POST-IPO CHANGES IN ENTREPRENEURIAL ORIENTATION AND PERFORMANCE (SUMMARY)

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POST-IPO CHANGES IN ENTREPRENEURIAL ORIENTATION AND PERFORMANCE

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Principal Topic

Most studies of entrepreneurial orientation (EO) have examined private firms or mature public firms, but not firms immediately after transitioning from privately held to publicly traded. In addition, prior studies have treated EO as being stable over time. However, external financing events could affect the level of EO due to various factors. For example, after an initial public offering (IPO), a firm is subjected to a different ownership structure (Brennan & Franks, 1997), different types of investors (Pagano & Roell, 1998), additional reporting requirements and stricter regulation (La Porta, Lopez-de-Silanes, & Shleifer, 2006). These changes could affect the EO of a firm, and ultimately its performance. Thus, this study addresses the question, how are a firm’s entrepreneurial orientation and performance affected by its IPO?

Method

Our sample consists of 1,105 firms that performed IPOs on the major USA stock exchanges between 1998 and 2004, and tracks their EO and financial performance 5-years after their IPOs. We obtain an indirect measure of EO by performing a content analysis of EO terminology in IPO prospectuses and annual reports. A growing number of strategy, finance, and entrepreneurship scholars have used content analysis to measure organizational characteristics that are difficult to obtain (Short & Palmer, 2008; Tetlock, Saar-Tsechansky, & Macskassy, 2008), in part because it provides greater reliability and replicability. We follow the content analysis process and EO custom dictionaries developed by Short, Broberg, Cogliser, & Brigham (2009). Information pertaining to performance (sales and EBITDA margin) and controls (firm age, firm size, offering size, and industry) are obtained from CRSP, COMPUSTAT, IPO prospectuses, and annual reports.

Results and Implications

This study contributes to the EO literature by demonstrating that EO changes over time following a financing event, in this case, after a firm becomes publicly traded through an IPO. Past research on EO has implied that it is stable in a firm, as the research has mainly been in the form of cross-sectional studies. However, we feel that treating EO as being dynamic is important since firms are constantly changing (Greiner, 1972); e.g., firms change their strategies and the level of intensity in which they implement their strategies (Mintzberg, Raisinghani, & Theoret, 1976). We also conclude that the EO – performance relationship is affected by a financing event, in this case an IPO. Hence, this study leads to further research which can examine how other financing events affect a firm’s EO, including debt and equity financing from banks, venture capital firms, angel investors, and family and friends.

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