Educational Administration: Theory and Practice
2024, 30(8), 816 - 820
ISSN: 2148-2403
https://kuey.net/
Research Article

Startups Preferring IPO Over VC Funding: A Strategic Shift in Entrepreneurial Finance

Prof. Mohd Khaja Qutubuddin[1*], Dr. P. Sai Rani[2]

[1*]ICBM SBE, Hyd., Email: qutubuddin@icbm.ac.in
[2]ICBM-SBE, Hyd., Email: sairani@icbm.ac.in

Citation: Prof. Mohd Khaja Qutubuddin et al. (2024), Startups Preferring IPO Over VC Funding: A Strategic Shift in Entrepreneurial Finance, *Educational Administration: Theory and Practice, 30(8)* 816 - 820
Doi: 10.53555/kuey.v30i8.10718

ARTICLE INFO **ABSTRACT**

In recent years, a growing number of startups have opted for Initial Public Offerings (IPOs) over traditional Venture Capital (VC) funding. This shift reflects a strategic recalibration driven by the desire for autonomy, broader capital access, and market credibility. While VC funding offers mentorship and early-stage support, IPOs provide liquidity, valuation transparency, and reduced dependence on concentrated investor control. This paper explores the motivations behind this trend, supported by empirical literature and real-world examples from India and abroad. It also offers strategic suggestions for startups navigating this critical decision.

Keywords: Startups, IPO, Venture Capital, Funding Strategy, Equity Dilution, Autonomy, Liquidity, India, Global Trends

Introduction

Startups have long relied on venture capital to fuel their growth, especially during early stages when revenue is limited and risk is high. Venture capitalists (VCs) offer not only capital but also strategic guidance, operational expertise, and access to networks. However, the funding landscape is undergoing a transformation. Increasingly, startups are bypassing VC rounds and heading directly to public markets via Initial Public Offerings (IPOs).

This shift is not merely a financial decision—it reflects deeper strategic motivations. Founders are seeking greater autonomy, broader investor bases, and valuation transparency. The IPO route, once reserved for mature companies, is now being pursued by younger, high-growth startups across sectors. In India, the rise of SME IPO platforms like BSE SME and NSE Emerge has made public listing more accessible. Globally, tech giants like Stripe and Klarna are choosing IPOs to unlock liquidity and scale operations.

The current "funding winter" has made venture capital more selective, particularly for late-stage deals. This has prompted many founders to explore IPOs as a viable alternative for raising capital. Moreover, IPOs offer enhanced visibility, improved governance, and exit opportunities for early investors. This paper investigates the reasons behind this trend, supported by literature and case studies, and offers insights for entrepreneurs evaluating their funding options.

Objectives of the Study

- To analyse the strategic motivations for startups choosing IPOs over VC funding.
- To examine the comparative advantages and limitations of both funding routes.
- To present detailed Indian and global examples of startups opting for IPOs.
- To offer actionable suggestions for startups evaluating funding strategies.

Literature Review

Lehnertz, Plagmann, & Lutz (2022): Their study on mega VC deals found that large funding rounds serve as quality signals, often leading to superior IPO performance. However, excessive VC involvement can distort valuation and post-IPO expectations.

Raghupathy & Thillairajan (2015): Analysing Indian IPOs, they found that VC-backed IPOs generally outperform non-VC-backed ones in terms of profitability and growth. Yet, VC-backed firms often face pressure for early exits, impacting long-term sustainability.

Mitchell, Lin & Arora (2023): This study explored how VC backing influences short- and long-term IPO success. While VC involvement boosts initial valuations, it may also lead to aggressive growth strategies that compromise post-IPO stability.
Sharma & Tripathi (2016): Their research on infrastructure startups revealed that VC funding tends to concentrate in early rounds, with diminishing support in later stages. This creates funding gaps that IPOs can fill.
Basnet et al. (2021): They examined IPO under-pricing and found that VC-backed firms often experience higher initial returns due to investor confidence, but may underperform in the long run due to inflated expectations.
Farre-Mensa, Hegde & Ljungqvist (2020): This Harvard study emphasized that VC funding boosts innovation but may also lead to misalignment between founders and investors, especially during IPO transitions.
Bikoji & Gopisetty (2023): Their Indian study highlighted the growing preference for IPOs among startups seeking autonomy and long-term capital, especially in consumer tech and fintech sectors.
FasterCapital (2025): This report outlined the complex relationship between VC and IPOs, noting that while VCs help prepare companies for public listing, their exit strategies may conflict with founder visions.
Kansaltancy (2025): Their analysis of SME IPOs in India showed that smaller startups increasingly prefer IPOs for valuation transparency and reduced investor interference.
Springer (2022): A meta-review of VC and private equity research revealed that IPOs are often used as exit platforms rather than growth enablers, raising concerns about long-term value creation.
Vikash Krishnan et al. (2025):This study found that VC-backed IPOs enjoy better governance and investor sentiment but may face volatility due to early investor exits.
CandB India (2025): Their report on IPO trends noted that startups are using IPOs to bypass VC gatekeeping and access broader retail investor bases.
Kotak Securities (2025): Their global IPO analysis emphasized that public listings offer unmatched capital access and brand visibility, especially for tech startups.
Investopedia (2025):A review of top global IPOs showed that companies like Alibaba and Facebook used IPOs to scale rapidly and reduce dependence on VC firms.
Companisto (2025): Their case studies of European startups revealed that IPOs are increasingly seen as strategic tools for expansion and credibility.

Reasons Startups Prefer IPO Over VC Funding

Autonomy and Control
Founders often lose strategic control under VC funding due to board seats and voting rights. IPOs allow them to retain decision-making authority while accessing capital.

Liquidity for Early Investors
IPOs provide an exit route for angel investors, employees with ESOPs, and early-stage backers. This is especially important in markets where secondary sales are limited.

Valuation Transparency
Public markets offer real-time valuation based on market sentiment and performance, unlike VC rounds which are often negotiated and opaque.

Access to Broader Capital Pools
IPOs attract institutional investors, retail investors, and global funds, offering more diversified and scalable funding than VC firms.

Market Visibility and Credibility
A public listing enhances brand recognition, customer trust, and media coverage—critical for consumer-facing startups.

Funding Winter and VC Selectivity
Economic uncertainty has made VCs more cautious, especially for late-stage deals. IPOs offer an alternative route amid tightening VC pipelines.

Improved Governance and Compliance
IPO preparation enforces better financial reporting, board structure, and internal controls, which can improve operational efficiency.

Strategic Timing and Exit Planning
IPOs allow founders to time their exit or scale-up strategy without being bound by VC timelines or exit pressures.

Indian Examples of IPO-Driven Startups

Meesho
Planning a $1 billion IPO in 2025, Meesho shifted its legal base to India and launched its logistics arm to improve margins. The IPO aims to raise capital while reducing VC dependence.

Zepto
Preparing for IPO to expand operations and onboard domestic investors like MapmyIndia. The move reflects a strategic pivot toward public funding amid VC caution.

Smartworks
Launched its IPO in July 2025, raising ₹445 crore. The funds will be used to pay down debt and expand operations. The company doubled its revenue in two years.

Groww
Filed for IPO to raise $700M–$1B. The listing will help expand services and offer exits to early investors. The move signals maturity in India's fintech space.

Nykaa
Though VC-backed, Nykaa's IPO revealed structural flaws. Its stock halved post-listing, raising concerns about IPO hype and long-term value.

Global Examples

Klarna (Sweden)
Filed for a U.S. IPO in 2025 to gain valuation clarity and reduce VC pressure. Klarna's move reflects European startups' growing preference for public markets.

Stripe (USA)
Expected to go public with a valuation near $100 billion, Stripe's IPO will offer liquidity to early investors and reduce reliance on VC firms like Sequoia and Andreessen Horowitz.

Trivago (Germany)
Listed on NASDAQ in 2016, Trivago used IPO proceeds for global expansion. The company bypassed further VC rounds to retain control.

Hellofresh (Germany)
Went public in 2017, raising €318 million. The IPO helped scale operations and improve profitability.

SoftBank (Japan)
Though a conglomerate, SoftBank's 2018 IPO raised $21.3 billion, highlighting the scale of capital available through public markets.

Suggestions for Startups Considering IPOs

Strengthen Financial Reporting
Ensure audited financials aligned with Ind AS or IFRS. Transition to accrual accounting for transparency.

Build Strong Corporate Governance
Establish a diverse and independent board. Ensure leadership accountability and ethical practices.

Engage IPO Advisors Early
Work with underwriters, legal experts, and auditors to navigate regulatory complexities.

Prepare for Investor Relations
Conduct roadshows, build investor trust, and maintain transparency in communications.

Evaluate Timing and Market Conditions
Align IPO with favourable market windows and internal readiness.

Balance Growth and Profitability
Public markets Favor sustainable growth. Avoid over-reliance on hype or speculative projections.

Plan Post-IPO Strategy
Treat IPO as a transformation, not a destination. Focus on long-term shareholder value.

Recommendations:

1. Strengthen Financial Reporting and Compliance
Adopt robust accounting standards such as Ind AS or IFRS.
Ensure audited financials for at least three years.
Build internal controls and risk management systems to meet SEBI or SEC requirements.
2. Build a Resilient Governance Framework
Form a board with independent directors and sector experts.
Establish clear roles for audit, remuneration, and risk committees.
Promote transparency and ethical leadership to attract institutional investors.
3. Engage IPO Advisors and Underwriters Early
Collaborate with merchant bankers, legal counsel, and financial advisors.
Conduct due diligence and prepare a compelling Draft Red Herring Prospectus (DRHP).
Choose underwriters with strong distribution networks and IPO experience.
4. Develop a Post-IPO Investor Relations Strategy
Maintain consistent communication with shareholders.
Publish quarterly earnings and host investor calls.
Use digital platforms to engage retail investors and analysts.
5. Evaluate Market Timing and Sector Sentiment
Monitor macroeconomic indicators, interest rates, and sector performance.
Avoid IPO launches during volatile or bearish market phases.
Benchmark against peer IPOs for pricing and positioning.
6. Balance Growth Ambitions with Profitability
Avoid aggressive expansion that compromises margins.
Focus on unit economics, customer retention, and operational efficiency.
Highlight sustainable growth metrics in IPO roadshows.
7. Prepare for Public Scrutiny and Accountability
Be ready for media attention, analyst coverage, and shareholder activism.
Train leadership in public communication and regulatory compliance.
Treat IPO as the beginning of a new governance era, not just a fundraising event.

Conclusion

The growing preference among startups for IPOs over VC funding marks a significant evolution in entrepreneurial finance. While venture capital has historically played a pivotal role in nurturing innovation, its limitations—especially in terms of control, liquidity, and scalability—are prompting founders to explore public markets.

IPOs offer startups a broader investor base, valuation transparency, and long-term capital access. They also enable early investors and employees to realize returns, while enhancing brand visibility and governance standards. Indian startups like Meesho, Zepto, and Groww, along with global players like Klarna and Stripe, exemplify this strategic shift.

However, IPOs are not without challenges. They demand rigorous compliance, investor accountability, and operational maturity. Startups must weigh their readiness, market conditions, and long-term goals before choosing this path. With the right preparation, IPOs can serve not just as funding mechanisms but as catalysts for sustainable growth and global expansion.

As the startup ecosystem matures, the IPO route will likely become a mainstream choice—not just for unicorns, but for ambitious ventures across sectors. Founders must embrace this shift with clarity, discipline, and a commitment to long-term value creation.

References:

1. Basnet, P., et al. (2021). IPO underpricing and VC backing. Journal of Financial Economics.
2. Bikoji, P., & Gopisetty, R. (2023). VC financing and growth in India. International Journal of Creative Research Thoughts.
3. CandB India. (2025). SME IPO vs VC funding. Retrieved from https://candbindia.com
4. Companisto. (2025). 10 startups that went public. Retrieved from https://www.companisto.com
5. Farre-Mensa, J., Hegde, D., & Ljungqvist, A. (2020). VC financing and innovation. Harvard Business School Working Paper.
6. FasterCapital. (2025). Venture Capital and IPO dynamics. Retrieved from https://fastercapital.com
7. Investopedia. (2025). Top global IPOs. Retrieved from https://www.investopedia.com
8. Kansaltancy. (2025). SME IPO trends. Retrieved from https://www.kansaltancy.com

9. Kotak Securities. (2025). Global IPO stories. Retrieved from https://www.kotaksecurities.com
10. Lehnertz, T., Plagmann, J., & Lutz, M. (2022). Mega VC deals as quality signals in IPO performance. Journal of Entrepreneurial Finance.
11. Mitchell, J. A., Lin, D. R., & Arora, S. K. (2023). VC involvement and IPO sustainability. Journal of Business Strategy.
12. Raghupathy, B., & Thillairajan, A. (2015). Performance of VC-backed IPOs in India. International Journal of Research.
13. Sharma, K., & Tripathi, S. (2016). Stages of VC investment in infrastructure startups. Indian Journal of Finance.
14. Springer. (2022). Mapping VC and private equity research. Retrieved from https://link.springer.com
15. Vikash Krishnan, A., et al. (2025). Governance and volatility in VC-backed IPOs. Journal of Emerging Markets Finance.