

Signal incongruence: Venture Capital, IPOs and the Acquisition Valuations of Entrepreneurial Ventures

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We integrate signaling theory with insights from work on expectancy generation and violation

and argue that firms' acquisition valuation depends on the combination of the signal affiliation

with venture capitalists (VC) conveys to prospective acquirers, with the subsequent information

on the prominence of the stock exchange in which firms eventually undergo an initial public

offering (IPO). Our findings, based on a sample of 7,120 non-U.S. VC-backed and non-VC-

backed, privately held and listed ventures, show that when IPO information is not congruent with

the initial signal, generating a violation of prospective acquirers' expectations, firms' acquisition

valuations suffer dramatically.