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## IS STACKING THE DECK A GOOD IDEA? AN EXAMINATION OF THE EFFECT OF PRE-IPO TOP MANAGEMENT ADDITIONS ON POST-IPO PERFORMANCE (SUMMARY)

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## SUMMARY

### IS STACKING THE DECK A GOOD IDEA? AN EXAMINATION OF THE EFFECT OF PRE-IPO TOP MANAGEMENT ADDITIONS ON POST-IPO PERFORMANCE

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#### Principal Topic

As firms approach their initial public offering (IPO), they evaluate the adequacy of the top management team (TMT) to successfully lead the firm through the IPO and manage a public firm. It is common to add managers to a TMT preceding an IPO, particularly since a high quality TMT signals legitimacy of the venture (Li, 2008; Zimmerman, 2008). While entrepreneurship literature has recently examined pre-IPO restructuring, the consequences of pre-IPO restructuring on post-IPO performance remains understudied.

New top managers revitalize an organization, bringing with them skills and resources needed to manage a firm as it evolves (Boeker & Wiltbank, 2005). However, transitions in management teams may be destabilizing: redefining managerial positions, disrupting work routines and interaction processes, and reducing the shared expectations and tacit knowledge within the team (Haveman & Khaire, 2004). Therefore, I hypothesize: the number of top managers added during the year pre-IPO increases the number of departures and additions within two years post-IPO. These disruptions also cause ineffectiveness in decision-making, resulting in decreased performance. Thus I hypothesize: original and ongoing TMT additions and departures will decrease post-IPO performance.

#### Method

Data was gathered from prospectuses and annual reports of firms having IPOs in 2002 and 2003 (87 firms). The dataset includes ROA and ROE performance data, the date each manager joined the TMT, and if applicable, left the TMT. From this data, I computed the size of the team the year before the IPO, and the number of additions and subtractions from the TMT for each year from the year of the IPO through the second year post-IPO.

#### Results and Implications

Results provide mixed support for the hypotheses described above. Pre-IPO additions to the TMT significantly increase additions and departures only within the first year after the IPO. With respect to performance, adding managers pre-IPO does not affect post-IPO ROA or ROE. However, adding managers post-IPO is negatively related to both ROA and ROE for the year in which they were added. The significance of this relationship is stronger for the first year post-IPO than the second year post-IPO.

These findings suggest that recruitment and retention of managers are inter-connected. The addition of managers immediately before an IPO influences the stability of the team post-IPO. Also, instability of the team post-IPO degrades performance. However, the results also suggest that these affects are relatively short-lived, as the statistical significance weakens for each year post-IPO.

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