Washington University in St. Louis
OLIN BUSINESS SCHOOL

Richard M. Frankel
Beverly and James Hance
Professor of Accounting

March 25, 2015

Professor Thomas Hellman
Academic Director, Entrepreneurship Centre
Said Business School, Oxford University
Park End Street
Oxford
OX1 1HP
UK

Re: Recommendation for NBER Entrepreneurship Research Boot Camp 2015

Dear Professor Hellman:

I write to enthusiastically recommend John Donavan for participation in the 2015 NBER Entrepreneurship Research Boot Camp.

John is in his fourth year in the PhD program at Washington University in St Louis. He is the best PhD student that I have had the pleasure to work with in my 20 years as a professor. His research directly concerns entrepreneurship. He has an excellent understanding of theory and empirical work related to initial outside financing. He is also articulate and curious—so, I believe he will stimulate discussion.

John's dissertation examines the information disclosed by entrepreneurs at "crowd funding" web sites and how these disclosure correlate with success in raising funds. He has a paper in the *Accounting Review* examining how financial reporting conservatism relates to creditor collection in bankruptcy. His work is grounded in the moral hazard and adverse selection problems arising in relations between entrepreneurs and providers of outside financing, as well as the incentive conflicts between shareholders and debtholders. He studies institutional features used to ease incentive problems arising from incomplete contracting.

In sum, John is perceptive and hardworking. The knowledge he acquires at the boot camp will be put to good use in his dissertation and will stimulate him to produce research. Therefore, I strongly believe he is well suited to benefit from this camp. If I can provide added information, please do not hesitate to contact me.

Sincerely,

Richard Frankel

Washington University in St. Louis, Campus Box 1133, One Brookings Drive, St. Louis, Missouri 63130-4899
(314) 935-6431, Fax: (314) 935-6359, frankel@wustl.edu

Washington University in St. Louis

Washington University in St. Louis
Olin Business School
One Brookings Drive
Campus Box 1133
St. Louis, MO 63130

March 30, 2015

Dr. Thomas Hellman
Saïd Business School
University of Oxford
Park End Street
Oxford OX1 1HP, United Kingdom

Dear Dr. Hellman:

I am writing to apply for the 2015 NBER Entrepreneurship Research Boot Camp. I am a fourth-year Ph.D. candidate in accounting at Washington University in St. Louis. My research broadly focuses on empirical financial accounting in capital markets. I am currently working on my dissertation, in which I study the role of accounting and financial reporting disclosures in equity crowdfunding. In addition to my dissertation, I hope to continue studying the role of accounting information and related disclosures in entrepreneurial finance and start-up ventures in future research. Therefore, I am extremely interested in attending the conference to learn from leading scholars in the field, and apply the material to the field of accounting research.

In the following application packet, you will find my current Curriculum Vitae, a list of all current and completed Ph.D. courses, and an essay explaining my current and future research, and my desire to attend this program. Additionally, you should have already received a letter of recommendation from my advisor, Richard Frankel, Beverly and James Hance Professor of Accounting at Washington University. If you require any additional information, I am happy to supply it. Thank you for your consideration.

Sincerely,

John Donovan

John B. Donovan

March 2015

Washington University in St. Louis
Olin Business School
One Brookings Drive
Campus Box 1133 johndonovan@wustl.edu
St. Louis, MO 63130 312-618-8135

Education

Washington University in St. Louis, Olin Business School
Ph.D., Accounting 2016 (Expected)
University of Notre Dame, Mendoza College of Business
M.S., Accounting 2009
B.B.A., Accounting 2008

Research

Research Interests:

Financial accounting, external capital, debt contracting, and corporate governance

Research Publications:

Donovan, J., Frankel, R., and Martin, X. "Accounting Conservatism and Creditor Recovery Rate." *The Accounting Review*, forthcoming.

Donovan, J., Frankel, R., Lee, J., Martin, X., and Seo, H. "Issues raised by studying DeFond and Zhang: What should audit researchers do?" *Journal of Accounting and Economics* 58 (2-3), 2014: 327-338.

- Discussion of DeFond and Zhang (2014)

Working Papers and Works-in-Progress:

"The Role of Financial Reporting in Equity Crowdfunding"

- Proposed dissertation

"Fair Value Accounting and Debt Contracting: Evidence from Adoption of SFAS 159" (with Peter Demerjian and Chad Larson)

- Preparing for second round submission at the *Journal of Accounting Research*

"Assessing the Accuracy of Forward-Looking Information in Private Debt Contract Negotiations?" (with Peter Demerjian and Jared Jennings)

- Preparing for submission

Teaching and Professional Experience

Teaching Interests:

Financial Accounting, Auditing, Managerial Accounting, Financial Statement Analysis

Teaching Experience:

Instructor, Principles of Financial Accounting (undergraduate),
Two Single Class Sessions, Washington University in St. Louis
- Average Teaching Evaluation: 4.7/5 (93 students) 2014

Teaching Assistant, Washington University in St. Louis
Strategic Cost Analysis (graduate level) 2013-2015
- Average Teaching Evaluation: 4.8/5

Analysis of Financial Institutions and Financial Instruments
(graduate level) 2014

Teaching Assistant, University of Notre Dame
Accounting Measurement and Disclosure (intermediate
accounting, undergraduate) 2009
Taxes and Business Strategy (graduate level) 2009
Decision Processes in Accounting (statistics and data analysis,
undergraduate) 2008-2009

Professional Experience:

Audit and Assurance Associate, PricewaterhouseCoopers 2009-2011

Honors, Awards, and Certificates

Doctoral Fellowship, Olin Business School, Washington University 2009-present

Hubert C. and Dorothy R. Moog Scholarship, Olin Business School 2015
- Annual award recognizing exceptional work at the PhD level

AAA/Deloitte/J. Michael Cook Doctoral Consortium Fellow 2014
Certified Public Accountant, Illinois (inactive) 2009
MSA Academic Scholarship, University of Notre Dame 2009
Beta Alpha Psi 2007-2008

Academic and Professional Activities

Presentations:

AAA Annual Meeting (2), Atlanta, GA 2014
Washington University in St. Louis 2012-2015

Conference Participation:

Nick Dopuch Accounting Conference, St. Louis, MO 2011-2014

University of Notre Dame Accounting Conference	2013-2014
AAA FARS Midyear Meeting	2015
PERL Conference, University of Miami	2013
Center for Accounting Research and Education: Midwest Summer Research Conference, University of Notre Dame	2011

Reviewer:

AAA Annual Meeting
AAA FARS Midyear Meeting

Course Summary Report, Washington University in St. Louis
John Donovan

COURSE	H/I	HOME	SEM	UNITS	TITLE
B50 665 01	H	B50 665	FL2011	3	Applied Empirical Research in Accounting
B50 665 01	H	B50 665	FL2012	3	Applied Empirical Research in Accounting
B50 665 01	H	B50 665	FL2013	3	Applied Empirical Research in Accounting
B50 665 01	H	B50 665	FL2014	3	Applied Empirical Research in Accounting
B50 668 01	H	B50 668	SP2014	6	INDEPENDENT STUDY IN ACCOUNTING
B50 668 01	H	B50 668	FL2014	3	INDEPENDENT STUDY IN ACCOUNTING
B50 668 01	H	B50 668	SP2015	6	INDEPENDENT STUDY IN ACCOUNTING
B50 669 01	H	B50 669	FL2013	3	DIRECTED READING IN ACCOUNTING
B50 669 01	H	B50 669	SP2014	3	DIRECTED READING IN ACCOUNTING
B52 643 01	H	B52 643	SP2012	3	Information Economics & Corporate Finance Theory
B52 644 01	H	B52 644	FL2012	3	FINANCIAL ECONOMICS I
B52 647 01	H	B52 647	SP2013	3	Topics in Corporate Finance
B53 605 01	H	B53 605	SP2015	3	Research Internship
B53 605 07	H	B53 605	FL2014	3	Research Internship
B53 605 11	H	B53 605	FL2013	3	Research Internship
B53 620 01	H	B53 620	FL2011	3	Empirical Methods in Business
B53 620 01	H	B53 620	FL2012	3	Empirical Methods in Business
B53 660 01	H	B53 660	FL2013	1	Seminar on Presentation Skills
B54 625 01	H	B54 625	SP2013	1.5	Industrial Organizational I
B54 626 01	H	B54 626	SP2013	1.5	Industrial Organization II
B60 500G 01	H	B60 500G	SP2013	1.5	Analysis of Financial Institutions and Financial Instruments
B62 524 02	H	B62 524	SP2013	1.5	Options and Futures
B62 532 01	H	B62 532	FL2011	1.5	Investment Theory
L11 4011 03	H	L11 4011	FL2011	3	Intermediate Microeconomic Theory A&S: SS Arch: SSP Art: SSP EN: S
L11 503 01	H	L11 503	FL2011	3	Microeconomics I
L11 504 01	H	L11 504	SP2012	3	Microeconomics II
L11 5161 01	H	L11 5161	SP2012	3	Applied Econometrics

Essay

As a doctoral student in accounting, I am very interested in studying entrepreneurial finance, and the role of accounting and financial reporting disclosures in raising start-up funds. In my proposed dissertation, I study the role of voluntary financial accounting disclosures in equity crowdfunding. Therefore, I believe that the opportunity to attend the 2015 NBER Entrepreneurship Research Boot Camp and learn from leading researchers in the areas of economics and entrepreneurial finance will greatly enhance my ability to perform high-quality research by applying the techniques and methods discussed by these scholars.

In my current empirical research, I study how attributes of accounting information affect the usefulness of reported accounting information for debt contracting purposes. Accounting information generally serves two functions in debt contracting. First, accounting disclosures reduce information asymmetry between the borrower and lender, allowing the lender to screen borrowers and assess the borrower's creditworthiness (Demerjian, 2011). Second, financial covenants written directly on accounting information allow the lender to monitor her investment following debt contract inception by providing effective trip wires to transfer control rights to the borrower when the borrower's credit risk increases (Aghion and Bolton, 1992). In my current research, I study both roles of accounting information: screening and monitoring. While this research does not focus solely on small, start-up firms, I believe my work enhances our understanding of how accounting and financial reporting disclosures affect the likelihood of firm's ability to raise external capital for investment.

As previously mentioned, in my proposed dissertation, I examine how voluntary accounting disclosures affect the likelihood of start-up firms raising crowdfunding equity capital. Crowdfunding allows young and growing start-up ventures to raise capital through an open-call on internet-based platforms, and much active research investigates the economics of this new

market (e.g. Agrawal et al., 2013). I examine whether voluntary historical accounting disclosures reduce information asymmetry between the start-up firm and potential investors, allowing investors to more accurately value the firm. My paper is the first, to my knowledge, to examine the role of accounting and financial reporting in the equity crowdfunding market. I believe my paper provides important evidence to regulators who are currently debating the rules and requirements for start-up firms to raise capital via crowdfunding around the world.

In future research, I hope to continue studying the role accounting information in small, start-up firms. Scant empirical evidence regarding the role of accounting information in start-up ventures currently exists. This may be due to the fact that far more data is available for large publicly traded firms. However, I believe an excellent opportunity exists to examine the effects of accounting information in start-up firms to determine how this information affects these firms differently. For example, does accounting information provide a useful signal to potential investors to convey the expected value of the firm (Spence, 1973), or do the direct and indirect costs of these disclosures outweigh the potential benefits? Additionally, do higher quality accounting disclosures assist entrepreneurs in attracting venture capital to help grow the businesses? The skills I will learn and develop at the NBER Entrepreneurship Research Boot Camp will be instrumental in building the tools necessary to answer these questions.

References

Aghion, P., and P. Bolton. 1992. "An Incomplete Contracts Approach to Financial Contracting." *The Review of Economic Studies* 59 (3) (July 1): 473–494.

Agrawal, A., C. Catalini, and A. Goldfarb. 2013. "Some Simple Economics of Crowdfunding." Working Paper, National Bureau of Economic Research.

Demerjian, P. 2011. "Accounting Standards and Debt Covenants: Has the 'balance Sheet Approach' Led to a Decline in the Use of Balance Sheet Covenants?" *Journal of Accounting and Economics* 52 (2–3) (November): 178–202.

Spence, M. 1973. "Job Market Signaling." *The Quarterly Journal of Economics* 87 (3): 355–374.