STRATEGIC CHOICES AND THE SURVIVAL OF IPO FIRMS (INTERACTIVE PAPER)

Nina Rosenbusch
University of Strathclyde, ninarosenbusch@aol.com

Simon Parker
Richard Ivey School of Business

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By releasing large amounts of funds, an IPO enables firms to change their strategic direction (Ritter & Welch, 2002). IPO firms can use their funds to pursue new strategic options such as product development or internationalization. Yet, while such options can potentially generate above-average returns, they can also introduce risks which endanger an IPO firm’s survival. As managers struggle with the problem of combining different strategies to achieve higher returns, they must avoid creating excessive complexity which can endanger survival (Hitt et al., 1997).

The aim of this work is to build theory about strategies and their combination affecting the survival of IPO firms. We confront the theoretical hypotheses with longitudinal data on a sample of German IPOs. In the process, we attempt to answer two research questions:

1) How does an internationalization strategy impact IPO firm survival?

2) Which combinations of generic strategies and internationalization impact IPO firm survival?

Our sample comprises a set of 185 firms that had their IPO on the German stock market between 1997 and 2000. We followed these firms for up to 11 years in order to examine the determinants of long-term survival.

We used two types of hazard model to test the hypotheses. First, we estimated a parametric survival model. The second hazard model we estimate is a “Competing Risks” Regression which distinguishes between bankruptcies and acquisitions.

Our results indicate that internationalization and new product development strategies significantly enhance IPO survival prospects. Yet, the combination of these two strategies appears to be detrimental unless firms combine internationalization with a patenting strategy. These results contribute to the academic literature in three ways. First, they call for an extension of existing theories on survival that refers to high-potential companies in their growth stage. Second, our results supplement the finance-dominated literature on IPO survival by including the strategy dimension as a predictor of survival. Third, the examination of interactions between strategic choices enables us to identify combinations of strategies that increase or decrease survival chances. Thus, we can draw a detailed picture of the relationship between strategy and IPO survival.

CONTACT: Nina Rosenbusch; ninarosenbusch@aol.com; Tel. +44 141 548 3091; University of Strathclyde, Hunter Centre for Entrepreneurship, 199 Cathedral Street, Glasgow G4 0QU, UK.