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THE INFLUENCE OF ENVIRONMENTAL MUNIFICENCE ON THE VALUE OF BOARD HUMAN AND SOCIAL CAPITAL IN IPOS (INTERACTIVE PAPER)

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THE INFLUENCE OF ENVIRONMENTAL MUNIFICENCE ON THE VALUE OF BOARD HUMAN AND SOCIAL CAPITAL IN IPOS

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Principal Topic

While accumulated studies have shown that human and social capital help young IPO firms increase legitimacy and obtain higher valuation, few studies have investigated whether the context impacts IPO valuation. It is our contention that greater environmental munificence allows the IPO firm to leverage higher human and social capital (as the IPO firm begins to compete against more established competitors). On the other hand, lower environmental munificence will make it difficult to capitalize on the human and social capital (particularly given the IPO firms' nascence). As such, we believe that high human and social capital will have a direct positive impact on valuation and the environmental context will moderate the impact of this human and social capital.

Method

To test our hypotheses, we have collected a sample of all firms that went through an IPO in the U.S. between 2001 and 2002. We excluded all foreign firms, REITs, and investment funds from the sample. We also excluded IPOs whose financial data is not available from two sets of data (i.e. COMPUSTAT and CRSP) as well as in the prospectus. We used COMPUSTAT and CRSP tapes for financial data. Board of directors data were collected from prospectuses (i.e., Form 424b) which can be found on the SEC’s electronic data gathering and retrieval system. The sample consisted of 102 U.S. IPO firms which completed an IPO between 2001 and 2002.

Results and Implications

Our results show that market munificence positively moderates the relationship between board human and social capital and IPO valuation ($p < 0.05$), suggesting that higher human and social capital are more beneficial in munificent environments. This finding supports our hypothesis that when resources are more abundant in the environment, firms with board human and social capital have greater latitude to enact different strategies and such young IPO firms obtain higher IPO valuation. These findings contribute to our understanding about the contingent value of board human and social capital to young IPO firms.

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