PRESS ATTENTION, MANAGERIAL OVERCONFIDENCE AND THE POST-IPO PERFORMANCE PUZZLE (INTERACTIVE PAPER)

Markus Fitza  
_Bentley University, mfitza@bentley.edu_

Mathew Hayward  
_University of Colorado_

Tomasz Miaskiewicz  
_Universidade Nova de Lisboa_

Carsten Zimmerman  
_University of San Diego_

Recommended Citation  
Fitza, Markus; Hayward, Mathew; Miaskiewicz, Tomasz; and Zimmerman, Carsten (2011) "PRESS ATTENTION, MANAGERIAL OVERCONFIDENCE AND THE POST-IPO PERFORMANCE PUZZLE (INTERACTIVE PAPER)," _Frontiers of Entrepreneurship Research_, Vol. 31: Iss. 11, Article 2.  
Available at: http://digitalknowledge.babson.edu/fer/vol31/iss11/2
PRESS ATTENTION, MANAGERIAL OVERCONFIDENCE AND THE POST-IPO PERFORMANCE PUZZLE

Markus Fitza, Bentley University, USA
Mathew Hayward, University of Colorado, USA
Tomasz Miaskiewicz, Universidade Nova de Lisboa, Portugal
Carsten Zimmermann, University of San Diego, USA

Principal Topics

We investigate the effect of the media hype that surrounds an IPO on a firm's subsequent performance. Past empirical evidence suggests that firm performance often declines after an IPO (Loughran and Ritter, 1995). In this study we add to these explanations by investigating an aspect that was previously overlooked: Managerial overconfidence.

The IPO is a time of increased public and media attention (e.g., Demers & Lewellen, 2003; Pollock & Rindova, 2003; Reuer & Tong, 2010), we propose that such media coverage -- if it is positive -- can result in overconfidence of the firm's upper management team. Building on theory and evidence from the behavioral decision-making literature we argue that this overconfidence affects the way managers interpret information about their firm and about its standing vis a vis its competitors. This misinterpretation can lead to erroneous predictions about the firm's prospects as well as ultimately to the misallocation of resources. Together, these factors might explain why the IPO triggers a period of underperformance for the firm.

Method

Our dataset is based on data from the SDC-Thomson Financial new issue database as well as from the First Call database by Thomson Reuters. Our dataset consists of 489 firms that had an IPO between 1990 and 2006 for which earnings forecasts as well as accounting data are available for at least two years after the IPO. We collected all articles published in the major US business press (Wall Street Journal, Business Week and the New York Times) at the time of the IPO about each of these firms, and coded these articles for their tenor -- that is whether or not they report positive about the firm and/or its management.

Results and Implications

We believe this paper offers important contributions. It provides a powerful explanation of the post-IPO performance anomaly. But in addition the IPO process also provides us with an ideal context to investigate the effects of press attention on managerial overconfidence in general. The IPO provides the firm with a large inflow of funds which makes it even more crucial that the firm's managers make the right resource allocation decisions. As a result any effect of overconfidence on manager's decision making ability will be very pronounced under these circumstances. Finding a link between press attention and post-IPO performance also has important practical implications as the knowledge about these mechanisms might help IPO firms to avoid the "overconfidence trap".

CONTACT: Markus Fitza; mfitza@bentley.edu; (T): 7203818993; Bentley University, 175 Forest Street, Waltham, MA 80309-041 USA.