THE ONE HIT WONDERS: ROLE OF KNOWLEDGE SEARCH BEHAVIORS OF VENTURES IN REDUCING POST-IPO FAILURE (SUMMARY)

Pankaj C. Patel

Ball State University, USA, pankaj.patel@louisville.edu
SUMMARY

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Principal Topic

Fama and French (2004) document a dramatic decline in the survival rates of newly listed firms over the past several decades, both in absolute terms and relative to seasoned firms. Therefore, IPOs, which are considered the drivers of innovation in modern economies, may suffer from questionable credibility if they have low survival rates after their first great success. I focus on the central drivers – invention capability and commercialization capability – that may prevent such failures. These firms’ ability to acquire and integrate new knowledge into inventions and their ability to convert inventions to innovations could be central to ensuring survival.

This leads to the following research question: Is the development of post-invention and post-commercialization capabilities deliberate (through strategic investments in specialized assets) or inadvertent (e.g., due to path dependency or causal ambiguity)? Furthermore, if the development of capabilities is path dependent, do strategic investments play an important role in further leveraging path dependence?

Method

I first identify all technology IPOs (excluding internet IPOs) between the years 1990-2000. I use the SDC Corporate Restructurings database, www.bankruptcyydata.com, and corporate delistings from the CRSP events file to identify whether an IPO survived until end of 2008. Information on patents and products were obtained from USPTO and CorpTech respectively. After matching firms with patent and CorpTech data, the final sample consisted of 933 IPOs of which 38.12% failed. To test path-dependence and IPO survival, I use a GLS-Tobit model and Weibull regressions, respectively.

Results and Implications

The central framework of this study explains how new firms can reduce threats of obsolescence by developing invention and commercialization capabilities. Results indicate that the capability development process is strictly path dependent and post-IPO strategic investments are useful only in context of path dependence. Firms lacking initial invention and conversion capabilities cannot “catch-up” by making strategic investments. This path dependence suggests the importance of routines and processes and organizational imprinting. By connecting technological diversification, and path dependence, I test the explicit link between how firms diversify and how strategic investments may not be useful unless prior resource and routine endowments are leveraged.

CONTACT: Pankaj C. Patel; pankaj.patel@louisville.edu; (T): 502-409-0634; (F): 502-852-7557; Ball State University, Muncie, IN 47306.