An Empirical Examination of Young Firms Choices on Boundary Expansion in the Presence of Managerial Slack

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ABSTRACT
Organizations expand their boundary in order to take advantage of internal and external opportunities. Young firms which recently underwent IPO face a unique situation and different resource portfolio compared with the incumbent in the industry. Building on agency theory and top manager perspective, this paper explores the behavior of young firm’s boundary expansion. Specifically, we investigate the relationship between excess managerial capacity and boundary expansion through acquisition and study potential environmental contingencies which may influence the relationship. With 166 US IPO firms, we found that an augmented risk-averse tendency of managerial slack (excess managerial capacity) in the young firms results in more preference of acquisition strategy rather than internal development during the post-IPO and that this effect is more obvious under competitive environment. Theoretical and practical implications of the findings are discussed.