The relationship between top management teams and the valuation of initial public offerings within emerging industries

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SUMMARY

THE RELATIONSHIP BETWEEN TOP MANAGEMENT TEAMS AND THE VALUATION OF INITIAL PUBLIC OFFERINGS WITHIN EMERGING INDUSTRIES

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Principal Topic

The impact of top-management teams (TMT) has been widely studied in large-firm settings (Weinzimmer, 1997), however, research on the applicability of TMT variables on small and emerging firms, and specific industries has been limited. Furthermore, the investigation of TMT variables and their relationship with the valuation of initial public offerings (IPOs) has been sparse. This study attempts to fill a gap in previous entrepreneurship research by investigating if any relationships exist between TMTs with the valuation of initial public offerings (IPOs) for the biotechnology, Internet, and software industries as a representative example of emerging industries. The following questions will be answered in the study: Is there a relationship between the composition of the TMTs and the valuation of IPOs within emerging industries? Are there any inter-industry similarities or differences between the biotechnology, Internet, and software industries’ ability to raise capital in the public markets?

Method

The sample consists of a total of 395 emerging firms from the Internet (109), software (188), and biotechnology (98) industries. Data for the study was obtained from the prospecti of companies, Disclosure Inc., and the SEC.

Implications

This is the first paper to report the results of an empirical study about the relationship between the TMTs and the valuation of initial public offerings. The results of this will extend academic research on this subject and will make a significant contribution to practicing entrepreneurs. The results of this study will allow us to make recommendations to entrepreneurs about the composition of their TMT at the time of their IPO.

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