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ENTREPRENEURIAL ORIENTATION AND IPO PERFORMANCE

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Principal Topic
A firm’s EO is a result of its combined innovativeness, risk-taking, proactiveness, competitive aggressiveness, and autonomy (Lumpkin & Dess, 1996; Miller, 1983). Studies point to a number of positive outcomes that firms derive because of their EO, however, these results primarily pertain to the firm’s internal operations and employees. Our study, in contrast, investigates whether EO helps firms acquire external resources.

An initial public offering (IPO) is a critical point in the life of a firm because successful IPOs depend upon convincing investors to contribute large amounts of equity capital to support a firm’s growth strategies. However, IPOs are characterized by information asymmetries between company insiders and outsiders (Anderson, Beard, and Born, 1995). In this study we investigate whether communications that convey information pertaining to a firm’s EO enhances the legitimacy of IPOs with potential investors.

Method
Our sample consists of 723 firms that performed IPOs on the major USA stock exchanges between 1998 and 2000. Rather than rely upon surveys that have the possibility of being burdened with retrospective bias and common method bias, we obtain an indirect measure of EO by performing a content analysis of EO usage in IPO prospectuses. Strategic management, finance, and entrepreneurship scholars have used content analysis to collect data that is difficult to obtain (Short & Palmer, 2008; Tetlock, Saar-Tsechansky, & Macskassy, 2008), in part because it provides greater reliability and replicability (Finkelstein & Hambrick, 1996). In addition, content analysis is a means to avoid recall biases that are prevalent in research that uses surveys (Barr, Stimpert, & Huff, 1992), which limits many EO studies. We followed the content analysis process and EO custom dictionaries developed by Short, Broberg, Cogliser, & Brigham (2009). Information pertaining to performance (IPO underpricing) and controls (corporate governance, firm age, firm size, offering size, and industry) were obtained from CRSP, COMPUSTAT, and prospectuses.

Results and Implications
After controlling for many issue and governance related factors, our results demonstrate that investors tend to be attracted to EO narratives. These results support past studies which show EO having both positive and direct impacts to firms regarding internal resources. Our study extends the past research on EO by providing results to show that EO assists firms in acquiring external resources.

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