COMPETITIVE DYNAMICS BETWEEN A NEWLY PUBLIC FIRM AND A VERTICALLY INTEGRATED INCUMBENT (INTERACTIVE PAPER)

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COMPETITIVE DYNAMICS BETWEEN A NEWLY PUBLIC FIRM AND A VERTICALLY INTEGRATED INCUMBENT

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Principal Topic

Past research indicates that new IPOs in an industry affect the performance of incumbent firms. However, this general characterization of competitive effects overlooks inter-firm heterogeneity of resources within an industry. This paper follows the dyadic approach to competitor analysis and uses the aspect of vertical integration to differentiate between competitors within an industry. We argue that the competitive effects of IPOs on incumbents would differ as a function of incumbents’ degree of vertical integration, degree of involvement in the focal business segment, and the level of unused slack available.

Method

In order to test our hypothesis we constructed a sample of 80 IPOs and corresponding 277 competitors in the semiconductor industry from 1992-2010.

Results and Implications

Results indicate that firms’ degree of vertical integration has a positive effect on the incumbents’ cumulative abnormal returns (CAR) around the IPO filing date. Incumbent firm’s degree of involvement in the focal business segment negatively moderates the effect of degree of vertical integration on CAR. Finally, results show that the availability of unused slack attenuates the interaction between firm’s degree of vertical integration and investments in the focal business segment.

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