PRE-IPO MANAGEMENT TEAM RESTRUCTURING AND PORTFOLIO COMPANY’S PERFORMANCE: A COMPARISON BETWEEN CVC AND INDEPENDENT VC (INTERACTIVE PAPER)

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INTERACTIVE PAPER

PRE-IPO MANAGEMENT TEAM RESTRUCTURING AND PORTFOLIO COMPANY’S PERFORMANCE: A COMPARISON BETWEEN CVC AND INDEPENDENT VC

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Principal Topic

Research suggests that venture capitalists could add value to their portfolio companies (e.g., Maula, Autio, & Murray, 2003). One of the value-adding mechanisms is to professionalize top management teams (TMT) of portfolio companies by replacing existing managers and adding executive veterans. On the other hand, management team restructuring, especially during the stages when the portfolio companies prepare for their initial public offerings, may be “window dressing” to impress the investors at the time of IPO (Hellmann & Puri, 2002). Thus, the first research question in this study is how pre-IPO TMT restructuring impacts on the portfolio company’s performance. In particular, different types of venture capitalists (CVC vs. VC) may strike this process of top management team building prior to IPO for different purposes and moderate the relationships between pre-IPO management team restructuring and the portfolio company’s performance.

Methods

We constructed a sample of IPOs in the biotechnology industry during the period of 1991–1999. Pre-IPO TMT restructuring was measured by the sum of the number of executive entries and the number of executive exits divided by management team size at IPO over a two-year window. The performance was measured by IPO valuation collected from the global new issues databases. Financial information was obtained from COMPUSTAT. The VentureXpert database was used to identify the funding sources of each firm prior to IPO. The hierarchical regressions were used to test the hypotheses.

Results and Implications

Our results demonstrate that pre-IPO TMT restructuring had impacts on the portfolio company’s performance at least in the short run (IPO market performance). In addition, pre-IPO TMT restructuring initiated by VCs was more likely to impress the investors than that by CVCs. Our finding implies that pre-IPO TMT restructuring by VCs allows a portfolio company to reconfigure its resource and capability base for the new stage while CVC investors initiate pre-IPO TMT restructuring to align with their strategic purposes. By comparing the different impacts of CVCs and VCs on the development of a portfolio company, we provided a contingency view over the relation between pre-IPO TMT restructuring and firm performance.

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