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SHOOT FOR THE STARS? PREDICTING THE RECRUITMENT OF PRESTIGIOUS DIRECTORS AT NEWLY PUBLIC FIRMS (SUMMARY)

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SUMMARY

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Principal Topic

In this study we examine why, and under what conditions newly public firms avoid recruiting prestigious directors even when they have the ability to do so. Entrepreneurship scholars have explored how young companies lacking established track records seek to reduce others' uncertainties by pursuing prestigious affiliations, thereby signaling their quality through these actors' willingness to affiliate with them. In particular, scholars have studied how young firms that conduct initial public offerings (IPOs) benefit from affiliations with prestigious VCs (Lee, et al., 2011), underwriters (Gulati & Higgins, 2003), executives (Pollock, et al., 2010) and directors (Chen, et al., 2008).

Method

Implicit in all this research is the critical assumption that firms prefer prestigious to non-prestigious affiliates – an assumption that has not been exposed to much systematic scrutiny. Indeed, little research has been conducted exploring the extent to which actors recognize and weigh the costs of a prestigious affiliation relative to its benefits, or identified circumstances where the perceived costs outweigh the benefits in their influence on decision making. To the extent that the costs of prestigious affiliations have been considered, the focus has been primarily on their financial costs (e.g., Chen, et al., 2008; Hsu, 2004), which speaks to the means of obtaining prestigious affiliates, but not the desire to do so. Little research we are aware of has considered how non-financial costs can affect the desire to pursue prestigious affiliations, even when a firm possesses the capability. We contend that affiliating with prestigious actors can involve considerable social and political costs from disruptions to the existing status order and power structure; thus, the perceived desirability of pursuing prestigious affiliations is likely to vary more than has been assumed.

Results and Implications

Using pooled cross-sectional data from 210 IPOs conducted between 2001 and 2004, we found that board prestige has a positive but diminishing relationship with recruiting a prestigious new director, and that this relationship is weaker for shorter-tenured boards who may feel more threatened by a prestigious new director. Prestigious CEOs are more likely to recruit a prestigious new director when their structural power is high and less likely when their structural power is low.

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