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Competitive posture and IPO performance in high technology firms

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Abstract

Small to medium sized technology firms significantly impact the national and world economy and it is paramount that the best-managed firms have long term success. Empirical analysis must determine the competitive posture that will enhance performance and increase success rates for this population. This research examines the competitive posture of 168 high technology initial public offering (IPO) firms from 1992 and their short term and long term performance. Content analysis of the IPO prospectus provides the source of data for the variables. The research supports the hypotheses that pioneering competitive posture outperform others in the population.

JEL classification: 032

Keywords: Competitive posture; Initial public offerings (IPO); Content analysis; High technology; Technology management

1. Introduction

Several empirical studies have emerged in recent years to validate the many concepts on competitive posture in technology intensive industries (Hampson, 1994; Zahra and Covin, 1994; Wilbon, 1999a). However, the performance implications of competitive posture in small to medium sized high tech firms are not well documented. Zahra and Covin (1994) found that technology policies varied across different business strategies and other empirical investigations addressed this issue by designing studies to understand the relationship among strategic behavior, technology strategy, and firm performance (e.g. McCann 1991). In addition, most of the empirical studies found in the literature were

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cross sectional and failed to investigate the long term implications of formulating an effective competitive posture. Most of these studies analyzed large, well-established organizations prompting several to promote the need for more research on strategy in new ventures (Dodgson and Rothwell, 1991; Zahra, 1996a). Further, some of these studies considered competitive posture as only a subset of technology strategy and not as a single dimension.

Considering that good choices allow new high-tech ventures to position themselves in the market place (Shan, 1990; Zahra and Covin, 1994) while poor choices can undermine their performance and survival (McCann, 1991), there is a need for more research on posture and for this population. In technology intensive industries, smaller businesses tend to be the driving force behind the innovations and some have been pioneers that have reshaped business strategies. Although the literature has traditionally placed a premium on the pioneer in the competitive posture debate, this study attempts to further contribute to the discourse by considering other aspects of firm posture that may contribute to better performance. Using a combination of qualitative and quantitative methods, the primary purpose of this study is to examine the relationship between competitive posture and long term performance in small–medium sized high-tech enterprises. In sum, this research posits that consideration of a firm's competitive posture is essential to enhancing its performance.

2. Literature review

2.1. Initial public offering (IPO) and post-IPO performance

This study is designed to determine whether a firm's competitive posture influences IPO investor perceptions and post-IPO performance. Since the goal of the IPO in most cases is to raise capital through obtaining the highest stock price, the best way to evaluate IPO performance is through the initial investor reaction to the firm's offering. A few studies focused on the post-issue stock performance of IPO firms (e.g. Loughran and Ritter, 1995; Degeorge and Zeckhauser, 1993). Most of these studies found that over time IPO firms exhibit a decline in operating performance using measures such as ROA and cash flows deflated by assets. The decline in operating performance was attributed to factors such as agency costs of transitioning from a private to public ownership, timing the offering to coincide with unusually high performance that decreases after the offering, and attempts by owners of the firm to enhance their accounting numbers prior to going public (Jain and Kini, 1994). On the other hand, these firms also experienced an increase in sales growth and capital expenditures relative to others in the same industry which attributed to their attractiveness to potential investors in the stock market.

Jain and Kini (1994) used market to book value and price to earning ratios to measure investor expectations of post-IPO earnings growth of 682 firm-committed IPOs between 1976 and 1988 and found significant decline. Their findings were consistent with Ritter (1991) and Loughran and Ritter (1995) who also found investors tend to be very optimistic not only of pre-IPO performance but also long term post-IPO performance. These findings suggested that some IPO firms were not able to sustain pre-issue levels of performance and