cruz County</b> Scotts Valley 95066- 67
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## EXHIBIT 2

### SIC Codes of Companies in the Analysis

Industry Group	Sub-groups
357: Computer and Office Equipment	3571, 3572, 3575, 3577
367: Electronic Components and Accessories	3671, 3672, 3674, 3675, 3677, 3679
355: Special Industry Machinery	3599
366: Communications Equipment	3661, 3663, 3669
372: Aircraft and Parts	3721, 3724, 3728
381: Search, Detection, Navigation, Guidance	3812
382: Laboratory Apparatus and Analytical, Optical	3821, 3822, 3823, 3824, 3825, 3826
504: Professional and Commercial Equipment	5045, 5047, 5048, 5049
506: Electrical Goods	5063, 5064, 5065
737: Computer Programming, Data Processing	7371, 7372, 7373, 7374, 7375, 7376, 7378, 7379
871: Engineering, Architectural, and Surveying	8711
873: Research, Development, and Testing Services	8731, 8732, 8734

## EXHIBIT 3

### Number and Share of IPOs by Year

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
AA	1	4	4	8	9	3	4	19	19	4	75
Non-AA	4	14	6	7	14	11	11	30	37	5	139
% AA	20.0	22.2	40.0	53.3	39.1	21.4	26.7	38.8	33.9	44.4	35.0

## EXHIBIT 4

### Percentage of Asian Americans in Executive Management

	Total Including Founder(s)	Total Excluding Founder(s)
AA	34.48%	16.09%
Non-AA	2.35%	2.35%
T-Stat	11.06**	5.71**

\* $P < 0.05$ , \*\* $P < 0.01$ .

Our final sample is composed of 214 Silicon Valley companies—75 Asian American-founded and 139 comparable non-Asian American-founded—that fit the above mentioned criteria. We defined a company to be “Asian American” when one or more of their founders were Asian American. We defined companies as “non-Asian American” when none of the founding members were Asian American. Surprisingly few companies had multi-ethnic founding teams consisting of both Asian Americans and non-Asian Americans.

## RESULTS

Exhibit 3 organizes our sample into two groups, Asian American (AA) and non-Asian American (Non-

AA), by the year of their IPOs. The share of Asian American IPOs appears to be on an upward trend from 20% in 1992 to more than 40% in 2001.

To test for Hypothesis 1, we examine the composition of Asian Americans listed as executives in the S-1 filings. Exhibit 4 shows that the percentage of Asian Americans in executive management was dramatically higher among Asian American-founded companies (34.48%) than in non-Asian American-founded companies (2.35%). Even excluding the founders, the composition of Asian Americans in the management team was significantly higher for Asian American-founded ventures (16.09% vs. 2.35%). Hypothesis 1 is supported.

Next, we examine the founders’ ownership level of the company at the time of IPO. As shown in Exhibit 5,

## EXHIBIT 5

### Share of Equity at IPO by Year

	Founder Equity Share	Venture Capitalist Equity Share
AA	19.54%	34.79%
Non-AA	19.70%	40.70%
T-Stat	-0.054	-1.87

\* $P < 0.05$ , \*\* $P < 0.01$ .

## EXHIBIT 6

### Sources of Funding

	Venture Capital		Strategic Investment	
	Asian	U.S.	Asian	U.S.
AA	30.0% (15/50)	84.0% (42/50)	12.0% (6/50)	26.0% (13/50)
Non-AA	0% (0/98)	95.2% (94/98)	1.0% (1/98)	44.9% (44/98)
T-Stat	4.58**	-2.12	2.31*	-2.35*

\* $P < 0.05$ , \*\* $P < 0.01$ .

## EXHIBIT 7

### Average Number of Years to IPO (by year of IPO issued)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
AA	5.0	6.5	7.0	7.8	5.8	4.2	8.0	5.0	4.8	5.0	5.6
Non-AA	4.5	9.5	11.2	5.4	5.2	4.3	7.6	5.5	5.8	6.6	6.2
T-Stat	N/A	-1.22	-1.13	1.68	0.29	0.06	0.10	-0.44	-1.07	-0.61	-1.18

\* $P < 0.05$ , \*\* $P < 0.01$ .

the founder ownerships are almost identical. We also measure the venture capitalists' share of the companies' equity at IPO, also displayed in Exhibit 5. Surprisingly, venture capitalist ownership level is higher in non-Asian American companies—although the difference is not statistically significant. Neither Hypothesis 2a nor 2b is supported.

Exhibit 6 divides the major sources of funding into four categories, U.S. strategic investors, Asian strategic investors, U.S. venture capitalists, and Asian venture capitalists. Interestingly, 30% of Asian American ventures received financing from Asian venture capital groups, while none (0%) of the non-Asian American ventures in our sample did. Some of the Asian American ventures obtained strategic investments from Asian corporations (12%), when very few non-Asian American companies did (1%). A slightly lower percentage of Asian American-founded companies obtained U.S. venture capital (84% vs. 96%), although the difference is not statistically significant. On the other hand, Asian American-founded companies were

much less successful in receiving strategic investments from U.S. corporations (26.0% vs. 44.9%). Thus, Hypothesis 3a is supported and Hypothesis 3b is partially supported.

Our results in Exhibit 7 show that the aggregate average time to IPO of 5.6 years for Asian American companies is lower, not larger, than that of the non-Asian founded companies of 6.2 years. Nevertheless, the difference is not statistically significant. Hypothesis 5 is not supported.

Exhibit 8 compares the valuations of companies at IPO for the two groups. While the t-tests do not produce any statistical differences, the Wilcoxon signed rank test identifies systematic differences in 2 of the 10 years: In 1999, the non-Asian American firms had a higher valuation while in 2000 Asian American firms had a higher valuation. In total, it was the Asian American-founded ventures that had a higher valuation at IPO—partially due to years 2000 and 2001 when large networking equipment companies founded by Asian Americans went public. Thus,

## EXHIBIT 8

### Company Valuation at IPO (\$1,000)

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
AA	101,232	68,807	99,750	276,494	267,313	241,391	241,416	1,109,272	2,301,574	1,364,146	1,014,865
Non-AA	159,119	187,152	241,467	445,421	298,877	456,954	345,484	1,631,531	1,058,991	336,852	819,719
T-Stat	N/A	-2.79*	-1.33	-0.61	-0.26	-0.99	-0.77	-1.10	1.81	1.25	0.84
Signed Rank	1.0000	0.1296	0.1779	0.4433	0.7894	0.7998	0.7237	0.0452*	0.0006*	0.2410	0.0430

\* $P < 0.05$ , \*\* $P < 0.01$ .

## EXHIBIT 9

### Three-Month Post-IPO Performance (% in share price)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Asian %	13.51	-8.34	0.16	18.94	1.08	93.7	142.9	52.7	-3.85	-18.1	25.3%
Non-Asian %	-34.40	10.49	-0.68	18.46	5.60	14.42	35.70	112.1	-14.6	-35.9	25.3%
T-Stat	N/A	-1.19	0.06	0.01	-0.25	1.08	0.82	-1.59	0.50	1.18	-0.01
S: Signed Rank	0.4370	0.2444	0.8893	0.6178	0.7920	0.2289	0.5990	0.5986	0.2635	0.3024	0.6136

\* $P < 0.05$ , \*\* $P < 0.01$ .

## EXHIBIT 10

### Twelve-Month Post-IPO Performance (% in share price)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
AA	51.3	-10.7	34.6	33.5	-8.90	92.6	258.9	109.3	-80.4	-50.5	28.7%
Non-AA	-9.7	9.3	40.3	34.4	0.32	13.1	128.3	45.8	-68.1	-65.1	4.8%
T-Stat	N/A	0.03	-0.09	-0.02	-0.39	0.82	1.39	0.90	-1.72	0.98	1.05
Signed Rank	0.4370	0.8948	0.4939	0.9003	1.000	0.2935	0.1684	0.8480	0.3532	0.4162	0.8853

\* $P < 0.05$ , \*\* $P < 0.01$ .

our results overall do not support our Hypothesis 6.

Exhibits 9 and 10 examine the post-IPO performances of the two groups. Exhibit 9 displays the three-month share price performances of the companies after going public. Data for the stock prices are obtained from a database provided by the Center for Research in Security Prices (CRSP) of the University of Chicago. As reported in Exhibit 9, neither the t-test nor the Wilcoxon signed rank tests find any significant differences in short-term share price performance. In fact, the overall performance over the 10 years is almost identical between the two groups.

We also evaluate the 12-month performance of the companies as shown in Exhibit 10. The results indicate again that, in general, there are no systematic differences in performance between the two groups. Overall, Hypothesis 6 is not supported.

## DISCUSSION AND CONCLUSION

Our results show that there are significant differences in how companies founded by Asian American entrepreneurs in Silicon Valley developed in comparison to those founded by non-Asian American entrepreneurs. We learn that Asian American founders were more likely to hire other Asian Americans as executives while it seemed almost impossible for Asian Americans to be executives at companies not founded by Asian American entrepreneurs. Asian American ventures were more effective in obtaining financing from Asia-based investors, while less likely to obtain strategic investment from U.S. corporations.

While the two groups exhibit notable differences with respect to their acquisition of human and financial resources, we find little systematic difference in the performance of their companies in terms of time to IPO, valuation at IPO, or post-IPO performance. Although

social capital may play an important role in recruiting and receiving financing—activities at the earlier stage of a company's development—it appears to have less impact on company performance as the company develops. It should be noted that these findings do not imply that Asian Americans are not disadvantaged in terms of social capital. They do suggest, however, that the successful ones might have been able to overcome their shortcomings so that their companies were able to perform on par with others.

The overall results confirm that Asian Americans in Silicon Valley are indeed effective as entrepreneurs. In fact, companies founded by Asian Americans in some cases outperformed their peers in time to IPO, valuation at IPO, and post-IPO share price performance. While stereotypes of Asian Americans (e.g., good engineers but not good leaders) might still hinder some from being promoted inside large corporations, they seem effective as creators and builders of new organizations. Our results should also be interesting to the venture investment community, which is not always sufficiently aware of the positive track record of Asian American entrepreneurs.

Our findings raise additional research questions. For example, it would be interesting to learn why and how our Asian American entrepreneurs received financing from Asia-based companies. It is unclear if Asian corporations provided better terms or whether they were the only source of investment for our Asian American entrepreneurs. We are also curious as to why Asian Americans had much less success receiving strategic investment from U.S.-based corporations.

It might also be interesting to compare the experiences of first-generation immigrants in our sample to those who were born in the U.S. Such a study could potentially provide additional insights into the area of social capital. Another study could compare the experiences of Chinese American entrepreneurs with those of Indian Americans—the two largest Asian American ethnic groups in Silicon Valley.

It should be noted that we examined only a small subset of the Asian American companies in Silicon Valley—the ones that have successfully gone public. Furthermore, a longitudinal study could examine the decision processes and growth patterns of Asian American-founded ventures more closely.

## ENDNOTES

<sup>1</sup>According to *Statistics: Joint Venture's 2004 Index of Silicon Valley*, the largest population in Silicon Valley is white, non-Hispanic with 44% followed by Asian Americans who are 26% of the population. We assume that most of the non-Asian American entrepreneurs are mostly "mainstream" in terms of ethnicity. We do note that some of the non-Asian American entrepreneurs may also be recent immigrants from European countries.

<sup>2</sup>S-1 is a document filed with the Securities and Exchange Commission (SEC) in preparation for an IPO which reveals information about a private company. S-1 filings provided our research with important information, including who the founders were.

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**THE DEVELOPMENT PROCESSES  
AND PERFORMANCES OF ASIAN  
AMERICAN-FOUNDED VENTURES  
IN SILICON VALLEY 56**

DAVID Y. CHOI, CHUN LEE,  
AND KIMBERLY GLEASON

This article examines the development patterns and performances of companies founded by Asian American entrepreneurs in Silicon Valley and compares them with those of companies founded by non-Asian Americans. The authors find that companies founded by Asian Americans tended to have more Asian Americans in the executive team than those founded by their counterparts. Asian American ventures were more likely to secure venture capital and strategic investments from Asia-based companies and less likely to obtain strategic investment from U.S.-based corporations. In spite of the above differences, the two groups show no systematic differences in founder equity share or company valuation at IPO. The authors also find little statistical difference in the time to IPO (time from company founding to IPO offer date) or post-IPO performances between the two groups.

**THE ECONOMIC VALUE OF TERMS  
AND CONDITIONS:  
*What Is Worth Fighting For?* 64**

ANDREW CONNER

Limited partners investing in private equity funds often negotiate partnership terms and conditions without a clear understanding of the relative value of each individual decision. Possessing such knowledge would allow the limited partner to decide which terms may be used as bargaining chips and which are most worth fighting for. In this article the author quantifies the effect on net returns of some of the most common terms used in the private equity industry. His analysis has revealed some interesting and counterintuitive results. Under typical industry terms and conditions, we find that the expected fees and carried interest paid to general partners totals \$71 million over the

life of a \$100 million fund, generous compensation compared to that of managers of more efficient asset classes. However, we find that over the years partnership terms have evolved significantly in favor of limited partners compared to their starting point.

**PATENT DUE DILIGENCE IN EMERGING  
TECHNOLOGY BUSINESSES:  
*How It's Done—What It Achieves* 73**

STEFAN ROLF HUEBNER

A strong patent portfolio and a favorable patent environment are two important criteria for the success of an emerging technology business. To check these is the task of patent due diligence. It reveals which obstacles the business's patent portfolio puts in the way of possible imitators and assesses the danger of the business being blocked by the patent rights of others. By clarifying the business's patent situation, a patent due diligence also lays the foundation for formulating a suitable patent strategy.

**TRANSATLANTIC PRIVATE EQUITY:  
*Beyond a Trillion Dollar Force* 77**

JAY M. TANNON AND ROBIN JOHNSON

Private equity funds help propel the economies of the United States and the United Kingdom. "Traditional" U.S. private equity firms manage investment capital greater than \$730 billion; U.S. hedge fund assets add approximately \$500 billion. U.K. private equity funds manage over £135 billion/\$250 billion. European private equity fund-raising may approach £200 billion/\$380 billion by 2006. Principal categories of transatlantic private equity or "alternative investment" funds include 1) venture capital funds; 2) leveraged buyout funds; 3) hedge funds; 4) fund-to-funds; and 5) captive funds. U.S. and European funds are often structured as limited partnerships in which fund managers organize the general partner entity. Global private equity firms are emerging in an increasingly interdependent global economy.

