SIGNALS OF AVAILABILITY: THE ACQUISITION OF IPO VENTURES (SUMMARY)

Jason Harkins
University of Maine, Jason.Harkins@Maine.Edu

Richard A. Johnson
University of Missouri

Robert Hoskisson
Rice University

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Principal Topic

The initial public offering (IPO) process is important for entrepreneurial ventures in reducing information asymmetry between insiders and interested parties outside the firm. Signaling theory in the IPO context has typically argued that firms communicate the future direction of the venture and the value of the firm through its actions. The dual tracking literature has argued that signals impact the likelihood of future acquisition following the IPO. Dual tracking is where a firm pursues an IPO with a longer-term interest in being acquired. Our research question is “Do internal signals provide effective communication over and above external signals for dual tracking firms?” While research on dual tracking has focused on external signals, our research examines takeover defenses as internal signals and argues that their presence pre-IPO is a signal of firm value.

Method

The sample was drawn from the population of IPOs identified through the New Issues database (Thomson Financial). The sampling frame is a random sample of 300 IPOs from a variety of industries that occurred between January 1990 and December 1994. We tracked firms for five-years to determine the IPO venture’s current status (acquired, still public, etc.). Cases with missing data, bankruptcy, leveraged buyouts and failed acquisitions took our final sample to 244 firms; 76 of which were acquired within the five-years post-IPO.

Results and Implication

Results from out hierarchical logistic regression models show that the presence of poison pills, voting provisions, staggered boards and the sum of takeover defenses were positively related to being acquired. Our results suggest that the presence of takeover defenses act as signals that potential acquirers consider when evaluating the potential of firms. This research adds to our understanding of the signals dual tracked firms can send to potential acquirers by finding that takeover defenses are associated with post-IPO takeover even after controlling for previously identified external signals. Furthermore, we argue that dual tracked firms are more efficiently served by signaling value through low cost internal actions, such as takeover defenses than through traditional external signals.

CONTACT: Jason Harkins; Jason.Harkins@Maine.Edu; (T): 207-581-1999; (F): 207-581-1930; Maine Business School, University Of Maine, Orono, Me 04469