

What Is Going on in **Non-Startup SMEs** during Their Pre-IPO Period? – A Case Study of Japanese Firms –

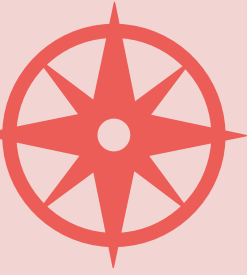
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Agenda



- I. Context and Objective
- II. Previous Studies
- III. Research Design
- IV. Case
- V. Findings
- VI. Discussion
- VII. Conclusion

I. Context and Objective



- **“Non-startups”**
 - Most of SMEs do not grow so much: Reproduction organizations (Ward, 1997; Aldrich, 2006)
 - Some companies accelerate their growth rate again.
- Focusing on **growth process of non-startups** and **diversity of firm growth**

II. Previous Studies (1)



- **ORCIE (2015)** : Osaka Research Center for Industry and the Economy
- *Objective & Method:* Analyzing **trend of strategic investments** mentioned in financial statements.
- *Data Coverage:* **169 companies** locating in Osaka and listed on Japanese market from 1995 to 2015.
- *Related Concept:* **Modes of growth** (McKelvie & Wiklund, 2010; McKelvie et al., 2006; Peng & Heath, 1996; Penrose, 1959)

II. Previous Studies (1)

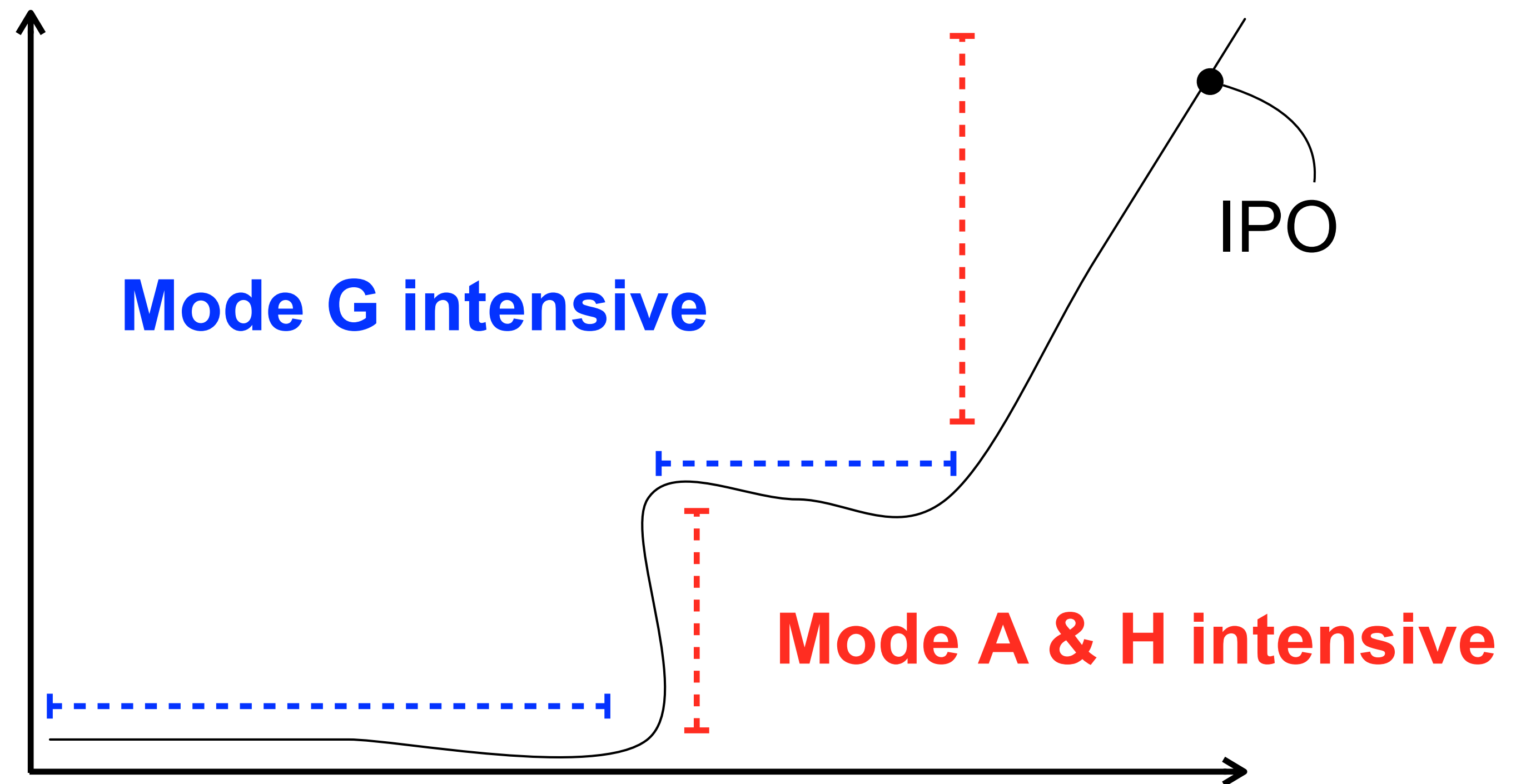


Classification of Modes

- **Mode G:**
Generic growth
- **Mode A:**
Acquisition growth
- **Mode H:**
Hybrid (network- or contract-based) growth.

Average Pattern in Strategic Investments

Total number of mode A & H investment



Total number of mode-G investment

II. Previous Studies (2)



Upside and Downside of Going Public for SMEs

Advantage

Drawback

Financial

Equity finance; Improving bargaining power; Reducing capital cost; Risk distribution

Adverse selection; Underpricing; Administrative fee

Strategic

Social & Reputation capital; Facilitating alliance & acquisition

Loss of confidentiality; Burden of disclosure

Organizational & Family related

Succession; Ownership transfer; Monitoring

Resistance to change; Distribution of control

(Pagano et al., 1998; Marchisio & Ravasi, 2001; García-Pérez-de-Lemaet al., 2011)

III. Research Design



- *Step 1:* Case study with similar method used in the previous research, **based on the published company history.**
- *Step 2:* Additional case study **based on an interview.**

IV. Case



Company Data (consolidated)

Case X

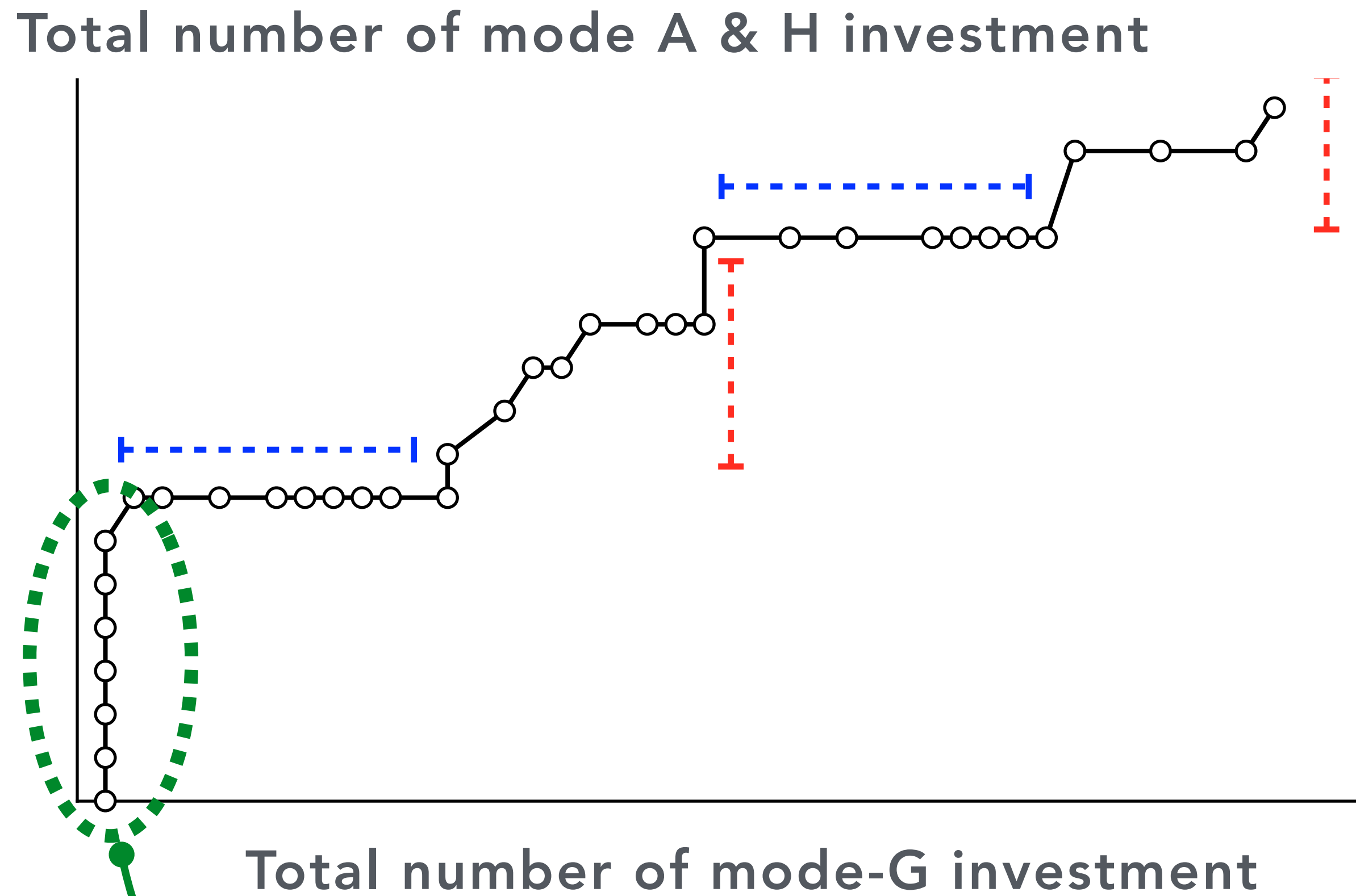
Case Y

	Case X	Case Y
Domain	Chemical producer (B2B)	Mobile retailer (B2C) / Cloud service provider (B2B)
Established in	1957	1947 (Founded in 1928)
Listed on	May, 2004 → Dec, 2015	June, 2015
Market	JASDAQ (Std.) → TSE 1	JASDAQ (Std.)
Parent Company	Pharmaceutical company (B2B, Unlisted)	(None)
Capital	1B JPY (≒ 9M USD)	250M JPY (≒ 2M USD)
Annual Sales	21B JPY (≒ 187M USD)	6B JPY (≒ 50M USD)
Employee	329	230

IV. Case

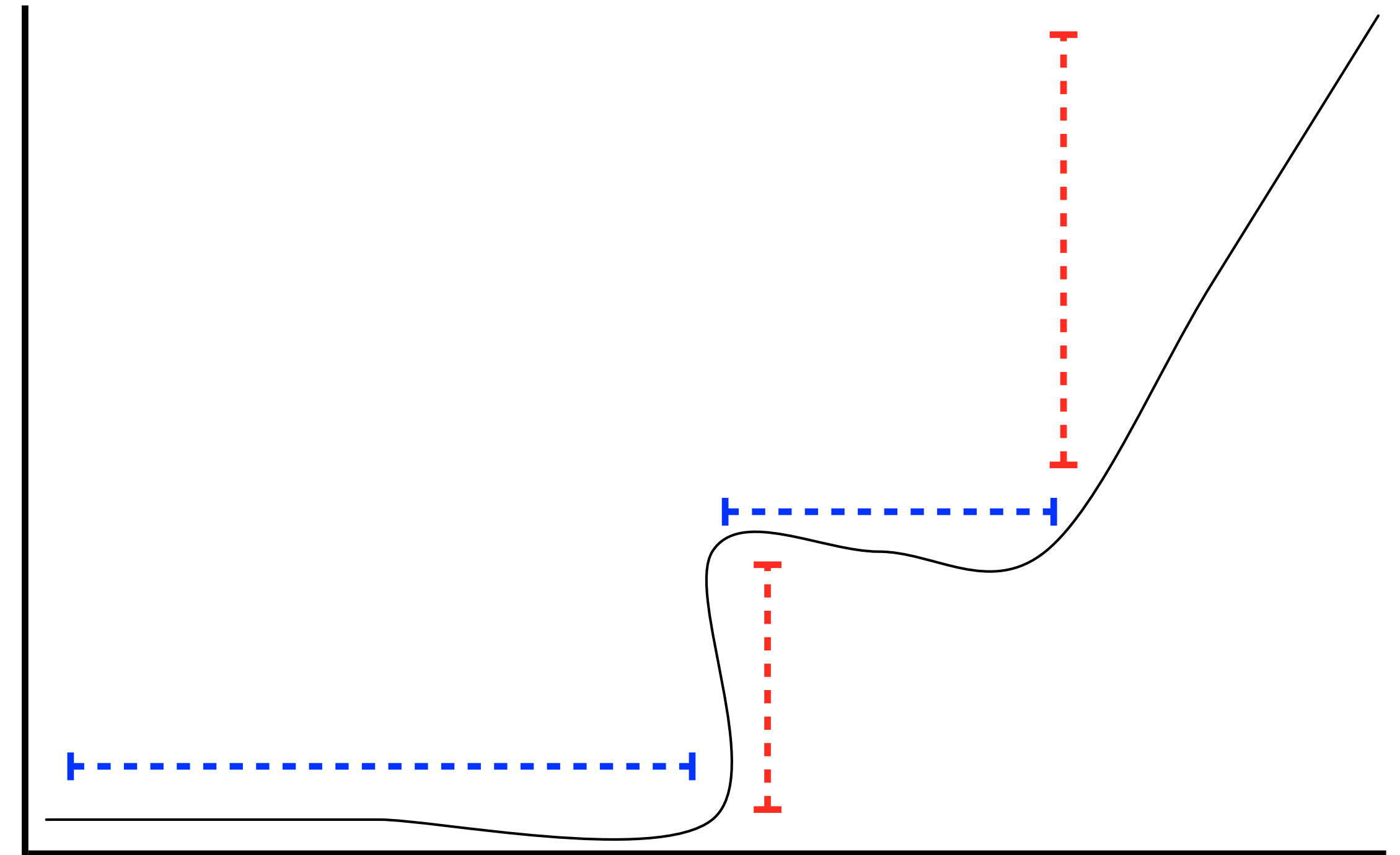


Growth mode pattern of Case X



Subcontractor stage

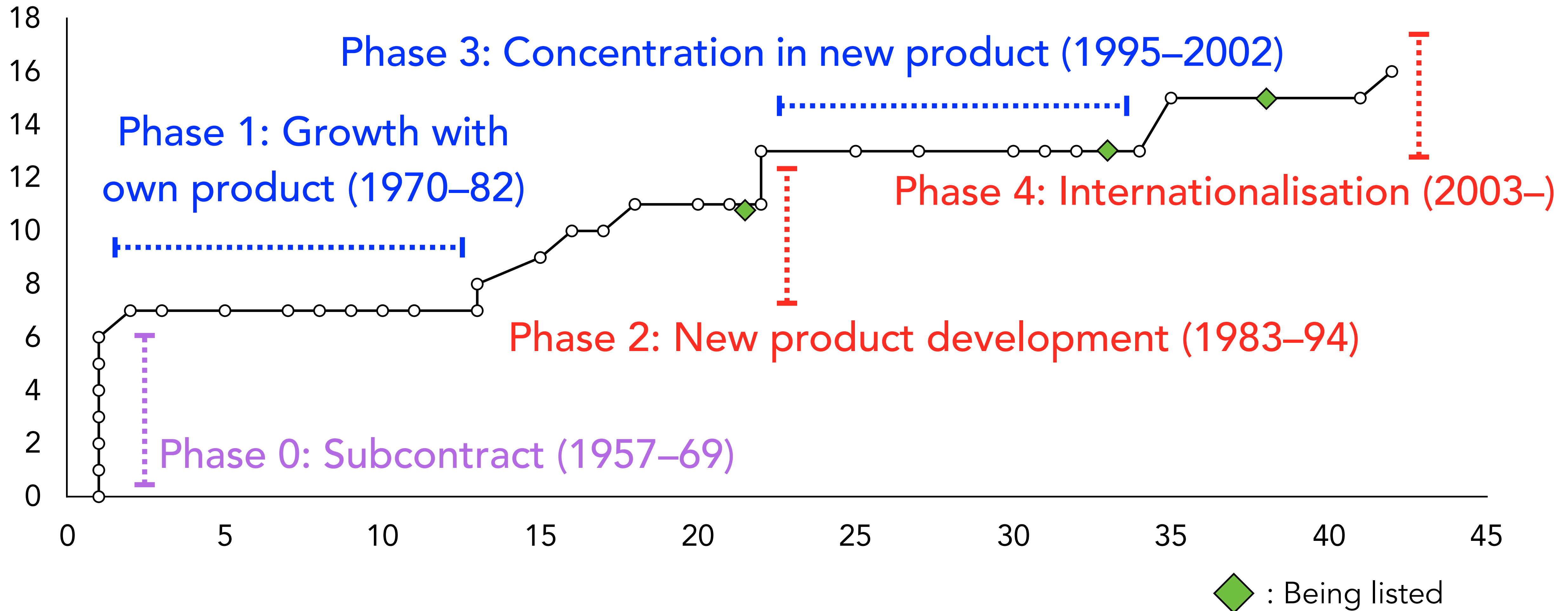
Average pattern in prior research



V. Findings



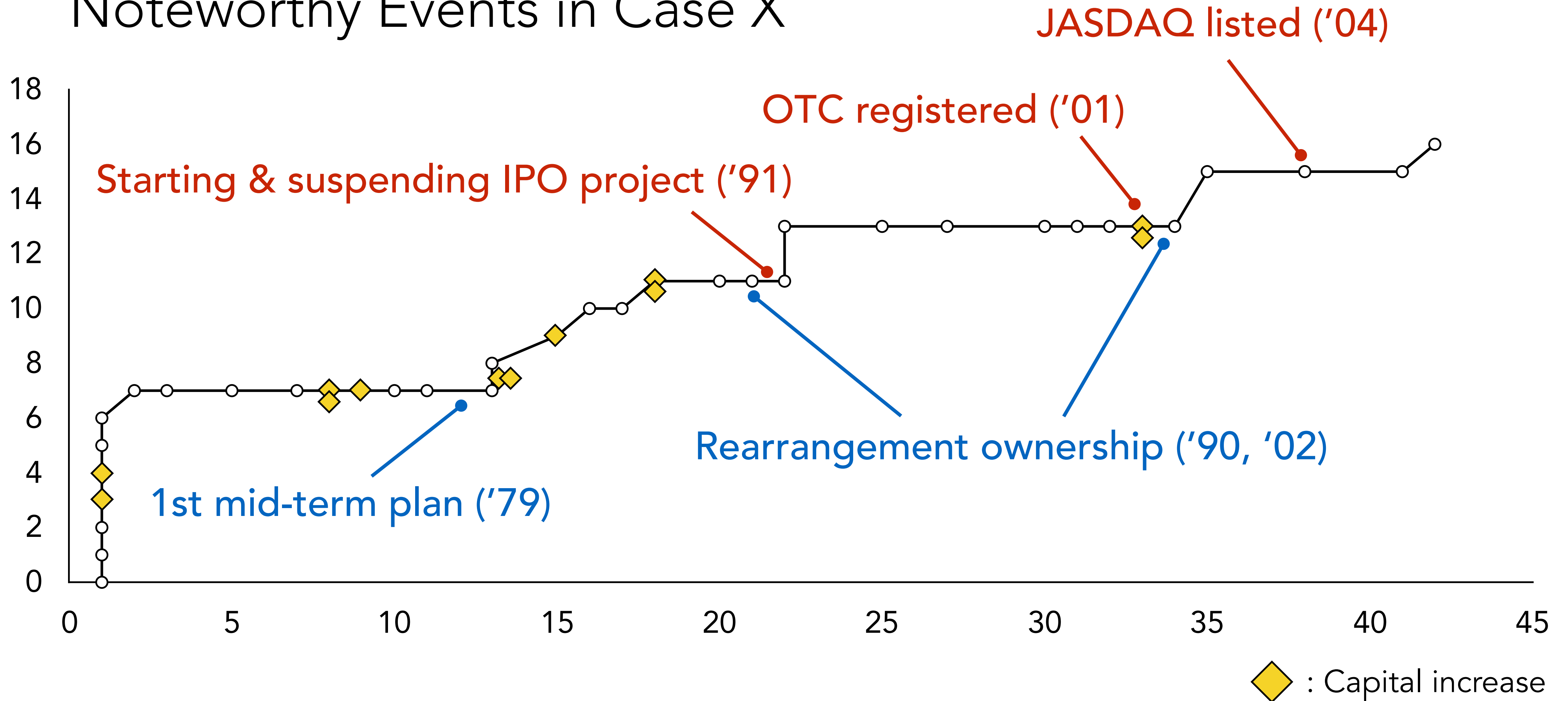
Growth Mode Transition of Case X



V. Findings



Noteworthy Events in Case X



V. Findings

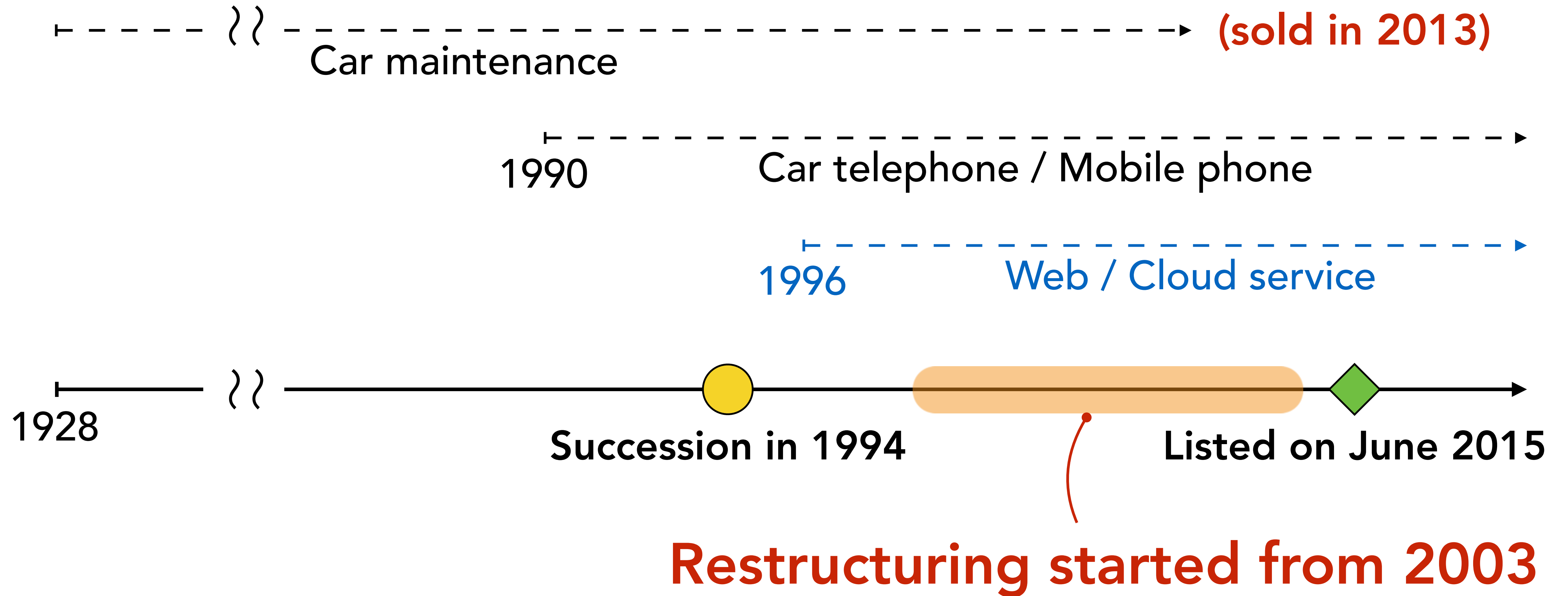


- Growth modes pattern of Case X is **consistent with the average pattern** except for subcontractor stage.
- **Major strategic planning before mode A & H** for gaining strategic flexibility
- **Rearrangement of ownership structures before IPO** for moderating the consequence of mode A & H

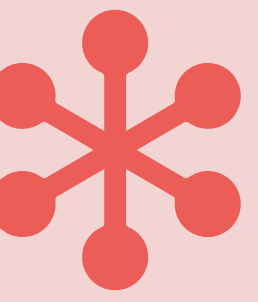
V. Findings



Outline of Case Y

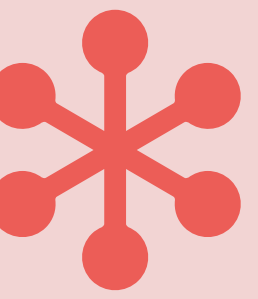


VI. Discussion

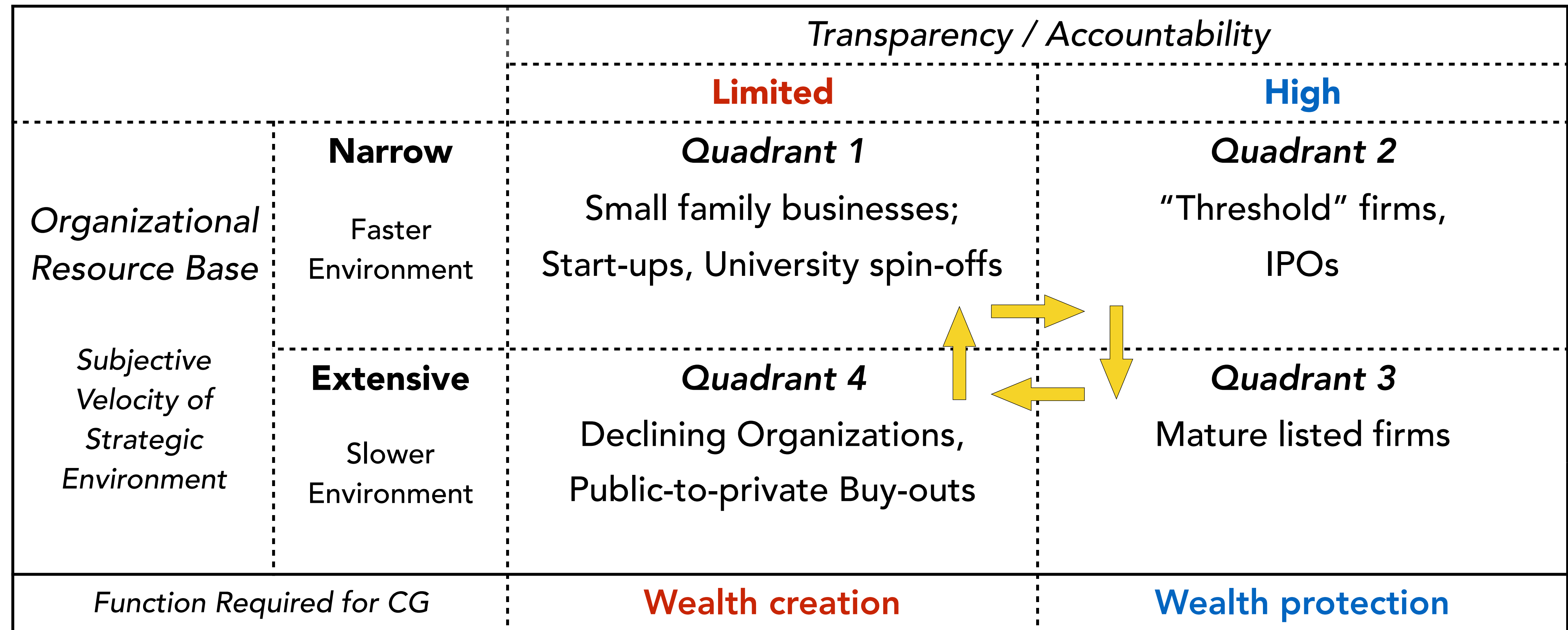


- Diversity of the path to IPO
- The framework about **the relationship among resource, strategy, and corporate governance** (Filatotchev et al., 2006)
- Balance of corporate governance function: **“value-creation” or “value-protection”**
- Partly empirically tested (O’Connor & Byrne, 2015)

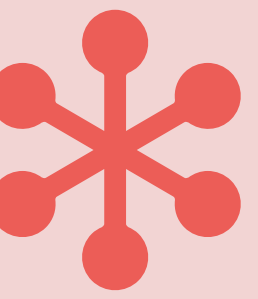
VI. Discussion



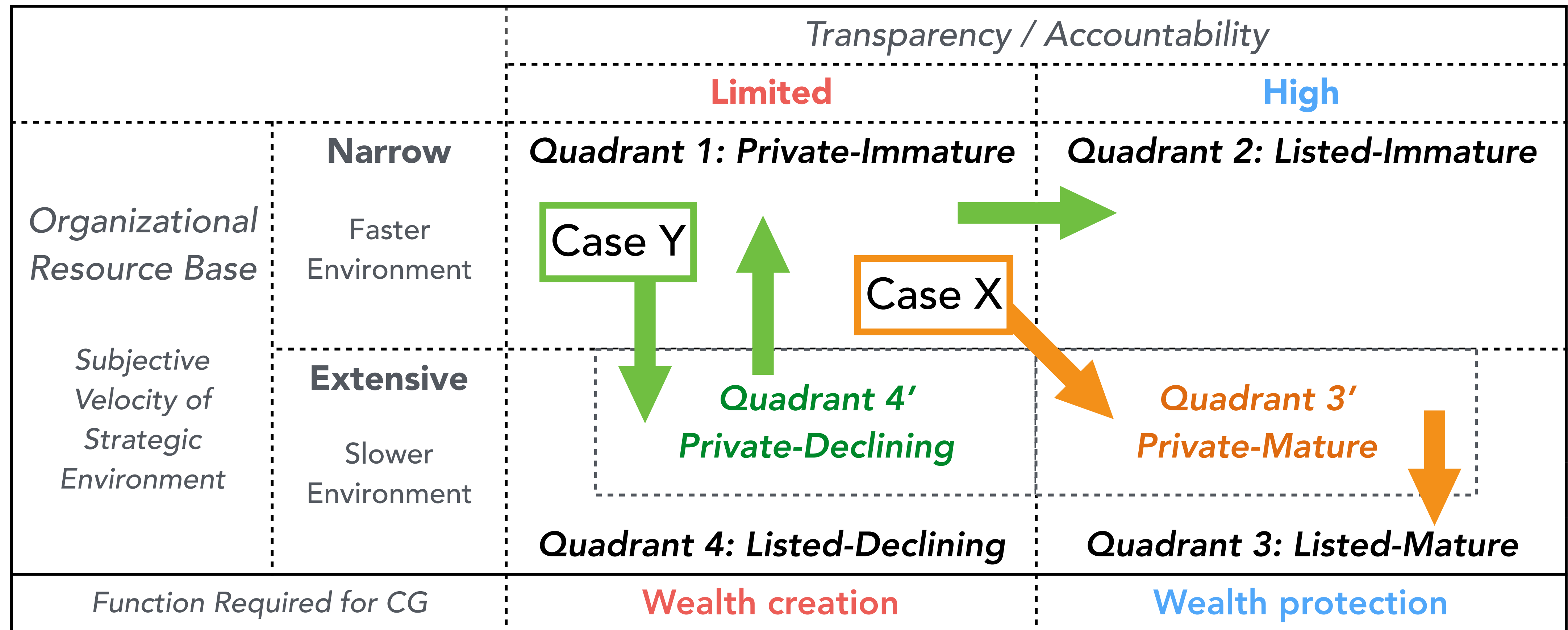
The Firm's Strategic Dynamics and Corporate Governance Life-cycle



VI. Discussion



Diversity of Growth Path Indicated by Two Cases

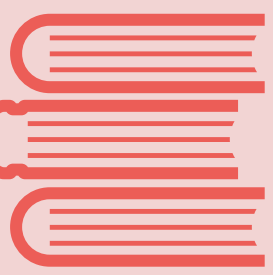


VII. Conclusion



- *Contribution:* Suggesting **diversity of SMEs' growth path**
- *Further agenda:* **Typology of growth path** based on comparative study

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