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Are powerful CEOs beneficial to post-IPO survival in high technology industries? ☆ An empirical investigation

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Abstract

Does a powerful CEO affect firm survival after an initial public offering (IPO) in a high technology industry? Survival after an IPO is a critical business issue; executive power is a dimension missing from much of the research on managerial factors that affect post-IPO survival. We evaluate our research question by formulating hypotheses that link four aspects of CEO power (prestige, expert, structural, ownership) to five-year post-IPO survival in computer-related industries. Using logistic regression, we find that CEO prestige education, industry tenure, and equity ownership are positively related to post-IPO survival, whereas structural power (specifically dual CEO/Chair title) reduces five-year, post-IPO survival.

Keywords: CEO Power; Post-IPO Survival; Technology Industry

The study of managerial power is an area of increasing research interest. Empirical studies of top manager power have been linked to outcomes such as board of director composition (Westphal & Zajac, 1995), executive pay (Barkema & Pennings, 1998; Finkelstein & Hambrick, 1989), CEO succession (Alexander, Fennell, & Halpern, 1993; Shen & Cannella, 2002), and firm survival and performance (Daily & Johnson, 1997; Finkelstein, 1992; Haleblian & Finkelstein, 1993; Pitcher & Smith, 2001). Given the preeminent CEO role in new firm survival (Andrews & Welbourne, 2000; Bruton, Fried, & Hisrich, 2000), entrepreneurship studies have identified top manager characteristics associated with new venture survival (Andrews & Welbourne, 2000; Sandberg & Hofer, 1987; Stuart & Abetti, 1990). With a few exceptions (Fischer & Pollock, 2004; Jackson & Hambrick, 2003), the characteristic of executive power has not been fully incorporated into research on entrepreneurial firm success or failure; however, assessing executive power at the time of initial public offering (IPO) and the IPO valuation has been a growing concern of entrepreneurial research (Lester, Certo, Dalton, Dalton, & Cannella, 2006; Reber, Berry, & Toms, 2005). There is evidence that CEO power has differential effects on outcomes in different contexts (Eisenhardt & Bourgeois, 1988; Haleblian & Finkelstein, 1993). Given that executives in high technology firms play a critical role in their survival (Siegel & Hambrick, 2005), the need to understand executive power on firm survival in a high technology context is an

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important though understudied area of research. We empirically explored the relationships between CEO power and post-IPO survival of relatively young firms in technologically complex industries.

In this study, we define power similar to other researchers — as the capacity of an individual, in our case the CEO, to exert influence to change the behavior of a person or group in some intended way. As such, we do not explore the use of power (i.e., political processes) or dynamics of power from relative power differentials within a top management team (i.e., concentration or dispersion of power in upper echelon). We are interested in the relationship between dimensions of top executive power and performance in a strategically critical transition phase in the context of high technology areas: a firm's transition from private to public ownership.

An IPO is a strategic event for a venture with primary responsibility for success attributed to its CEO (Andrews & Welbourne, 2000; Bruton et al., 2000; Calori, Johnson, & Sarnin, 1994). The initial public offering (IPO) and post-IPO period is a time of high uncertainty for organizations and research on this entrepreneurial context has been active (Certo. Covin, Daily, & Dalton, 2001; Fischer & Pollock, 2004; Gulati & Higgins, 2003; Higgins & Gulati, 2006; Jain & Kini, 1999; Lester et al., 2006). Despite substantial research on this strategic transition of new ventures (Cohen & Dean, 2005; Wilbon, 2002; Stuart, Hoang, & Hybels, 1999; Welbourne & Andrews, 1996), the lens of executive power has rarely been used to assess post-IPO survival. Although some elements of executive power, such as compensation (Siegel & Hambrick, 2005) and industry experience (Wilbon, 2002) have been studied in a high technology context, executive power and their strategic implications for survival have not been fully explored. For this reason, in this study, we address the following research question: Are powerful CEOs beneficial to post-IPO survival in high technology industries?

1. Theory and hypotheses

A central tenet of a strategic choice and an upper echelons perspective is that organizations are only loosely coupled with their environments and top managers are critical intervening factors whose characteristics can affect strategic decisions, organizational process, and performance outcomes (Child, 1972; Hambrick & Mason, 1984; Finkelstein & Hambrick, 1996). As Daily and Johnson (1997: 103) argued, “choices that a CEO makes may ultimately determine the success of the firm.” The upper echelon perspective identifies linkages between CEO and top manager characteristics, strategic decisions, and firm performance (Hambrick & Mason, 1984). One top manager characteristic – executive power – has been highlighted as “an important variable intervening between environments and organizations” (Pfeffer & Salancik, 1978: 23). Executive power studies have been conducted in a variety of contexts and have identified the effects of power on firm choices and performance (Eisenhardt & Bourgeois, 1988; Finkelstein, 1992; Haleblian & Finkelstein, 1993). Yet, in a comprehensive review of the top management team (TMT) literature, Finkelstein and Hambrick (1996: 129) stated that empirical studies which include TMT power are “rare in the literature to date.”

Although there has been limited attention to issues of executive power in new ventures and small business contexts, there are some notable exceptions that are pertinent to our study. Fischer and Pollock (2004) and Jackson and Hambrick (2003) found positive relationships between executive power at IPO and post-IPO survival/performance. Yet, in both studies, only one dimension of power (ownership power and prestige power, respectively) was assessed whereas Finkelstein (1992), building upon earlier work on individual power (French & Raven 1959), identified four dimensions of executive power: prestige, expert, structural, and ownership. In our study, we apply these four dimensions to understand CEO power, given that this executive is in a position of unique influence (Pfeffer, 1981).

Lester et al. (2006) utilized a multi-dimensional approach to top management team power and evaluated its association with IPO valuation; they discovered that only one aspect of executive power – prestige power – was associated with higher IPO valuations. Yet, this study, similar to other studies of top management team characteristics at IPO (e.g., Higgins & Gulati, 2006) rests on the argument that executive characteristics, such as power, “signal” firm legitimacy which then enhances investment at IPO. Our theoretical grounding moves beyond the passive signaling notion of top manager attributes to create positive outcome. We highlight the active role of CEOs and top managers to affect firm survival. In keeping with strategic choice and upper echelon arguments, we argue that managerial attributes are more than signals of legitimacy but instead are indicators of the ability of managers to act externally and internally to enhance the probability of post-IPO survival.

Thus, we are interested in multiple dimensions of power and survival beyond the transition from private to public ownership. As well, we argue that executive power is more than symbolic or external signaling of legitimacy. Rather, in our hypotheses, we advocate a strategic choice and upper echelons perspective: a top manager interacts with the