INTERNATIONALIZATION AND THE IPO PERFORMANCE OF NEW VENTURES (SUMMARY)

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Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol29/iss18/4

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SUMMARY

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Principal Topic

Research of the internationalization-performance (I-P) relationship is dominated by studies of mature public companies, yet many international new ventures exist. Such ventures, often technology-based, may internationalize to quickly recover investment costs, or due to short product lifecycles. This study answers the question “does the performance of new technology-based companies that choose an international strategy differ from that of similar ventures that choose a solely domestic strategy?”

Method

Firm characteristics are crucial to the direction and strength of the I-P relationship and also to initial public offering (IPO) performance. Internationalization increases a venture’s resource stocks (experiential knowledge, routines to manage complexity and coordination mechanisms) that investors may value. This suggests that international intensity is positively related to IPO performance.

Conversely, internationalization exacerbates the information asymmetries between new ventures and their investors, and increases uncertainty due to exposure to increased economic and political risks, heightening agency issues that can influence IPO performance. This suggests that investors price these risks into IPO valuation, resulting in a negative I-P relationship.

The sample of 184 venture capital-backed, technology-based new ventures that executed an IPO in the period 1997-2003 contrasts sharply with prior I-P relationship studies. Two dependent variables, IPO Valuation and Time-to-IPO, measure IPO performance. The key independent variable is the venture’s international intensity. Control variables reflect factors that may influence IPO performance. Ordinary least squares regressions and hazard models are utilized.

Results and Implications

The results indicate a negative relationship between IPO valuation and international intensity: a high degree of foreign revenues in the IPO year is associated with a 41% decrease in IPO valuation over solely domestic ventures. Ventures with low and high degrees of internationalization execute IPOs later than solely domestic ventures.

If VC providers expect delayed and/or lower portfolio company valuations due to intense foreign sales, they may advise strategies that eschew foreign market entry as a means of maximizing their return on investment. Entrepreneurs may similarly resist internationalization if they believe that the value they receive at IPO will be less. It may be better for them to move into foreign markets after IPO than to enter other countries early and risk future funding.

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