

The People/Performance Balance in IPO Firms:
The effect of Chief Executive Officer (CEO) Financial Orientation

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ABSTRACT

Welbourne and Andrews (1996) studied IPO firms and found that Tobin's Q, at the time of the IPO, was lower for firms that they coded as having higher levels of human resource value (HR Value). However, those same firms were more likely to survive five years after the IPO. Given that finding, our study examines one factor that may influence the firm's choice between maximizing short-term financial performance (doing well at the IPO) or long-term performance (maximizing HR value). Using the theory of Upper Echelons (Hambrick & Mason, 1984), we show that the decision on how to balance these forces is shaped in part by the Chief Executive Officer's (CEO) functional background. We focus on CEOs with primary training in finance as they will most closely identify with investment community pressures to perform well at the time of the IPO. In two different samples of IPO firms, we find that CEO financial background is associated with lower levels of human resource value, but contrary to what we expected, having a finance-oriented CEO does not maximize short-term gains in the IPO.

Long-term competitive advantage versus short-term shareholder value is a debate that has been fueled by an accelerating Dow Jones Industrial Average. As a result, CEOs often are torn between the need to balance long-term investments that will provide competitive advantage with the reality that their pay often depends on short-term performance goals (e.g. bonus, stock options). In a world of omniscient actors, maximizing short-term value would result in long-term competitive advantage, but this rational model deteriorates under conditions of uncertainty or where companies have little control over their environment (Pfeffer & Salancik, 1978). Nowhere does the model of perfect information collapse faster than with entrepreneurial companies, especially companies that recently have conducted an initial public offering (IPO). IPO failure rates are comparable to that of start-ups. For example, Zeune (1993) found that only 58% of firms going public in the 1980s on the New York Stock Exchange, American Stock Exchange, or NASDAQ survived until 1989.

Few studies have examined the reasons for IPO firm failure, except for cursory treatment in the finance literature (cf. Altman, 1988). The role of employees as a strategic asset is often overlooked -- yet clearly is a part of the equation determining the IPO firm's ability to survive the longer-term (Welbourne & Andrews, 1996).

Welbourne and Andrews (1996) found that firms providing long term rewards to employees and firms indicating they value employees¹ increased their chance of survival dramatically. Valuing employees alone improved survival (companies 1 standard deviation above the mean on valuing

¹Human resource value was coded from prospectus data by summing a number of variables such as whether employees were mentioned as being a strategic asset to the firm, existence of a human resource executive, training programs for employees, and rating of the employee relations environment.

employees increased survival chances from .70 to .79; firms 1 standard deviation below the mean on value decreased their survival chances from .70 to .60). However, the authors also found that high scores on human resource value were negatively associated with the firm's short-term performance (Tobin's Q at the time of the IPO). Although this research was based on archival information, the results suggest that IPO firms face pressures to de-emphasize their investments in people -- the firms actually were penalized by the investment community for making a public statement in the prospectus about how much they value their employees. Thus, in order to maximize short-term IPO performance, firms may want to minimize HR value. On the other hand, in order to improve long-term performance (survival), firms should maximize HR value. As IPO firms specifically are trying to create shareholder value while subsequently managing for survival, this setting is an ideal place to understand how entrepreneurial firms attempt this balance.

Our study focuses on the firm at the time of the IPO, and we are particularly interested in the determinants of human resource value. Valuing people and creating a high performance work environment is rapidly proving to be a primary source of long-term competitive advantage and performance (cf. Pfeffer, 1998). Yet, the emphasis from the investment community is still on short-term stock performance. Consequently, we also examine the determinants of shorter-term performance during the IPO period.

We speculate that human resource value will suffer in a company that chooses to focus on the short term. In particular, we draw upon the theory of Upper Echelons (Hambrick & Mason, 1984) to examine how a specific, CEO characteristic (having a financial orientation) leads the pre-IPO firm to focus on maximizing short-term financial outcomes at the expense of human resource value.

The IPO Process

In a private company, members of the management team usually drive decisions, and their performance goals focus on revenues or earnings. The stock market, and accompanying demands to continually raise stock price, need not enter the equation. Private firms often distribute their stock, but these firms control the distribution of shares and the shares are not traded on a public market. The first time the management team truly is subject to stock performance pressures is when it prepares for an IPO. The IPO is the first time that a company sells its stock to the public, in return for a (usually) substantial amount of cash. The IPO brings additional benefits in that it often brings the company's name and product into the public eye, since investors and analysts begin writing about the firm and discussing its merits.

While an IPO is generally aspired to by the firms going through the process, few realize the impact the IPO will have on the firm. An IPO is a major event in a company's life cycle (O'Flaherty, 1984), and one that increases a firm's vulnerability -- comparable to the "liability of newness" faced by a start-up firm (Stinchcombe, 1965; Andrews, 1995). The IPO creates these tenuous conditions because the process can last from several months to a few years and is time where management is unable to focus completely on just running the business. Many CEOs are unprepared for the amount of time their attention will be pulled daily operations. The CEO and the management team have to prepare a prospectus, the document that tells prospective investors about the company, and they have to be out selling the company in order to create demand for their firm's stock. In the months preceding the actual offering, the CEO travels the country (or world) on a 'roadshow' talking about the company and generating enthusiasm. This process is inordinately time consuming. One CEO described the IPO as

“an insatiable monster, eating an exorbitant amount of the management team’s time and resources” (Greco, Caggiano, & Ballon, 1999:49).

Winning the IPO game means getting the best price possible for the stock. Achieving the best outcome largely is a matter of managing underwriters and investors, as the IPO valuation process is determined in large part by investor perception and psychology (Fraser, 1999).² Firms face pressures to conform to market expectations about how the firm should be structured and how decisions are made. According to Fligstein (1990), companies operate under a “financial conception of control.” Under this model, firms are considered to be merely a ‘collection of assets earning varying rates of return’ (Fligstein, 1990: 238-239). While employee policies and procedures often can be evaluated in such terms, this rarely includes a longer term analysis of the basic principles that create an environment where employees are highly valued. In fact, anything that could possibly lower the firm’s market rate of return is suspect.

Fligstein argues that the financial conception of control leads management to focus on the market instead of internal operations. The ‘ultimate’ measure of corporate value becomes its stock price or price/earnings ratio (1990:298). He states that as the investment community narrows its focus to stock-related performance measures, CEOs may turn their attention to manipulating stock prices rather than managing and investing in their companies.

²Establishing a value for the IPO firm has been called “more art than science” (Hofmeister, 1987). IPO valuations are even more difficult than those of firms that are already public since IPOs do not have a prior market track record (see Chen & Hambrick, 1995).

This problem is exacerbated during the process of becoming a public company, since the firm is closely scrutinized by the investment community. Management simultaneously is choosing how to position the company not only for the IPO, but for the long term, since the IPO sets conditions similar to founding that will guide the firm to the next organizational stage (Andrews, 1995). An important decision for the IPO management is how they choose to balance stock price with the less tangible factors, such as employee value, that are perceived unfavorably by the investment community. In the face of these competing pressures, what leads a company to invest in a strong foundation for employees that will foster long term growth? Who decides that employees are important enough to deserve mention in the IPO prospectus even if it may hurt the company's position with shareholders? This job falls on the management team, particularly the CEO.

The Role of the CEO

While the entire management team may have input into a firm's strategic direction, the CEO generally has final decision making power and is the one who must integrate the perspective of the others, since s/he is responsible for guiding the vision and direction of the firm (Calori, Johnson, & Sarnin, 1994; Stone, 1998). The CEO is particularly important in newer firms or firms whose strategies are still being shaped (Bruton, Fried, & Hisrich, 1997). Although many IPO firms are past the start-up stage, they generally have operated only for a short time and hold a higher risk than well established firms (Beatty & Zajac, 1994).

In accordance with Upper Echelons Theory (Hambrick & Mason, 1984), the direction in which the CEO shapes firm strategy will depend on his/her orientation to the world. Hambrick and Mason draw upon the bounded rationality literature (e.g. March & Simon, 1958; Dearborn & Simon, 1958) to

examine whether managers' decisions are shaped by their background characteristics. Bounded rationality arguments state that managers face too many stimuli to fully consider every possible direction and opportunity. According to Hambrick and Mason, managers are able to act only on the things that enter their perceptual field or somehow grab their attention. In turn, what actually ends up in the manager's area of focus is shaped by the individual's values and experiences. Subsequently, organization performance is determined in part by executive's functional background. Although Hambrick & Mason acknowledge that CEOs tend to be generalists (given their responsibility over the entire company), their functional orientation still will exert influence over their decisions because this orientation has shaped their view of the world.

Empirical evidence exists to support this line of reasoning. Dearborn and Simon (1958) found that when presented with problems to solve, executives defined problems according to the goals of their own departmental areas. Stone (1998) found that functional background was a contributing factor in the CEO's problem solving process. The importance of functional background may be exacerbated further during times of uncertainty since background affects whether managers *act* on perceived changes in the environment (Waller, Huber, & Glick, 1995). Calori, et.al. (1994) suggest executives have a high tendency to fall back on known patterns of knowledge and ways of doing things during times of uncertainty and change.

These factors all will be attenuated during an IPO. The CEO is pressed for time and attention; s/he may filter the plethora of stimuli by relying on previous experience and known patterns of action. While CEOs will vary in the amount they are swayed by the pressures to conform to market expectation, we argue that a CEO who has been inculcated into the financial 'way' of doing things will

be more likely to try and follow the prescription of the investment community for the initial public offering. A financial orientation means the CEO is experienced in the financial concept of control and has already learned to value and pay attention to market indicators and other traditional measures of short-term financial performance. Given the enormous pressure from the investment community, these CEOs are unlikely to perceive HR value as a factor for IPO success, and more likely to focus their attention on the financial aspects of the IPO. As a result, we think that CEOs with a financial background will place lower value on employees at the time of the IPO.³

Hypothesis 1: Companies with a finance-oriented CEO will be less likely to value employees than will companies where the CEO has a non-financial background.

However, if the CEO follows the tenets of the investment community, that firm should be rewarded with a successful IPO. The focus on the demands of the market should bring higher performance at the IPO. Thus, while we hypothesize that financial background of the CEO leads to lower levels of human resource value, we also suggest that this training leads to higher stock performance at the time of the IPO.

³Financial scholars might argue that the stock value reflects the net present value of longer term investments in employees. If this were the case, however, Tobin's Q at the time of the IPO should be higher for companies that value people. However, Welbourne & Andrews (1996) show that investments in people are penalized at the time of the IPO even though these investments do contribute to company survival. Our thanks to an anonymous reviewer for pointing out this concern.

Hypothesis 2: Companies with a finance-oriented CEO will be perceived as having greater market potential in the IPO than will companies where the CEO has a non-financial background.

METHODS

Sample

The target population for this study is firms that were preparing to undergo an initial public offering (IPO). We conducted our analyses on two sets of data -- firms that went public in 1988 and firms that went public in 1993. Data were collected from the IPO prospectus. When a firm goes public, it is required to document all information about its internal structure and financial situation to the Securities and Exchange Commission (SEC) in a prospectus. Although the information in the prospectus could have a positive bias, the firm is legally liable for all information contained in the document (O'Flaherty, 1984). The prospectus typically is written by the management team and then reviewed by lawyers and accountants.

While the SEC dictates fairly strict guidelines about the type of information that must be contained in a prospectus, the requirements can change from year to year. Therefore, some of the sections within the prospectus differed slightly between 1988 and 1993. While we were able to obtain comparable data in each year, we felt that it was inappropriate to pool these two samples. The market conditions for going public also differed in 1988 and 1993. The first year, 1988, was a poor year for IPOs, in part due to the market crash in October 1987. In contrast, 1993 was a boom year for public offerings — the number of IPOs grew sharply in the early 1990s and 1993 was a peak year at the time

(subsequent years were even larger). Although we do not pool the data, we thought it important to test our hypotheses on multiple samples.

From all companies that went public in 1988 and 1993, we chose only those prospectuses where we had information on CEO background. We then selected only those companies that produced a good or a service, that were not closed-end funds or other firms that had no employees, since these are the firms where human resource value is meaningful. In our final 1988 sample, the number of employees ranged from 1 to 17,000, with a mean of 725 and a median of 109. In 1993, the number of employees ranged from 2 to 40,000, with a mean of 983 and a median of 240 employees.

Each variable used in the model had some missing data, but the missing information was randomly distributed across all variables. In 1988, of 250 firms that filed for an IPO, our final sample for that year is 126 companies. In 1993, 706 firms went public. Our final sample for that year is 261 companies. We checked for bias in the final sample — firms included versus those that were not included in our final model were no different in terms of age, number of employees, or market value.

In addition to the data from the prospectus, financial data also were collected from Going Public: The IPO Reporter.

Data Collection and Coding

For both samples, multiple coders were used and a random sample of the data were cross-coded. Our coding strategy for the 1993 sample was developed based on earlier research on IPO firms (see Welbourne & Andrews, 1996), and we used the Welbourne and Andrews data for the 1988 study. For both studies, and for all variables used in the study, agreement was 90% or higher among the coders.

Dependent Variables

Human resource value (HR Value). The dependent variable for this study is the measure of human resource value described in Welbourne & Andrews (1996). This measure was developed as an indicator of whether employees are considered to be a source of competitive advantage for the company. Since the prospectus is the document that describes the firm's competitive advantage, it is useful for understanding how the firm views the role of its employees.

Also, while the firm might be disposed to exaggerate the value placed on employees, this would be a risky strategy. First of all, the firm is legally liable for all information in the prospectus. Further, and perhaps more important, the prospectus is the document designed for the investment community, and showing too strong a commitment to employees could affect the firm's performance in the offering (Welbourne & Andrews, 1996). So our measure of human resource value is likely a conservative statement of the value the firm places on employees.

As in the 1996 study, this measure is the sum of several items that were coded as a 1 if the firm engaged in the practice, and a 0 if not. The items included the following: (1) The company's strategy and mission statement mentioned employees as a competitive advantage. (2) The company used full-time, rather than contract or temporary workers. (3) Training programs for employees were mentioned, indicating that resources had been allocated for employees to obtain company-specific education. (4) The SEC requires employers to rate their climate for employee relations on a five point scale from poor to excellent. We collapsed this into three categories for purposes of this analysis: 0 for poor or fair relations (only three companies said "poor"), 1 for good relations, and 2 for very good or excellent relations (only two companies chose "very good").

We eliminated one item from this composite indicator that was used in our 1996 study — whether the company has an officer with responsibility for human resource management. From a theoretical standpoint, recent research shows that having an officer responsible for human resources at this stage of the organizational life cycle may actually *hinder* the firm rather than help it (see Welbourne & Cyr, 1999). The value on the summed, overall construct in 1988 ranged from 0 to 5, with a mean of 2.33 and a standard deviation of 1.00. In 1993 HR Value also ranged from a 0 to 5. The mean was 2.86 with a standard deviation of 0.81.

Tobin's Q. In order to compare the results to Welbourne & Andrews (1996), we use Tobin's Q (market price / book value per share) as our measure of perceived market potential. Tobin's Q is an indicator of how potential investors value the firm (Smirlock, Gilligan, & Marshall, 1984). The higher the ratio, the more the firm's value (Davis, 1991; Davis & Stout, 1992) because it means that investors are more willing to 'gamble' on the firm's intangible assets (such as its management). Tobin's Q is calculated as the initial stock price over book value. Book value is the tangible asset value per share of stock. We logged the measure to correct for skew.

Independent Variable

CEO financial background. The prospectus contains information on each of the corporate officers. While the rules for information included in these biographies are not strictly detailed, companies want to include as much background as possible in order to convince potential investors of the experience of the individuals. However, the company is also liable for the validity of the information contained in these summaries. Therefore, it is not in the interest of the company to lie or stretch the truth. Following Kazanjian and Rao (1999), financial background was coded as a dummy variable ('1'

means the CEO has a financial background) and was determined by looking at the education and past experience of the CEO. CEO's who had been CFOs at prior companies, who had worked in financial service firms, or who had specific financial training as their dominant work history were coded as having a financial background. In most cases, determining the background was very clear. Where coders had questions, the biographies were discussed by the research team. At the end of the coding, all prospectuses were gone through a last time to make sure we still agreed with the original answers.

Control Variables

Several control variables were included in the analysis. These include other CEO characteristics, as well as several characteristics of the firm itself.

CEO background may be only one of a number of CEO characteristics that determine whether a firm values people, so several CEO characteristics are included in the analysis. The more stock owned by the CEO, the more closely aligned are his/her interests with those who monitor the firm (in this case, the investment community) (Beatty & Zajac, 1994), so the less likely the CEO is to do anything that might be perceived poorly by the investment community. Of course, a CEO who owns stock is likely to be interested in the long term performance of the company, but as argued in this study, we believe the pressure to focus on short term stock price at the time of the IPO will take precedence. In either case, we felt it was important to include expected CEO ownership (percentage of the company) after the IPO as a control. Other CEO characteristics included as control variables were the age of the CEO (as a proxy for CEO experience) and whether the CEO was a founder of the company.

O'Reilly, Snyder & Booth (1993) mention that when comparing organizations (especially those undergoing change), it is particularly important to control for industry, size, age, and performance. The

effectiveness of a strategy and the interpretation it receives from investors may depend on industry factors. On the one hand, valuing people may be more important for some industries than for others since some are more ‘people intensive.’ On the other hand, even industries with few people relative to capital investment may find that it necessary to value the people they have. So, while no hypotheses were generated about the effect of industry, it is included as a control in the analysis. Industry was dummy coded based on categorization reported in publications by the Small Business Administration. The 1988 sample contained no firms from either mining or construction, and no agriculture firms were included from the 1993 sample.

Company size was measured as the total number of employees, logged to correct for skew. Since younger firms have a greater tendency to fail (Stinchcombe, 1965; Kazanjian & Rao, 1999), the age of the company was measured as years in business from the founding date until the IPO year (1988 for the first sample, 1993 for the second). Firm performance was measured as net income in millions of dollars at the time of the IPO. Net income also serves as a proxy for the risk level of the firm, with more profitable firms holding less risk (Beatty & Zajac, 1994).

Another risk measure was a summation of the number of risk factors from the section in the prospectus titled “Risk Factors.” Companies are required as part of due diligence to list any material risk in the prospectus. This measure has been used in prior studies to assess IPO firm risk (Beatty & Zajac, 1994; Rasheed & Datta, 1994). The risk categories are highly standardized, so it is unlikely that one firm would report only a few broad risks while a similar firm reports many specific risk factors.

Descriptive statistics and correlations for the variables are included in Table 1.

Table 1 about here

RESULTS

Hypotheses were tested using ordinary least squares regression analysis. As shown in Table 2, relative to firms with CEOs from other backgrounds, having a CEO with a finance background is negatively related to the firm's level of human resource value.

Table 2 about here

Tests of Hypotheses

Hypothesis 1. Table 2 shows the regression analysis for human resource value in both the 1988 and 1993 samples of IPO firms. In both IPO samples, having a CEO with a finance background means that the firm has a lower level of HR value. In 1988, a CEO with a finance background lowers the amount of HR value by almost half a point (.419), a significant amount for a 5 Point scale. A financially-oriented CEO has a more detrimental effect on HR Value in 1993 -- these firms lose .61 points of HR Value.

Two of the control variables were significant in the 1988 results, and one in the 1993 sample. In 1988, the only positive predictor of HR value is the number of employees -- more employees equates to more value. Larger companies may be more reliant on their employees overall and need to have an underlying foundation that supports and values employees. Again though, the number of employees had no significant effect on HR Value in 1993 (in fact, the direction was negative).

The only other significant predictor of HR Value in 1988 is the amount of stock owned by the CEO at the time of the IPO. The more stock owned by the CEO, the less the firm values employees (although the difference is quite small -- around 1/100 of a point on average). The effect is difficult to interpret since it was not replicated in 1993 and is only significant at the $p < 0.10$ level in 1988. Possibly, a CEO who owns a lot of stock may be pressured to conform to the demands of potential investors leading them to place less emphasis on employees.

No control indicators were significant in 1993. Although some of the beta values would have been significant for individual industry groupings, a nested F test indicated that the set of codes have no effect on the model. Overall, the only constant effect in both the 1988 and 1993 samples was that finance-oriented CEOs lower the level of HR Value.

Table 3 about here

Hypothesis 2. The model for Tobin's Q is shown in Table 3. Hypothesis 2 is not supported either in 1988 or 1993 even though both models overall were significant. Having a finance-oriented CEO does not improve the firm's success in the IPO. One common finding in both years is that the set of industry codes are a significant predictor of Tobin's Q.

In 1988, having more employees leads to lower perceived potential by investors. This result reinforces the finding for HR Value. Firms that have more employees in 1988 have higher HR Value. Net income is a strong predictor of IPO success in 1988, more profit means a higher Tobin's Q.

Younger firms performed better than older ones in 1988 IPOs. In 1993, firms with younger CEOs had higher Tobin's Q.

DISCUSSION

Our results show that firms where the CEO trained with a financial orientation have lower levels of HR Value. This is an important finding because having high levels of HR value gives the IPO firm long-term competitive advantage (Welbourne & Andrews, 1996). The choice to focus away from valuing people may not be a conscious one, it may just be a consequence of which perceptual elements reach the CEO's cognitive field. However, by this choice, financially-oriented CEOs are less likely to create the founding conditions where employees can keep the firm moving forward in the turmoil of the IPO. By focusing attention and resources away from creating an environment that values employees, we think finance-oriented CEOs may short-sightedly hurt their opportunities for long-term survival. This oversight is problematic, especially since these firms did not perform better in the IPO, so the trade off might not be as beneficial as company leaders believe.

This study provides additional support for Upper Echelons Theory (Hambrick & Mason, 1984) and the proposition that CEOs may rely on known patterns of strategy and action in making decisions during chaotic times. Given overwhelming pressure from the investment community to focus on financial processes during the IPO and the enormous amount of stimuli fired at the CEO, it is not surprising that the company leader would be oriented towards financial measures of success. During uncertain times, people fall back on what is comfortable and what they know works. Generally, one solution for this form

of bounded rationality is to get others to challenge assumptions and provide a different perspective.

However, if members of the investment community think alike, then it's possible that no one will challenge the assumptions about how a firm should be structured for long-term performance.

Our results also suggest a concern with how we train business leaders. Perhaps some aspect of financial training and education leads managers to downplay the importance of human resource value. We argue that financial background leads to a focus on shorter-term performance, but at the same time, perhaps training in finance provides the CEO with 'overconfidence' in a set of tools that is incomplete. Granted, we did not test directly whether a financial background leads to a short term emphasis. Other scholars have suggested that the MBA degree teaches managers to pursue short term performance at the expense of innovation and asset building (Hambrick & Mason, 1984). Furthermore, Pfeffer (1998) states that few business schools emphasize the importance of people-management solutions to company problems compared to the emphasis on financial and strategic solutions.

There is much talk today about creating new measures of shareholder wealth (e.g. Black, Wright, & Bachman, 1998), which include some assessment of the employee as an 'asset.' Therefore, recognition is growing that employees matter. The academic community may need to take a closer look at what we are being taught to business students (future CEOs) and how adequate or inadequate the financial tools are that they are using in their careers. If having a financial background leads to low levels of human resource value, and human resource value determines survival and financial performance, then we may have detected a serious problem in the training of many of our leaders. In addition, managers must be trained to recognize when they fall into 'comfortable' work patterns based on prior experience.

In today's changing environment, managers should constantly question their own assumptions, and should not be afraid to hear contrasting views.

What About Other Backgrounds?

Our analysis was focused on the effect of a finance-oriented CEO, but we wondered about the effect of other CEO functional backgrounds. In a separate model for the 1993 data, (please contact authors for tables) we looked at the effect of the other CEO backgrounds, leaving finance as the omitted category. We were concerned about the small sample size of the 1988 data so we did not break CEO background into multiple categories during this year. In 1993, compared to finance, the other CEO backgrounds have a positive effect on HR value. The most favorable backgrounds for HR Value are operations and sales. This finding makes intuitive sense. Both sales/marketing and manufacturing are areas where people are important for getting the job accomplished, and growth is determined by improving how people work, so the value of people may be realized by these CEOs. The findings also fit with Fligstein's (1990) arguments about the evolution of corporate control. Prior to the financial conception of control, firms had the goal of building a competitive strategy and surviving the long-term. Under these conditions, firms were controlled in the early 20th century by a manufacturing model, which later evolved to a sales model in the 1950s. Both models, and hence both types of training, emphasize how to grow the company and create a competitive strategy — not just how to beat the market.

Limitations and Suggestions for Further Research

Several limitations of this study should be taken into account in interpreting our results. While the findings are replicated in two years of firms going public, these years may not represent the 'average'

year for IPO firms. In fact, they are opposites. The first year, 1988, was a poor year for IPOs, following on the heels of the market drop of 1987. In contrast, 1993 was a boom year for IPOs -- the best year since 1987 (subsequent years proved to have an even stronger climate for IPO firms). Furthermore, while the prospectus data were cross-coded and CEO background was included in all the companies, the coding process may be subject to errors in interpretation or to positive bias on the part of companies going through the offering. In addition, this study did look only at the CEO, not necessarily the founding team. While CEO as founder was included as a control variable, members of the entire founding team may establish the initial conditions that set the tone for short or long term performance management.

These limitations could be overcome with further research in two areas. First of all, it would be useful to interview managers prior to prospectus development to expand our knowledge of why and how they choose to represent the company in the IPO prospectus and who decides how to portray the climate for employees. This type of research could be used for a more in-depth assessment of the CEOs' perceptual field, and try to further our understanding of how functional background affects the choices made by company leaders. Additional knowledge would be gained by talking with venture capitalists, bank underwriters, and other members of the investment community to advance our understanding of how they evaluate employee factors in considering a potential investment.

In addition, it would be useful to replicate our findings with a 1998 or 1999 IPO sample because 1993 was one of the first 'peak' years for IPOs, and the market has been 'hot' almost every year since. This growing IPO market has been accompanied by waves of media coverage and companies attempting to reach the public with unique methods for distributing shares (e.g. Boston Beer Company

including applications for stock with a beer purchase). As more public attention focuses on the IPO market, the drivers of initial performance may broaden to reflect the management team and their emphasis on employees. There may also be a greater awareness of employee impact on the bottom line, due to the tight labor market and the effect of popular business books emphasizing the connection (e.g. Pfeffer, 1998).

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Table 1: Descriptive Statistics and Correlations~

1988 IPO Sample												
	Mean	Std. Deviation	1	2	3	4	5	6	7	8	9	10
1. HR VALUE	2.33	1.00	1.00									
2. Tobin's Q (logged)	1.21	.65	-.12	1.00								
3. Company Age	9.93	17.34	-.03	-.23***	1.00							
4. CEO is a founder	.42	.50	.01	-.01	-.21**	1.00						
5. CEO age	46.50	8.43	.05	.06	.23***	-.11	1.00					
6. CEO has financial background	0.22	0.42	-.22***	.10	-.15*	.11	-.20*	1.00				
7. Logged # ees	4.44	2.57	.29***	-.17**	.33***	-.15**	.12*	-.11	1.00			
8. Risk Factor	4.24	1.79	-.02	.06	-.19**	.01	-.13*	-.04	-.25***	1.00		
9. CEO stock ownership	16.30	18.32	-.13	-.00	-.05	.35***	-.03	-.04	-.18**	.02	1.00	
10. Net profit at IPO	2.99	11.00	.01	.21**	.19**	-.19**	.09	-.12*	.34***	-.09*	-.13	1.00

Industry codes are omitted from the tables for ease of analysis.

Table 1: Descriptive Statistics & Correlations (continued)

1993 IPO Sample												
	Mean	Std. Deviation	1	2	3	4	5	6	7	8	9	10
1. HR VALUE	2.86	.81	1.00									
2. Tobin's Q	1.24	.59	.14*	1.00								
3. Company Age	7.98	8.33	.03	-.10*	1.00							
4. CEO is a founder	.49	.50	.13**	-.00	-.08	1.00						
5. CEO age	47.35	8.30	-.05	-.19***	.30***	-.01	1.00					
6. CEO has financial background.	.08	.27	-.12**	.03	-.12**	-.12**	-.15**	1.00				
7. Logged # ees	5.39	1.65	-.00	-.06	.30***	-.04	-.29***	-.06	1.00			
8. Risk factor	4.00	1.58	-.05	-.08	-.16**	-.03	-.06	-.00	-.36***	1.00		
9. CEO Stock ownership	16.90	18.64	.11*	.09	-.09	.50***	-.08	.04	.08	-.12**	1.00	
10. Net Profit at IPO	1.86	9.46	.07	.03	-.14**	-.14**	-.07	-.06	.26***	-.04	.19***	1.00

Industry codes are omitted from the tables for ease of analysis.

Table 2
Regression Results: Effect of CEO Financial Background on HR Value

VARIABLES	1988 IPO beta (std. error)	1993 IPO beta (std. error)
Constant	1.70*** (0.64)	2.87*** (0.43)
CEO has Finance Background	-0.42* (0.22)	-0.36* (0.20)
CEO age	0.00 (0.01)	-0.00 (0.01)
CEO is a Founder	0.16 (0.20)	0.13 (0.13)
Percent CEO ownership after IPO	-0.01* (0.01)	0.00 (0.00)
Risk Factor	0.04 (0.05)	-0.00 (0.04)
# Employees (logged)	0.12*** (0.04)	-0.02 (0.04)
Net profit (\$mil) in 1988	-0.01 (0.01)	0.01 (0.01)
# Years in business	-0.006 (0.006)	0.007 (0.007)
Agriculture	-0.94 (0.71)	N/A
Construction	N/A	0.18 (0.41)
Mining	N/A	-0.84 (0.41)
Transportation	0.03 (0.37)	-0.25 (0.21)
Wholesale Trade	0.47 (0.41)	-0.11 (0.26)
Retail Trade	0.32 (0.39)	0.42 (0.20)
Finance	-0.304 (0.429)	-0.640 (0.404)
Services	0.21 (0.21)	0.37 (0.15)

*** p <.01
** p<.05
* P<.10

1988
R2: 0.20
R2Adj: 0.10
F = 1.99**

1993
R2: 0.14
R2 Adj: 0.08
F=2.18***

Table 3
 Regression Results: Effect of CEO Financial Background on Tobin's Q

VARIABLES	1988 IPO beta (std. error)	1993 IPO beta (std. error)
Constant	1.08** (0.42)	1.76*** (0.29)
CEO has Finance Background	0.09 (0.14)	-0.12 (0.14)
CEO age	0.01 (0.01)	-0.01** (0.01)
CEO is a Founder	-0.07 (0.13)	-0.04 (0.09)
Percent CEO ownership after IPO	0.00 (0.00)	0.00 (0.00)
Risk Factor	-0.01 (0.03)	-0.01 (0.03)
# Employees (logged)	-0.05* (0.03)	0.00 (0.03)
Net profit (\$mil) in 1988	0.00*** (0.01)	-0.00 (0.00)
# Years in business	-0.01** (0.00)	-0.00 (0.01)
Agriculture	0.11 (0.44)	N/A
Construction	N/A	-0.54** (0.26)
Mining	N/A	-0.81*** (0.30)
Transportation	0.23 (0.23)	-0.08 (0.15)
Wholesale Trade	-0.43* (0.25)	-0.03 (0.21)
Retail Trade	0.09 (0.03)	0.14 (0.15)
Finance	0.85 (0.27)	0.11 (0.26)
Services	0.18 (0.14)	0.16 (0.11)

*** p < .01

1988

1993

** p<.05
* P<.10

R2: 0.29
R2Adj: 0.19
F = 2.97***

R2: 0.13
R2 Adj: 0.07
F=2.05**