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YOUNG FIRMS UNDER TRANSITION: THE INFLUENCE OF GOVERNANCE ON IPO ALLIANCES (SUMMARY)

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YOUNG FIRMS UNDER TRANSITION: THE INFLUENCE OF GOVERNANCE ON IPO ALLIANCES

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Principal Topic

Firms in different stages of life-cycle often expand their boundaries using alliances (Iyer & Miller, 2008; Schilling & Steensma, 2001). Though scholars are coming to a consensus that search and renewal of competencies prompts firms to expand their boundaries using alliances (Gulati, et al., 2009, p. 1213; Poppo & Zenger, 1995; Steensma & Corley, 2001), there is a gap in the literature regarding motives of alliance formation particularly for the young firms. Drawing on the real options view and multiple agency theory (Arthurs, et al., 2008), we propose that venture capitalists (VC) and institutional investors have different motivations which will influence the IPO firms’ strategic decisions. Specifically, we examine the following research question: How does the power of venture capitalists (VC) and institutional investors impact a young IPO firm’s strategic choice regarding the nature of alliance network it develops? Further, we examine how different governance influences impact a firm’s decision to develop upstream (exploration) or downstream (exploitation) alliance networks (Rothaermel & Deeds, 2004; Lavie & Rosenkopf 2006). Given that multiple forces influence decision making as a firm prepares its initial public offering (IPO), we focus on alliance formation of young firms three years prior to IPO, when these external influences have greater influence and power over the IPO firm’s decisions (Kaplan and Stronmberg, 2003; Kaplan, et al., 2007; Chemmanur, et al., 2012).

Method

We test our hypothesis on a sample of new firms undergoing IPO between 1997-2007. We examine VC power (percentage of ownership, presence on the board) and percentage ownership of institutional stakeholders (corporate venture capitalist firms, other venture capitalist firms) as persuasive factors impacting alliance formation. Our dependent variable is the ratio of downstream (exploration) alliances the IPO firm forms, controlling for the size of the alliance portfolio.

Results and Implications

We find that VC power and institutional investors do influence the type of alliance formation. Additionally, when motivations of VCs and institutional investors align, we find this influence is magnified. This study has important implications to young firms as they consider their strategic alliance strategy.

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