6-11-2011

RISK AND UNCERTAINTY: WHICH MATTERS AT THE FINANCIAL STAGE? (INTERACTIVE PAPER)

Asda Chintakananda
Nanyang Technological University, asda@ntu.edu.sg

Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol31/iss15/14

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Principal Topic

Some research regard launching an IPO as an opportunity to maximize financial return from selling the firm (Loughran, Ritter & Rydqvist, 1994; Pagano, Panetta & Zingales; 1998). If an IPO is the selling of a firm, then such decision to launch an IPO would likely be driven by the amount of risk inherent in the market, as maximization of financial return is driven by the positive relationship between expected return and risk (Markowitz, 1958; Tobin, 1958). On the contrary, recent research suggest that going public may be regarded as an investment in future growth opportunities (Bancel & Mitoo, 2001; Draho, 2004). If an IPO is an investment in future growth opportunities, then such decision to launch an IPO would likely be driven by the amount of uncertainty in the market, as growth opportunities are driven by the uncertainty that exists in the market. Such notion raises the question whether launching an IPO a non-entrepreneurial decision driven by market risk, and an entrepreneurial decision driven by market uncertainty.

Method

All US venture capital-backed manufacturing firms that were established between 1980-1995 were analyzed. The sample size was included 1,503 observations. A hazard model was used to measure the likelihood of IPO according to the level of risk and uncertainty that the firm faces.

Results and Implications

The preliminary results show that both risk and uncertainty are related to the likelihood of IPO. However, as the age of the firm increases, the strength of this relationship also changes. This implies that the final stages of the entrepreneurial firm may be driven by both non-entrepreneurial decisions (driven by market risk) and an entrepreneurial decision (driven by market uncertainty).

CONTACT: Asda Chintakananda; asda@ntu.edu.sg.