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FINDER: Fostering Innovation Networks in a Digital Era
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Content: **Page**:

Introduction 3
ESR 5 3

Appendixes:

1. Manuscript AOM 4
2. Confirmation submission AOM 24

Introduction
This deliverable D3.3 discusses the submission of a full length manuscript by our ESR 5, (Ami) Xiaolei Wang, to the Academy of Management (AOM). The manuscript can be found in appendix 1, the confirmation in appendix 2.

ESR 5
(Ami) Xiaolei Wang submitted a full length manuscript to the Academy of Management (AOM) for their annual conference: 81st annual meeting 30 July – 3 August 2021: Bringing the manager back in management". The manuscript can be found in appendix 1, the confirmation in appendix 2.

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Appendix 1
Manuscript AOM

Crossed Wires:
A Signaling Perspective on the Interplay of Venture capitalist and New ventures' Alliance

Abstract:

This paper pivots around the question whether strategic alliances and VC investors complement or substitute each other in nurturing start-ups. While inroads have been made on how venture capitalist and alliance networks affect interorganizational collaboration (e.g. Ozmel, reuer and Gulati, 2013) the effect of VC prominence in determining a new venture's future alliance formation is still largely discarded in the VC and alliance formation literatures. Drawing on signaling theory, we pose that signals on how venture capitalists operate across multiple networks how and alliance networks affect interorganizational collaboration. Then, building on recent contributions to network theory, we argue that the signal will matter more, if the startup nurturing takes place in a high-risk setting. We provide new insights into the incidence of specific VC signals in the context of start-up alliance formation. In addition, we contribute to the emerging literature that takes on behavioral perspective on the interplay of venture capitalist and start-up alliance formation by showing that the 'reputational effect that comes with a VC matters.

Keywords: Venture Capitalists; High-tech industries; Signaling Theory; Market Signaling, Digital Business Models, Effective Strategic alliances, FinTech.

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Introduction

The central role played by startups in creating new jobs and bringing innovation to economic growth becomes increasingly important. Strategy and organizations scholars have long noted that new ventures have higher failure rates than established firms. Why do so many promising new ventures run off the rails and exit? Stinchcombe (1965) proposed that this propensity to fail exists because young firms have not established effective relationships and reputations and because they lack a track record with outside buyers and suppliers. While there has been much debate concerning the underlying source of the hazards facing new firms, whether a liability of newness or a liability of smallness-most of the research in this debate implicitly assumes that new entrants are typified by a lack of stable relationships and sufficient resources. Such difficulties can be particularly severe for new ventures in high-tech industries because of these companies' intangible assets and lack of track records in their early years, when they are aggressively seeking partnership. However, startups vary considerably in their access to resources and stable relationships, and these variations may lead to differences in their early fates (Baum, 1996; Fichman and Levinthal, 1991).

Strategic alliances, which are defined as voluntarily initiated cooperative agreements between independent firms that involve exchange, sharing or development (Gulati & Singh, 1998), and venture capitalists (VCs). When studying alliances and VCs , scholars tend to look at them separately (Hoenig & Henkel, 2015). For instance in the context of new venture financing and alliance formation, only few studies examine other types of actors, apart from business angels and banks (Tykvová, 2018). This leaves the question whether strategic alliances and VC investors complement or substitute each other in nurturing start-ups largely unanswered. While inroads have been made on how venture capitalist and alliance networks affect interorganizational collaboration (e.g. Ozmel, Reuer and Gulati, 2013) the positive effect of VC prominence in determining a new venture's future alliance formation. Signals across multiple networks how venture capitalist and alliance networks affect

interorganizational collaboration. Academy of Management Journal 56:852–866), we know little still about the role of time on the development of this relationship.

While prior work has informed us that another way to capture value added is to look at the investment outcome that undergirds alliance formation, the VC-backed companies have higher likelihood of successful exits (Chemmanur et al. 2011; Ozmel et al. 2013a, b) and a lower risk of failure (Bhattacharya et al. 2015; Puri and Zarutskie 2012). Similarly, PE-backed companies realize higher exit rates (Jelic 2011) and lower risk of financial distress and bankruptcy (Tykvová and Borell 2012)." However, for new ventures' alliance formation may, in reality, be intertwined with VCs decision to scale up by means of venture capital injection (Tykvová, 2018).

The literature is clear on the expected association between VC and exit events, but research is mixed on how VC funding affects the likelihood that the start-up subsequently contracts with alliance partners. At a practical level, much of the financing raised in venture rounds is invested in the development of scientific programs that generate intellectual property, which potentially forms the basis for future alliance contracts. In addition, the value-adding functions of the VC described in Hellmann and Puri, 2000, Hellmann and Puri, 2002 and others are likely to elevate the attractiveness of portfolio companies as prospective alliance partners. Likewise, Lindsey (2008) shows that VCs facilitate alliance activities among portfolio companies. In addition, Hochberg, Ljunqvist, and Lu (2007) find that better networked VCs have more successful portfolio companies in part because their more extensive business connections can be brought to the aid of portfolio companies. (Wang, Wuebker, Han, & Ensley, 2012) Strategic alliances by venture capitalist backed firms: an empirical examination. (Ozmel, Reuer, & Gulati, 2013) show that Signals across multiple networks: How venture capitalist and alliance networks affect interorganizational collaboration. (Colombo, D'Adda, & Pirelli, 2016) The participation of new technology-based firms in EU-funded R&D partnerships: The role of venture capitalist venture capitalist (VC)-backed firms are more likely to enter these partnerships than their non VC-backed peers and the role of the ownership and governance of the VC investor. (Reuer & Devarakonda, 2017) find that Partner selection in R&D

collaborations: Effects of affiliations with venture capitalist. (Blevins & Ragozzino, 2018) An examination of the effects of venture capitalist on the alliance formation activity of new ventures. In contrast, (Ozmel, Robinson, & Stuart, 2013) show that strategic alliances act as substitutes or complements to venture capitalist .

However, the incentives of VCs and alliance partners may depart in a few primary ways, both of which stem from the fact that alliance contract terms are project level and VC investments are at the firm level. First, the two levels of ownership may create incentives for managers to shift resources across projects, within firms. Specifically, managers at young companies often have the incentive to shift resource from alliance-based projects to others within the firm, because profits from any products that are developed under an alliance contract are shared with the partner. Second, the contractual cash flow rights that are granted to alliance partners often place a de facto cap on the upside of the equity value of the portfolio company. This occurs because an alliance contract often grants half or more of the revenues or profits of a start-ups development project to the alliance partner. In addition, portfolio companies that have successfully raised many rounds of VC may have little need for additional capital from alliance partners. For these reasons, VC activity may deter subsequent alliance formation.

Prior research has identified venture capitalists play a prominent and powerful role in future alliance formation of new ventures (Cox Pahnke, McDonald, Wang, & Hallen, 2015; Lindsey, 2008; Ozmel, Reuer, et al., 2013; Reuer & Devarakonda, 2017; Wang et al., 2012). Those studies focus more on the antecedents and consequences of gaining tangible and intangible resources from VCs new ventures. Although this has made a significant contribution to our knowledge of patterns, there has been little interest in identifying how venture managers can address the risks that all new organizations face.

Most entrepreneurial network research emphasizes an overarching pattern that suggests substantial path dependence, with new ties often being local to entrepreneurs' existing network, hierarchical, and geographic positions.

Given the prevalence of strategic alliances, a deeper understanding of how early-stage firms optimally balance the competing interests of project-level and company-level funding opportunities is an important question for future research.

For entrepreneurs, this study has two important implications. First, when they found new ventures, they should get funding from respectable venture capitalist firms, which provide needed funds and reputational benefits. In addition, they should develop strategic alliances with prominent partners to access social, technical, and commercial resources that normally require years to accumulate. The resources and the legitimacy gained from such relationships reduce new ventures' liability of newness and improve their performance. In addition, they let new ventures build scale relatively quickly; such scale is important in certain sectors, including the Internet. Although new ventures cannot guarantee long-term success merely by obtaining such resources, especially in volatile new business sectors like Internet commerce, they can nonetheless improve their chances of going to IPO more quickly and let them use the funds they receive to further establish a viable competitive position.

Our overarching goal in this research is to introduce and explore the phenomenon of new ventures' alliances in order to stimulate future research that explores this phenomenon from both the alliance and entrepreneurship perspectives. To fulfill this research objective, we conducted three empirical projects on Fintech industry. Each of the projects addresses a unique research question and provides insights into strategic alliances in the context of new ventures from a different perspective.

As such, this research aims to enrich the existing body of literature on business growth and organizational tensions by gaining further insight on h ow VC withdrawal adversely influences the focal new ventures' strategic alliances.

This paper will elaborate on how VD withdrawal adversely influences the focal new ventures' strategic alliances. The remainder of the paper is organized as follows. *Section 2* presents an overview of the literature that we build upon. *Section 3* sets out our hypotheses. *Section 4* describes the sample, its construction and the methods used to analyze it. *Section 5* presents the results. *Section 6* sets out the key findings, contributions, research limitation and avenues for future research. We close with a discussion of managerial implications for those involved in technology-based new ventures and their new venture collaboration considerations.

Background

The literature describes a number of ways in which a firm can collaborate by means of voluntarily initiated cooperative agreements between independent firms that involve exchange, sharing or development (Gulati & Singh, 1998), and venture capitalists (VCs). Notable however, when studying alliances and VCs , scholars tend to look at them separately (Hoenig & Henkel, 2015; Tykvová, 2018).

No prior research has explicitly linked startups' early VC network performance to their founding-network composition. Omzel, for instance, shows that start-ups' increased alliance activity makes future alliances more likely, but future VC activity less likely. Among the many factors potentially impeding collaboration is the risk of adverse selection, which can arise between a new venture and its potential alliance partners when is information asymmetry regarding the value of the new venture's resources and its future prospects.

A first stream of research has looked into the relationship between venture capitalists and their portfolio ventures. In particular, strategy and organizations scholars have long noted that venture capitalists are actively involved in management of the portfolio companies to assure their success (Gifford, 1997). A venture capitalist

(VC) is a private equity investor that provides capital to companies exhibiting high growth potential in exchange for an equity stake. This could be funding startup ventures or supporting small companies that wish to expand but do not have access to equities markets. The extant studies show that a new venture's affiliations with prominent intermediaries such as venture capitalists (VCs) signal its quality, suggesting that the new venture has superior resources and capitalists as well as better market opportunities.

Another stream of research has looked in the importance of strategic alliances. Strategic alliances, which are defined as voluntarily initiated cooperative agreements between independent firms that involve exchange, sharing, or-development (Gulati & Singh, 1998). The burgeoning literature on alliance networks contends that alliances enable firms to gain access to resources, particularly when time is of the essence. If so, then alliances are likely to be particularly beneficial to young, resource-constrained firms. In short, development of an appropriate alliance network at founding may enable a young firm to enjoy relationships and resources typical of a more established firm, hence overcoming liabilities of newness and/or smallness. New ventures can engage in activities to signal their quality and thereby facilitate economic exchanges such as future alliances by overcoming these challenges.

Research streams on venture capitalists and alliances are central to the field of entrepreneurial literature but have evolved independently. The extant entrepreneurial literature does little to inform us about how to the interplay between venture capitalists and alliances. Although it is widely acknowledged, there is little empirical research demonstrating such a phenomenon or exploring its theoretical underpinnings. It is this gap that we attempt to address in our study. We employ a signaling perspective in new ventures context.

Technology-based new ventures

Technology-based new ventures are not representative of the entire population of start-ups, they form an important subgroup, particularly with regard to their contribution to the respective national economy, job creation and innovation (Almus & Nerlinger, 1999; Audretsch, 1995). Due to the critical challenge of linking technological expertise with market-related capabilities, these ventures are typically founded by teams (Roberts, 1999) whereby the question of retaining and updating plays a particularly pertinent role, making technology-based new venture teams an interesting context to study evolution and performance effects of new venture teams.

Extant studies provide evidence on how venture capital (VC) investment affects startup firms' alliance formation and performance. Despite the rich and abundant research on the relationship between VC investment and startup's alliance, there is no clear evidence about the contribution of VC investment on the performance and market value of invested firms.

The Financial Stability Board of the Bank for International Settlements defines fintech as "technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services" (European Banking Authority 2017, p. 4).

The research project will be conducted in collaboration with TechQuartier, which was founded in 2016 in Europe‘s financial center of Frankfurt, is a cross-industry innovation platform created to bring new ventures, corporates and new talent together to work, meet, learn and collaborate on new technologies and digital business models. Its member-based community numbers more than 300 new ventures, 50 academic and corporate innovators and hundreds of potential founders. TechQuartier, with nine other major European hubs, boosts the international connection of FinTech new ventures and scale-ups. The ten major European hubs represent over 1,500 FinTechs in total.

Venture capitalists and the evolution of entrepreneurial firm' strategic alliance

We explore how venture capitalist (VC) withdrawal adversely affects the focal new ventures' alliances (Phelps, 2010). Using a network approach, we investigate how new ventures maintain strategic alliances by enlisting prestigious interlocking directorates regardless of VC withdrawal deter new prospective investors and how interlocking directorates moderate the negative relationship between VC withdrawal and start-ups' alliances.

Strategic alliances play a central role in scaling new ventures at different stages. We use the classic definition of strategic alliances as "voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services. They can occur as a result of a wide range of motives and goals, take a variety of forms, and occur across vertical and horizontal boundaries (Gulati, 1998)." Past findings in entrepreneurship literature have shown that the contributions of venture capitalists (VC) to new ventures' alliance formation (Zhang, Jiang, Wu, & Li, 2019) are positively correlated. (Hallen, Davis, & Murray, 2020). VC firms have also been found to facilitate tie transitivity with other ventures through the formation of R&D alliances (Reuer & Devarakonda, 2017). Whereas existing research focuses more on how VC positively affect the development of new ventures' equity and social capital, however, other researchers have recently explored the potential negative consequences of venture capitalist investment withdrawals (Cox Pahnke, McDonald, Wang, & Hallen, 2015; Hernandez, Sanders, & Tuschke, 2015). Thus, in this study, we consider the negative

influences across different interfirm networks and investigate how venture capitalists (VC) withdrawal affects the evolution of new ventures' strategic alliances. We argue that the non-repetition of ties with venture investors could potentially increase the tension and impede new ventures' alliances when "the VC terminates its relationship with the new ventures" (Shafi, Mohammadi, & Johan, 2020). In addition, this study addresses a topic that we do not yet fully understand, namely, how new ventures manage their alliances strategically to alleviate concerns of misappropriation in venture capitalist withdrawal. We seek to provide effective strategies to alleviate the significant potential negative impact by non-repetition of investment ties to the new ventures.

Venture capitalist provides a unique context where we can examine how a VC adjusts its decision over time based on updated information at each round of financing, which is the focal concern of dynamic real options theory (Bowman and Hurry, 1993; Trigeorgis, 1996). Many investment projects of strategic importance, such as R&D, are undertaken in discrete stages, but such staged financing is usually unobservable to researchers. In addition, a study of venture capitalist withdrawal is important in its own right because of venture capitalist 's important role in financing entrepreneurship. Many of the high tech icons, such as Microsoft, Apple, Cisco Systems, and Genentech, have been venture backed in their early stages. Research studies and industry reports suggest that venture capitalist has contributed substantially to job creation, innovation, and economic growth in the United States (Global Insight, 2007; Kortum and Lerner, 2000).

For new ventures in high-tech industries, two critical types of networks are networks of prior alliances, or alliance networks (e.g., Baum et al., 2000), and VC syndicate networks, which are formed through VCs' joint investments in new ventures (Sorenson & Stuart, 2001). Even though previous research has extensively analyzed the impact of alliance networks on future alliance formation (e.g., Gulati, 1998, 1999; Gulati & Gargiulo, 1999), it has devoted far less attention to the impact of other important types of networks, such as VC syndicate networks. This represents an important omission since VCs are critical providers of resources (e.g., Bygrave & Timmons, 1992; Gompers & Lerner, 2000) and certify the quality of new ventures (e.g., Gulati & Higgins, 2003;

Hsu, 2006). Therefore, to have a more complete understanding of the determinants of alliance evolution of new ventures, we need to investigate the implications of a new venture's affiliations with VCs.

Our hypothesis pertains to new ventures experiencing VC withdrawing. While prior literature focuses more on venture capitalists (VC) firms' withdrawals from VC syndicates are associated with their subsequent syndication, we flip the focus around and shift attention to new ventures' perspective on how such disruptive consequences of such terminations on new ventures' other interfirm relationships' stability. Specifically, we seek to exploit the consequences of VC withdrawal and to determine whether their structure and characteristics explain the new ventures' alliance evolution and termination. Prior work has found that the features and salient position of VC can lead to various benefits in new ventures' interfirm networks. In an attempt to depart from prior research dominantly focus on the advantage of VC network ties, we are planning to examine the costs of VC withdrawal (VC non-repetition of ties). We conjecture VC withdrawal might deteriorate to the strategic alliances of new ventures.

Extant research show that network resources are significant to a firm's choice of partner selection (Meuleman, Lockett, Manigart, & Wright, 2010; Ozmel, Reuer, et al., 2013; Wang et al., 2012). New ventures often utilize the existing VC investment partners to form direct and indirect connections with other potential investors or alliance partners. Some scholars find that the VCs are active to help new ventures' alliance development (Blevins & Ragozzino, 2018). Another study shows that an increased probability that two firms pair in an alliance if they share a common venture capitalist investor (Lindsey, 2008). In contrast, a recent study suggests that the withdrawal of VC firms can poison the relationships among their portfolio companies and abandoned co-investors (Guler, 2007). Sullivan and his colleagues found the evidence that "the spread of negative information" can lead to interfirm network partners leaving and overall network structure changing (Sullivan, Haunschild, & Page, 2007). The negative signals generated by the exit decisions in early-stage firms of VC could undermine the focal firm's reliability. The strategic alliances' partners of the focal entrepreneurial firm

also face the adverse selection risk to continue the existing interfirm partnership (Polidoro Jr, Ahuja, & Mitchell, 2011). Therefore, we argue VC withdrawal increases the chance of unplanned dissolution of new ventures' alliance and this effect is stronger for high status and reputable VC firm, which are more visible in the network. When at least one of the existing VCs withdrew from the follow-on round of financing, we coded the observation related to that round of investment as VC withdrawal.

Fombrun defined reputation as "a perceptual representation of a company's past actions and prospects that describes the firm's overall appeal to all its key constituents when compared to other leading rivals. (Fombrun & Rindova, 1996, p. 32) ". Here, we use the classic definition of "reputation" as "a set of attributes ascribed to a firm, inferred from the firm's past actions" (Weigelt & Camerer, 1988: 443). The entrepreneurs are much more willing to be invested and affiliated by high-reputation VCs (Hsu, 2004). the better the reputations of participating venture capitalist firms and strategic alliance partners were, the more money a startup raised, and the larger was the size of a startup's network of strategic alliances.

Nonetheless, "a withdrawal from a high-reputation VC may have broader repercussions; namely, implications for the exchange partner's reputation for reliability."

No firm initially had a superior reputation, network, or funding. A firm may have different reputations with different stakeholders, who may have different perceptions of "highly valued outcomes".

In this study, we will employ quantitative data to build a panel dataset. We form the panel dataset by combining information from various data sources, including CrunchBase (www.CrunchBase.com) (Ter Wal, Alexy, Block, & Sandner, 2016), ThomsonOne and Security Data Corporation (SDC) database (Pollock, Lee, Jin, & Lashley, 2015; Wang, 2020). Our data include U.S. and European new ventures that received VC funding from 2007 to 2016 (Colombo, 2016 #471). Recent research has shown that the activities of VC are fundamentally different in young new ventures may vary across countries (Colombo & Shafi, 2016). Thus, we will test our ideas in a research context of the United States and the Europe. In sum, we will focus on the young new ventures' alliances evolution and study their reaction to the changes catalyzed by VC. A period of time (10 years) will be considered for data collection.

Conclusion

In sum, our study contains several implications for theory and practice. We contribute to the studies the dilemmas that new ventures face when accessing equity and social capital in several ways. First, our primarily to the literature on entrepreneurship literature by identifying uncertainty drives organizations to interact with their existing VC partners that navigates the prevalent discontinuation of investment relationships. Second, we emphasize the importance of understanding the extent to when an entrepreneurial firm opts for a new prestigious interlocking directorate as a lever for effective strategic change.

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Our research also has some implications for new ventures and the VC partners they choose. New ventures need to be careful about choosing their partner(s) to avoid the uncertainty that put their long term interfirm relationship at risk of losing opportunities to develop and grow. Overall, we add insights to the network and signaling literature and to the nascent literature on how the early discontinuation of investment relationships could negatively impact an entrepreneurial venture's other interfirm relationships.

Overall, we add insights to the network and signaling literatures and to the nascent literature on how strategic action, especially by low-power actors such as entrepreneurs, shapes critical network outcomes.

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Appendix 2
Confirmation submission AOM

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Other Years: Current Year | Register for the Annual Meeting | Online Program | Become A Reviewer | JOIN AOM

2021 AOM Annual Meeting Submission Center

Submission Guidelines and FAQs

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Submission Deadline: Tuesday, 12 January 2021

Submission ID	Submission Type	Submitter	Entry Date	Action
10679	PDW Workshop	Xiaolei Wang	Wednesday, 30 December 2020 at 1:23:00 AM ET	My Submissions

Title: A Signaling Perspective on the Interplay of Venture capitalist and New ventures' Alliance

Short Title: Crossed Wires:VC and New ventures' Alliance

Abstract: This paper pivots around the question whether strategic alliances and VC investors complement or substitute each other in nurturing start-ups. While inroads have been made on how venture capitalist and alliance networks affect interorganizational collaboration (e.g. Ozmel, reuer and Gulati, 2013) the effect of VC prominence in determining a new venture's future alliance formation is still largely discarded in the VC and alliance formation literatures. Drawing on signaling theory, we pose that signals on how venture capitalists operate across multiple networks and alliance networks affect interorganizational collaboration. Then, building on recent contributions to network theory, we argue that the signal will matter more, if the startup nurturing takes place in a high-risk setting. We provide new insights into the incidence of specific VC signals in the context of start-up alliance formation. In addition, we contribute to the emerging literature that takes on behavioral perspective on the interplay of venture capitalist and start-up alliance formation by showing that the 'reputational effect that comes with a VC matters.

Preferred Session Format : No Preference

Participants

Participant: Xiaolei Wang - Radboud U. Nijmegen

Primary Sponsor Selection

AAT: All-Academy Theme

Orientation(s) (Optional)

Research

Theme: Bringing the Manager Back in Management

Scheduling Requests

Note: These are strictly requests. These requests are subject to later approval by the sponsoring division(s).

Duration (hh:mm): 08:00

For All-Academy Theme submissions, Sunday is the only day option and start and end times are not applicable.

Maximum Capacity: 1000

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Radboud Universiteit Nijmegen

From: AOM Submission Center <support@aom.org>
Sent: Wednesday, December 30, 2020 7:36 AM
To: Wang, X. (Ami) <a.wang@fm.ru.nl>
Subject: Participation in a 2021 Academy of Management Submission

*** PLEASE DO NOT REPLY TO THIS EMAIL ***

Dear Xiaolei Wang,

This message serves to notify you that you have been included in the role(s) of "Participant" on the AAT PDW titled "A Signaling Perspective on the Interplay of Venture capitalist and New ventures' Alliance" submitted by Xiaolei Wang (Radboud U. Nijmegen, a.wang@fm.ru.nl) to the 81st Annual Meeting of the Academy of Management, 30 July - 3 August 2021. The submission number is 10679.

If your participation in this submission is correct, then please note that if it is accepted, you must be registered for the Annual Meeting in order to participate in the session. Also, by being on this submission, you have acknowledged that you are not in violation of the Rule of Three + Three.

If you were incorrectly listed as a participant, then please notify the submitter immediately to request that your name be removed. Otherwise you may find yourself in violation of the Rule of Three + Three and may not be able to submit or participate in other submissions. Sign in to the Submission Center at https://submit.aom.org/ to view all of the submissions that you are associated with.

If you have not already, please sign up at https://reviewer.aom.org/ to become a reviewer for the conference.

Thank you,
Academy of Management

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