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WHEN LESS IS MORE: THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION UPON FUNDS RAISED AT INITIAL PUBLIC OFFERING (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**WHEN LESS IS MORE: THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION
UPON FUNDS RAISED AT INITIAL PUBLIC OFFERING**

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Principal Topic

This study examines the influence of entrepreneurial orientation (EO) on the amount of capital raised by a firm at the time of its initial public offering (IPO). We draw on signaling theory to develop insights concerning the influence of EO upon IPO firm valuation. Research exploring EO generally suggests a positive effect of the strategic orientation on firm performance (Rauch et al., 2009). Nonetheless, key knowledge voids remain concerning the influence of EO on organizational functioning and outcomes, particularly concerning EO's potential influence upon firm resource access. Firm resource levels are of particular concern given that EO has been theorized to represent a resource intensive strategic posture (Covin & Slevin, 1991). In exploring this area, it is theorized that the manifestation of EO directly affects firm resource levels post-IPO by influencing investor perceptions of the company's prospects. The present study provides insight into two timely research questions: Does EO influence IPO firm market valuation? In other words, is the amount of capital raised by a firm through IPO influenced by its level of EO at the time of IPO? Moreover, can organizations manage the size of the check they receive at the time of IPO by either limiting or expanding the scope of their external executive board commitments?

Methodology

We used archival sources, IPO firm prospectuses, to gather the data required for this study from Edgar Archives. We gathered data on young, high-tech firms less than eight years old that went public in the United States during a five-year period (2001-2005). The final sample contained 109 firms. We examine EO using two secondary measures based upon computer-aided text analysis of the firm disclosures. TMT external board activities were measured dichotomously, e.g. whether TMT members were associated with external boards at the time of IPO. The dependent variable used is log IPO Value.

Key Findings & Implications

This research is particularly important because it explicates and empirically tests the influence of EO on the acquisition of financial resources through IPO. Intriguingly, greater EO was associated with reductions in the amount of capital gained at the time of IPO. The interaction between EO and TMT external directorate networking was also negative and significant. We draw out in our discussion the theoretical implications of our work and also help map potential entrepreneurial strategies for practice.

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