SHOULD I STAY OR SHOULD I GO? AN ANALYSIS OF ENTREPRENEURS’ EXIT DECISIONS VIA IPO (SUMMARY)

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SUMMARY

SHOULD I STAY OR SHOULD I GO? AN ANALYSIS OF ENTREPRENEURS’ EXIT DECISIONS VIA IPO

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Principal Topic

Despite the recent scholarly attention to entrepreneurial exit, we still have limited knowledge about what factors drive founders to leave their company soon after IPO as opposed to stay on and manage it. Our study aims to contribute towards answering this question, utilizing the theory of power (Finkelstein, 1992; Halebian and Finkelstein, 1993). Generally, the IPO represents a time of great change for the venture in terms of both operating control and business direction (Pagano, Panetta and Zingales, 1998). Our main thesis is when founders end up with reduced power at IPO they are more likely to exit their venture with the first opportunity.

Methods

We distinguish between three exit choices after IPO and explain variance in the exit decisions of founders. Founders may exit financially by selling all their shares; they may choose to exit managerially, leaving the top management team; or they may choose to completely exit the venture and leave the company in total. We study a novel, hand-collected dataset of 313 founders from the total population of 177 entrepreneurial firms listed for the first time in the London Stock Exchange and Alternative Investment Market between 2002 and 2010. Binary and multinomial regression analyses are used to explore how founders’ power-structure influences their likelihood to exit, as well as their specific exit choice. We control for other personal, firm-level and market-level factors that may influence founders’ choice to quit their firm.

Results and Implications

Consistent with our main thesis, we find that founders with less power at the time of IPO are more likely to totally exit from the venture soon after. We also find that the effect of power structure on exit is moderated by the type of capital market the IPO takes place. This moderating factor has significant theoretical importance since it allows contextualization of the founders’ power mechanism depending on the external resource provider. Subsequently, we find that while power theory drives total exit, it does not explain equally well financial exit and managerial exit. Founders’ lifestyle is the main driver of managerial exit, followed by structural and prestige power. In turn, founders’ financial motivation is the main driver of financial exit followed by prestige power.

Our findings indicate that different types of power play different roles on various routes of exit. We contribute to the literature on entrepreneurial exits by introducing a new theoretical angle to explain an empirically overlooked phenomenon.

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