

Babich, Volodymyr; Sobel, Matthew J.

Pre-IPO operational and financial decisions. (English) Zbl 1232.90219
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Summary: Many owners of growing privately held firms make operational and financial decisions in an effort to maximize the expected present value of the proceeds from an initial public offering (IPO). We ask: “What is the right time to make an IPO?” and “How should operational and financial decisions be coordinated to increase the likelihood of a successful IPO?” Financial and operational decisions in this problem are linked because adequate financial capital is crucial for operational decisions to be feasible and operational decisions affect the firm’s access to financial resources. The IPO event is treated as a stopping time in an infinite-horizon discounted Markov decision process. Unlike traditional stopping-time models, at every stage the model includes other decisions such as production, sales, and loan size. The results include (1) characterization of an optimal capacity-expansion policy, (2) sufficient conditions for a monotone threshold rule to yield an optimal IPO decision, and (3) algorithmic implications of results in (1) and (2).

MSC:

90B50 Management decision making, including multiple objectives
90C40 Markov and semi-Markov decision processes

Cited in **11** Documents

Keywords:

stopping; initial public offering; Markov decision processes

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