WHO REAPS THE REWARDS? APPROPRIATION CONCERNS IN IPO VENTURES (INTERACTIVE PAPER)

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INTERACTIVE PAPER

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Principal Topic

In the wake of macroeconomic changes, entrepreneurs often pursue new opportunities by developing, recombining, and integrating the necessary resources into new configurations which reshape the very patterns of competition. As such, the skills and capabilities of entrepreneurs are intricately linked to the resources and capabilities of the venture. Accordingly, entrepreneurs represent a key source for the creation of value and the generation of rents (Alvarez and Busenitz, 2001; Barney, 1991). Recently, entrepreneurship scholars have begun examining not only the generation of rents but the act of organizing to appropriate rents (Alvarez and Barney, 2004). A key question gaining increasing importance in light of resource base theory is answering “Who among stakeholders will appropriate the rents generated by the firm?” (Coff, 1997; 1999; Alvarez and Barney, 2004). Although shareholders are the residual claimants to the profits of an organization, different stakeholders can appropriate rents before they can flow to the shareholders. In particular, key entrepreneurs within an IPO firm are often situated to appropriate rents due to their importance to the new venture; e.g. their skills are extremely costly to replace. In this paper we probe the governance which arises in new ventures to reduce the threat of wealth appropriation when the new venture is dependent on the skills of key entrepreneurs.

Method

We test our hypotheses on a sample of new ventures going through the IPO between 1990-1994. Our independent variables are the governance mechanisms. Our dependent variable is binary and is coded “1” if the venture is dependent on key employees for future success or “0” otherwise (as enunciated in the risk factors of the prospectus). Hierarchical logistic regression is used to test the hypotheses.

Results and Implications

We find that ventures which pronounce dependence on key employees utilize greater incentives, marginally greater bonding and monitoring, and further seek to reduce the cost of involuntary loss of the key employees through the greater use of life insurance policies.

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