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FINANCE COMMITTEES AND SHORT-, MEDIUM- AND LONG-TERM IPO PERFORMANCE FIRMS (SUMMARY)

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SUMMARY

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Principal Topic

A large body of literature in entrepreneurship has investigated the antecedents of short-term and long-term performance of newly listed IPO firms (e.g., Gulati & Higgins, 2003). One stream of research within this broad literature is concerned with the characteristics of board of directors (e.g., Certo et al., 2007). This study intends to contribute to this stream of research by investigating the role of finance committees on the short-, medium-, and long-term IPO performance. Specifically, we ground our arguments in resource dependence theory (Pfeffer & Salancik, 1978) to compare the short-, medium-, and long-term performance of newly listed IPO firms that have a finance committee with those that do not have one. Examining this research question is important because while several studies have enhanced our understanding of board-level antecedents of IPO performance (e.g., Kroll et al., 2007), little – if any – attention has been given to the role of board committees in entrepreneurship research. We believe that this is an important omission in the extant literature, since empirical (e.g., Laux & Laux, 2009) as well as anecdotal evidence (e.g., Carter & Lorsch, 2004) suggests that boards mainly function through committees.

Method

Finance committees can be particularly important for IPO firms because a majority of IPO firms rely on internal financing, since obtaining external funds is difficult for these newly public firms (Helwege & Liang, 1996). Finance committee members, through their connections in the financial industry, could help IPO firms obtain external financing from private debt markets. Similarly, IPO firms often have a limited ability to issue debt (Helwege & Liang, 1996). Thus, finance committee members' assistance in doing so could be particularly likely to improve the performance of these firms. Although board members with a financial background could also bring similar benefits to IPO firms, we believe that having the structure of a committee can provide a valuable opportunity for these individuals to leverage their knowledge on financial issues.

Results and Implications

By using a random sample of 200 U.S. firms that completed an IPO between 2006 and 2010 and controlling for alternative determinants of IPO firms' financial performance, the OLS hierarchical regression results show that IPO firms with a finance committee outperform those without a finance committee but only in the long-term. Specifically, IPO firms that have a finance committee have statistically higher ROA (for the first, second and third year) than IPO firms without one.

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