IPOs, Talent Reallocation, and Innovation Efficiency*

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Extended Abstract

This study examines how initial public offerings (IPOs) reshape the allocation of human capital and innovation outcomes. Leveraging rich, project-level data from 2000 to 2024 on drug development and matched worker-level employment histories, we analyze how going public affects incumbent employee departures, talent poaching from private peers, and firms' subsequent innovation performance.

We define private peers in a granular manner as firms that remain private throughout the sample period and operate contemporaneously in the same therapeutic (ICD-10) areas as firms that go public. Our empirical strategy examines talent flows between IPO firms and private peers as well as project outcomes for these firms via a stacked difference-in-differences design centered on IPO years.

We document three main findings. First, IPOs are associated with simultaneous talent poaching from private peer firms. After going public, firms become significantly more likely to attract employees from private peers, despite the low unconditional probability of such poaching events. Both extensive and intensive margins increase, with especially strong effects for experienced workers, non-executives, and same-state hires. These results are robust across firm-year and firm-pair-year specifications, Poisson models, and stacked event-study analyses, which show no evidence of differential pre-trends.

Second, IPOs trigger significant incumbent worker exits. Following an IPO, incumbent employees are about 1.6 percentage points more likely to leave within one year, representing roughly a 46% increase relative to the baseline exit rate. These exits are not random:

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workers are disproportionately more likely to move to public firms, including both peers and non-peers, and to private peer firms located in the same state. High-skill and research-intensive employees—such as PhDs, senior leaders, and experienced workers—exhibit particularly strong post-IPO mobility patterns.

Third, IPOs are linked to improved innovation outcomes. Public firms experience higher rates of project progression, a greater number of advancing projects, and increased entry into new drugs and therapeutic areas. These gains are closely tied to talent flows: cumulative net inflows of workers from private peers—particularly experienced employees—are positively associated with project progress and approvals, while cumulative departures dampen innovation performance. Project-level analyses further indicate that post-IPO improvements are strongest for projects initiated before the IPO, suggesting complementarities between newly acquired talent and existing organizational knowledge.

Finally, we show that private firms exposed to peers' IPOs experience declines in project progress, especially when they suffer net talent outflows. Overall, the findings highlight IPOs as pivotal events that reallocate skilled labor, enhance innovation at newly public firms, and impose competitive externalities on private peers.