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The Effects of Company Risk, Founders' Characteristics and Corporate Governance on Executive Incentive Schemes in UK Initial Public Offerings

Deborah Allcock
University of Huddersfield

Igor Filatotchev
Sir John Cass Business School
City University London

Contact information:

Deborah Allcock
d.allcock@hud.ac.uk
+44 (0)1484 472582

Financial Ethics and Governance Research Group

The Business School
University of Huddersfield
Queensgate
Huddersfield HD1 3DH
United Kingdom

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Abstract

Combining the agency perspective, resource-based view and upper echelon research, this paper examines factors affecting the implementation of equity based incentive schemes in initial public offerings (IPOs). In line with agency research, the probability of equity-based incentives is negatively associated with the IPO firm's riskiness. The paper shows that performance-related incentive schemes are negatively associated with share ownership and board power of the IPO's founding directors. Large-block share ownership is positively associated with the probability of conditional incentive schemes. However, board independence and non-executive directors' interests do not have any effects on "toughness" of executive compensation. The paper suggests a number of avenues for a future analysis of governance development process in "threshold" firms.

INTRODUCTION

An increasing number of fast-growing firms face the decision to go public at different stages of their life-cycle, and the process of Initial Public Offering (IPO) has had increasing attention from academics (Jain & Kini, 1999; Ritter, 1987). Predominantly research on IPO companies has focused on areas such as underpricing (Brennan & Franks, 1997; Certo, Covin, Daily & Dalton, 2001; Filatotchev & Bishop, 2002; Pham, Kalev & Steen, 2003), post issue performance (Espenlaub & Tonks, 1998; Mikkelson, Partch & Shah, 1997) and their relationships with general corporate governance parameters such as board structure and characteristics (Beatty & Zajac, 1994; Certo et al., 2001; Filatotchev & Bishop, 2002). Within these diverse research streams, a relatively little attention has been given to the role of executive compensation with regards to the IPO company. Although Beatty and Zajac (1994) argue the need for a more unified perspective on the control of executive compensation in the IPO company, there is little understanding among academics and practitioners of factors affecting introduction of executive compensation schemes at the time of IPO, as well as their structural characteristics, such as their relation to various performance targets established by the firm's board and shareholders.

Financial economists and organization theorists have developed a substantial body of literature on factors driving executive compensation and its organizational outcomes (see Filatotchev, Jackson, Gospel & Allcock, 2007, for an extensive literature review). Most of executive compensation studies have been rooted in labour economics and agency theory and have focused predominantly on mature publicly listed companies. Over recent years this has provided fuel for commentators to criticize the remuneration received by top executive directors. Many US studies have relied on agency theory to explain possible links between executive pay and the performance of the company, but these links have been found to be

weak or non-existent (Barkema, Geroski & Schwalbach, 1997; Jensen & Murphy, 1990; Main, Bruce & Buck, 1996). Within the UK these links also have not been strong (Conyon & Leech, 1994; Gregg, Machin & Symanski, 1993). Greater disclosure within the UK following a number of corporate governance reports (Greenbury, 1995; Hampel, 1998a, 1998b) has aided the study of executive pay, and research on compensation issues and the mature listed company has been widened to encompass areas such as compensation and option incentives (Conyon & Sadler, 2001), the structure of compensation contracts (Conyon, Peck, Read & Sadler, 2000) and governance issues such as board control and remuneration committees (Conyon & Peck, 1998). However, the structure and characteristics of executive share-based compensation in the IPO company still remains unexplored, even though it provides a unique opportunity to study equity based incentive pay schemes such as executive share options and long term incentive plans at a crucial time in the firm's development, which is often referred to as a "strategic threshold" (Filatotchev, Toms & Wright, 2006).

This paper extends previous work in several ways. First, it contributes to the agency research on executive compensation by moving away from mature and well-established organizations to IPOs. It suggests that the introduction of equity-related incentives depends not only on a firm's risk factors, it is also associated with founders' characteristics such as their retained share ownership and control over the IPO firm's board. Second, the paper suggests an integrated theoretical framework that augments traditional agency perspective by incorporate relevant elements of the resource-based view and behavior research, and analyzes how executive pay may be influenced by structural characteristics of the board and financial incentives of non-executive directors. Third, the impact of theoretically significant contextual factors such as large-block shareholdings on the "toughness" of executive pay contracts is analyzed in the very specific environment of IPO. Finally, the theoretical framework and related hypotheses are

empirically tested using a sample of 311 entrepreneurial IPOs in the UK during the period of 1998-2002. We define entrepreneurial IPOs as those stock market flotations in which the original founders retain equity stakes and board positions.

This paper is structured as follows. The next section outlines the conceptual framework and research hypotheses. This is followed by a description of the data sources, variable definitions and research methodology. The third section presents the results. Conclusions are drawn in a final section.

CONCEPTUAL FRAMEWORK

In their seminal article on corporate governance (Jensen & Meckling, 1976) indicate that the flotation of a company's shares on the public market leads to the 'principal-agent' concern: how to reconcile the interests of incumbent managers and executive directors (as 'agents') with those of the company's ultimate owners – the shareholders (as 'principals'). 'Best practice' guidelines within the UK, suggest that appropriate mechanisms need to be put in place to motivate directors to align their own interests more closely with the shareholders, thus ensuring goal congruence (Association of British Insurers, 2002). Supporting these guidelines, incentive schemes for executive directors have been recommended as the key way to help overcome agency problems (Beatty & Zajac, 1994; Fama, 1980; Fama & Jensen, 1983; Murphy, 1985), with greater amounts of the managers' compensation being tied directly to the performance of the company (Jensen & Murphy, 1990). At the point of the IPO this becomes particularly relevant, and, indeed, some authors argue that one of the reasons for a private company to go public is a possibility to introduce share-based incentive schemes (Pagano & Röell, 1998). Normally, an IPO leads to a significant amount of capital raised with the issue of shares, but it also creates the dilution of ownership from the existing

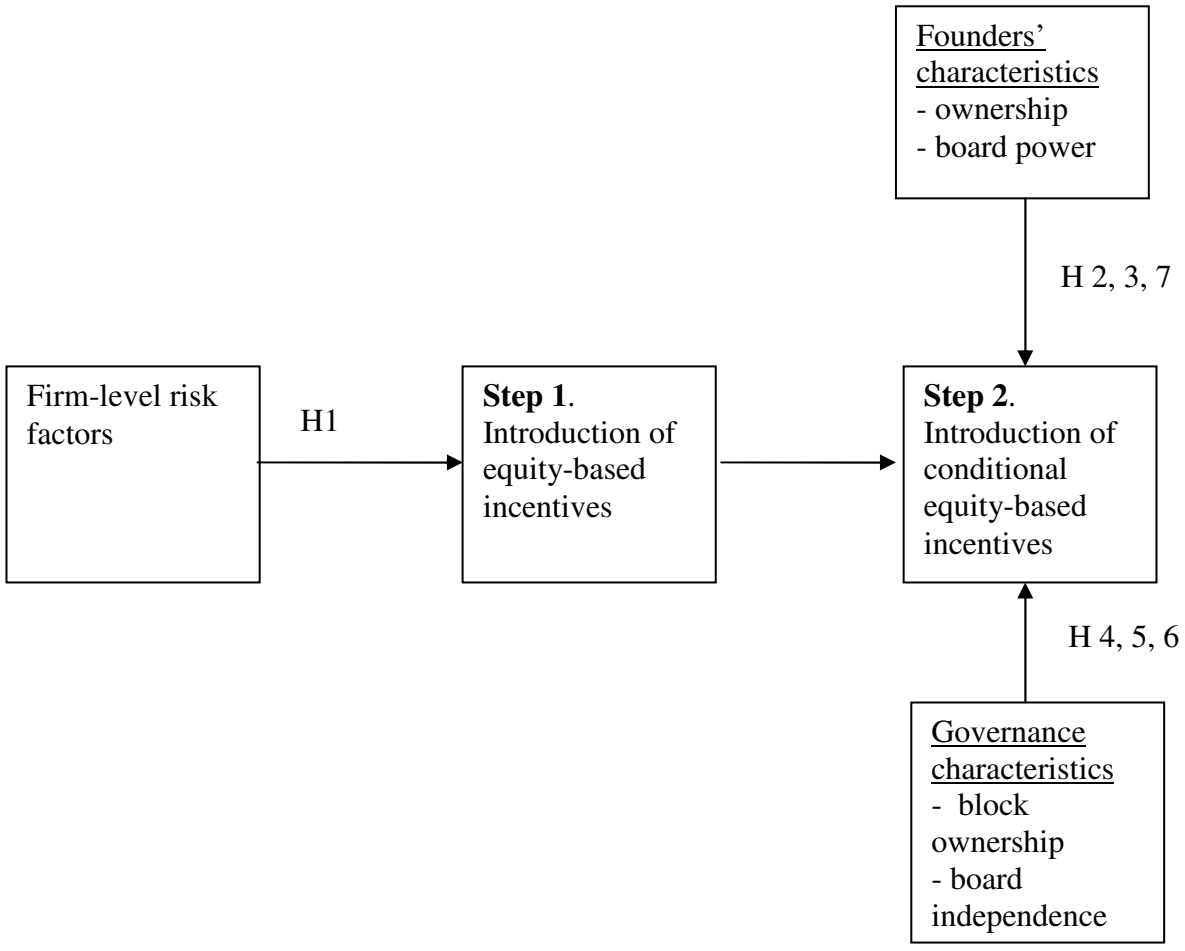
founders to outside institutional and retail investors. Thus at the point of the IPO, founders and executives face both an exciting growth period and an uncertain time as they place shares beyond their control into the open market. Agency theory argues that governance structures should be put in place to re-align both parties. The executives however, are more risk adverse compared to diversified shareholders, and they may be engaged in self-serving behavior. This could be particularly relevant for the IPO firm with founders on the board, as they effectively diversify the company risk to external parties with the sale of shares. Furthermore, they relinquish some of their control with the dilution of share ownership.

Building on the agency perspective of the IPO firm's governance aspects (e.g., Jensen & Meckling, 1976; Pagano, Panetta & Zingales, 1998; Pagano & Röell, 1998), and research on behavior and power in organizations (e.g., Beatty & Zajac, 1994; Golden & Zajac, 2001; Westphal, 1999; Westphal & Zajac, 1995) this paper argues that in the IPO firm's decisions to implement equity-based incentive schemes and the extent of their "toughness" are not exogenous factors. Rather, they are linked to corporate governance factors, as well as the distribution of power in the IPO. Figure 1 provides an outline of our research framework.

At Stage 1, the IPO management team makes decision whether it should adopt an equity-based incentive scheme. From agency perspective, risk-averse executives would resist this adoption if the IPO represents a high-risk firm. When the scheme is adopted, at Stage 2 the IPO makes decisions about its "toughness", e.g., whether executive compensation should be performance-related, bearing in mind that IPO firms often have high growth potential but they usually under perform their industry peers in terms of generating a stable cash flow. As Figure 1 suggests this decision depends on two sets of factors: founders' characteristics and general corporate governance parameters. Agency and behavior research suggests that the

founders' entrenchment, associated with their board power and retained share ownership, may have a negative impact on the introduction of performance-related schemes, since opportunistic founders may try to shift risk to outside investors. However, independent boards and large-block shareholders in the IPO may provide a counter-balance to founders' entrenchment and support the development of performance-related incentive schemes, since external shareholders should have a direct interest in aligning their interests with interests of executive directors (Zahra & Pearce, 1989). The following sections develop these arguments further and suggest a number of testable hypotheses.

Figure 1. Theoretical Model



Executive risk bearing

Although some researchers argue that the implementation and use of compensation schemes can potentially mitigate the mis-alignment of managerial incentives and associated agency problems, these schemes are not without their critics. Linking a manager's remuneration too closely to firm performance could potentially lead to risk-avoiding behavior by the manager (Fama, 1980; Holmstrom, 1979). Whilst it can be argued that equity and performance based compensation can have desirable motivational aspects, it may also cause the manager to have undesirable risk bearing characteristics. Rappaport (1981; 1999) argues that managers, who act as the agents of the shareholders, are more risk averse than the owners of the company. Unlike owners of the company, who are able to diversify their ownership portfolio, managers have already invested their non-diversifiable human capital in the firm (Balkin & Gomez-Mejia, 1990; Gomez-Mejia & Balkin, 1992). Whilst it might be undesirable to have mangers attached to high levels of risk, (Gomez-Mejia & Welbourne, 1988) noted that in high growth US companies, risk taking is rewarded (although there is often a question of low job security) whilst the more established firm seldom encourages risk taking by its managers. Indeed the IPO setting is one where there is a large amount of change and risk taking as the company exposes itself to the public investment for the first time (Certo, Daily, Cannella & Dalton, 2003).

In terms of compensation issues the most significant part of risk bearing for the executive is the acceptance of equity-based compensation within their compensation contract. Any form of equity-based pay will cause the executive to bear risk that could otherwise be more efficiently borne by the shareholders who are able to diversify their investments. As a consequence of this, executives are more likely to attach higher values to the levels of cash

payment made than to that of any share options (Jensen & Murphy, 1990). If company risk is high, then any proportion of remuneration that is equity based will be further loaded not only with non-diversifiable risk but also company risk. As such the executives will face a very different level of risk to the shareholder, and these risks can hinder the alignment of the two in the context of pay schemes that link pay to performance (Gray & Cannella, 1997). If firm performance is poor, then the executives not only risk losing potential earnings, but also their job and reputation as 'good' board members (Cannella, Frasier & Lee, 1995; Coughlan & Schmidt, 1985; Gilson, 1989). Given this double-edged sword, the risk-adverse executive is more likely to resist the presence of such forms of remuneration, particularly at the time of IPO. This leads us to hypothesize:

Hypothesis 1: The greater the risk of the company, the less likely it will implement equity based incentive pay schemes at the time of the IPO.

Ownership structure and equity based incentive schemes

Organizational theorists have increasing drawn on agency theory in order to focus on problems associated with separation of ownership and control (Beatty & Zajac, 1994; Brennan & Franks, 1997; Certo et al., 2001). Even though there is a direct dilution of ownership at the time of the listing executive directors and other board members retain a proportion of ownership at IPO. In particular, where the founder of the company is still present as an active board member any dilution of ownership might not be the driving factor for remuneration schemes. Indeed in recent finding by (Baker & Gompers, 2003), dilution of ownership was not the significant factor in determining the firm's corporate governance characteristics, and in particular equity based incentive schemes. Any retained ownership by the founder means that there could be a reduced need for incentives to realign the principal and agent due to the "Jensen-Meckling (1976) effect" associated with minimal divorce of

ownership and control. This, combined with the ownership of other board members, creates a unique environment for corporate governance issues and in particular the provision/use of equity based incentive schemes.

More recent agency research is focused on organizational outcomes related to the presence of multiple governance mechanisms that may work in concert (Daily, Dalton & Cannella, 2003). A number of studies suggest that one governance channel may complement and/or substitute for another (Filatotchev, 2006; Hoskisson, Hitt, Johnson & Grossman, 2002). Rediker and Seth (1995), for example, in their analysis of US bank holding companies provide evidence of the substitution of board monitoring by monitoring by outside large shareholders. This section extends Rediker and Seth's analysis by focusing on governance aspects of young, fast-growing firms and considers how performance-related executive compensation can substitute/complement governance effects of various constituencies of shareholders in the IPO firm.

A growing number of studies in entrepreneurship and upper echelon research indicate that the ability of the young firm's founders to formulate and implement strategic initiatives which capitalize on environmental opportunities is vital to organizational growth and survival (Finkle, 1998; Jayraman, Khorana & Nelling, 2000; Steier & Greenwood, 2000). Founder characteristics, therefore, such as motivation and incentives, have a direct impact on the firm's development and success in the long-run (Daily & Dalton, 1997). However, the IPO process is accompanied by significant shifts in the distribution of ownership and control between founding and new shareholders that create misalignment of incentives and a related set of agency costs (Jensen & Meckling, 1976; Mello & Parsons, 1998). As Pagano and Röell (1998: 188) have pointed out, "in this situation the main conflict of interest is that between

the controlling shareholder and the minority shareholders, rather than between hired managers and the generality of shareholders". A reduction in founders' share ownership subsequent to flotation may reduce their incentives to learn and apply their knowledge to the benefit of the newly-created public firm and its external shareholders (Sapienza & Gupta, 1994; Schulze, Lubatkin & Dino, 2003). Therefore, founders' equity-related incentives may be another factor contributing to the level of risk of a new venture. It may be reduced by the introduction of performance related equity incentives, and we suggest:

Hypothesis 2: The greater the level of retained ownership by the founding directors', the less likely it will be that conditional equity based incentive schemes are present in the remuneration contracts of executive directors (substitution effect).

Agency theory looks to the use of share option schemes to promote 'ownership' behavior from the executives. In the entrepreneurial IPO there is often a significant amount of retained ownership by executive directors following the flotation. Agency theorists argue for the development of governance systems to monitor the behavior of the agent, and the establishment of equity based incentive schemes can be considered as such a system. Generally, shareholders are not adequately able to rely on information as to the effectiveness of the agent. Equity based incentive schemes specifically take steps to realign the interest of the agent with those held by the principals by enabling the agents to become owners in the company (Fama, 1980; Fama & Jensen, 1983). This is one of the rational for incentive schemes to be implemented and tied to performance outcomes (traditionally these are tied to 'objective' measures linked to company performance such as earnings per share, total shareholder return and market share prices) (Fama & Jensen, 1983). Hence, we suggest:

Hypothesis 3: The greater the level of retained ownership by the non-founding executive directors , the less likely it will be that conditional equity based incentive schemes are present in the remuneration contracts of executive directors (substitution effect).

In the UK, external monitoring by independent (non-executive) board members is strongly recommended within the Combined Code on Corporate Governance (2006). More specifically, all listed companies should have at least one third of the board comprising of such non-executive directors (Hampel, 1998b). Indeed the implementation of the Combined Code means companies must comply with the new two tiered provision, increasing the ratio of non-executive directors for FTSE 350 companies to at least half the board (excluding the chairman) and for other companies at least two independent non-executive directors.

Although non-executive directors may provide a particularly important strategic contribution by monitoring managerial decisions, as well as having a direct involvement in formulating the firm's mission and developing of its strategy; research literature on corporate boards has suggested that board vigilance is often low, with non-executives' involvement in managerial oversight being passive, and that it relies mainly on the financial outcomes of strategic decisions of the CEO (Baysinger & Hoskisson, 1990; Golden & Zajac, 2001). Agency research suggests that non-executive directors may perform their monitoring function more proactively when their interests are aligned with those of shareholders, and a number of studies have linked their close involvement in managerial oversight with their personal financial risk, approximated by ownership interests in the firm (Beatty & Zajac, 1994; Shivdasani & Yermack, 1999). This research, however, is mainly focused on large, mature organizations, and the IPO context provides new dimensions to the importance of board members' incentives (Filatotchev, 2006).

In the uncertain, "high-velocity" environment of an IPO, the board of directors needs to be more pro-active in terms of its involvement in strategy development and implementation, in addition to its monitoring and oversight roles (Carpenter, Pollock & Leary, 2003). Extending agency arguments related to the incentive alignment effects of directors' equity, some researchers suggest that non-executive directors will perform their advisory and resource roles better when they have a significant financial stake in the company. Hambrick and Jackson (2000), for example, indicate that non-executive share ownership not only creates financial incentives for non-executives but also increases their identification with the company, making them more willing to use their knowledge and more generous in their time and attention.

In their study of Internet IPOs in the USA, Sanders and Boivie (2004) argue that non-executives' equity may be a proxy for firm quality when direct financial valuations are difficult, because of the high level of risk and relatively short performance history of the firm. Using this signaling framework they suggest that equity incentives attract high-caliber directors who are able to mitigate both adverse selection and moral hazard problems in the IPO firm. These arguments imply that:

Hypothesis 4: The greater the level of retained ownership by the non- executive directors, the more likely it will be that conditional equity based incentive schemes are present in the remuneration contracts of executive directors (complementarity effect).

In addition to the non-executive providing a monitoring role in order to promote shareholder value, increasingly the role of the block-holder will provide additional external monitoring for shareholders. Indeed the strength and power of block-holders within companies should not be underestimated (Gillian & Starks, 2000). David, Kochhar and Levitas (1998) found

that the nature of ownership in U.S. firms was an important determinant of CEO compensation. In particular their research supported the case that institutional investors (with only an 'investment relationship') showed preferences towards lower overall levels of cash compensation with an increase in the proportion of compensation received from long-term incentives.

Particularly at the point of IPO, many companies in the UK are able to choose either a 'placing' (where shares are usually offered to a selected base of institutional investors) or a 'public offer' (sponsors offer shares to private and/or institutional investors with the shares often being underwritten by some of the institutional investors) as their method of flotation (London Stock Exchange, 2002). Hence block-holders are particularly prevalent in IPO companies, and previous research indicates that they have an ability and incentives to focus managers' attention on shareholder value (Filatotchev et al., 2006). These particular types of investors will want to see evidence of governance systems that promote shareholder return. If this is indeed the case, then in order to attract such investors at this critical time of raising capital, equity based incentive schemes may play a valuable signalling role of the IPO team and its advisors taking shareholder value seriously. Any company with such a scheme in place that ties the executives' compensation to performance that promotes shareholder value will be seen in favorable light by block-holders. Thus:

Hypothesis 5: The presence of an external block-holder will mean it is more likely that that conditional equity based incentive schemes are present in the remuneration contracts of executive directors (complementarity effect).

Board characteristics and equity based incentive schemes

From the agency perspective, in order to prevent managerial errors and compensate for relative lack of experience, the board should be involved in the critical functions of active monitoring and evaluation of decisions made by the CEO and other top management team members (Fama & Jensen, 1983). The effectiveness of these monitoring and control functions has usually been related to the extent of board independence and has often been approximated by structural factors such as the proportion of outsiders on the board, CEO/Chairman roles held jointly or separately, etc. (Daily, Johnson & Dalton, 1999; Zahra & Pearce, 1989).

More recent resource and socio-cognitive views on corporate boards have extended agency research by suggesting that pro-active behavior by non-executive directors depends not only on the extent of board independence, but also on the strategic perspective and base of experience provided by their appointments to other organizations (Carpenter, 2002; Carpenter & Westphal 2001). The resource based view emphasizes that, in addition to control functions, the board may also play service and strategic roles in the decision-making process (Daily et al., 1999; Pfeffer, 1972; Westphal, 1999), especially at those points in the life-cycle of the firm that involve strategic transition (McNulty & Pettigrew, 1999). Previous research considers IPO as one such crucial transition phase (Carpenter et al., 2003; Daily & Dalton, 1992). In particular, the links that non-executive directors have with the firm's environment can be used to obtain important information and strategic expertise (Golden & Zajac, 2001). Pye (2001:42) suggests that in order to "add value" to the board, non-executive directors are expected to bring a background of executive experience of running other firms. Therefore, we may expect that independent directors will appreciate the importance of conditional equity-based compensation schemes, and we suggest:

Hypothesis 6: The greater the level of board independence, the more likely it will be that conditional equity based incentive schemes are present in the remuneration contracts of executive directors (complementarity effect).

Research on behavior and power in organizations has suggested that board structural independence and incentives to intervene may be negatively affected by executives' entrenchment, which is directly related to the executives' power within the organization (Golden & Zajac, 2001; Gulati & Westphal, 1999; Shivdasani & Yermack, 1999; Westphal, 1999; Westphal & Zajac, 1995). Pettigrew and McNulty (1995) in their study of board dynamics in the UK firms argue that the power and influence of senior position holders may affect both board selection and board decision-making processes.

These arguments may be particularly strong in the context of IPOs where executive directors are usually the dominant group of shareholders upon flotation. In addition, executive directors are very often the original founders of the IPO firm, and entrepreneurship research suggests that founder status of the CEO and other members of executive team may be another dimension of executive power within the organization that leads to a negative attitude to external interference with "their" business (Daily & Dalton, 1992; Ensley, Pearson & Amason, 2002).

These arguments suggest that the "toughness" of executive compensation schemes depends on the extent of founders' control of the IPO board. Because of the share ownership dilution during the IPO, founder-directors may be tempted to introduce non-performance related pay schemes, since in this case they can increase their equity stakes even when the firm underperforms. In other words, this provides them with an opportunity to appropriate

potential upside gains free of risk, while the risk of downside being shifted to external shareholders. This scenario becomes more plausible when the IPO firm has a founding CEO, or when founders control the board. Hence:

Hypothesis 7a: The greater the proportion of founder-directors on board, the less likely it will be that conditional equity based incentive schemes are present in the remuneration contracts of executive directors.

Hypothesis 7b: The probability of conditional equity based incentive schemes being present in the remuneration contracts of executive directors is negatively associated with presence of founder-CEO.

DATA AND METHODOLOGY

The sample

The data sample used in this analysis comprises of a unique data set of founder-led initial public offering companies in the UK. The data for the study have both been sourced from the London Stock Exchange New Issues Listing and information from the Market Information and Analysis section that hold historical fact sheets for all issues from 1998 (including companies issuing additional shares, re-admissions and transfers between markets). Lists have been merged and cross-referenced to enable a complete list of all issues and a list of IPO companies to be obtained. The data sample has been collected from those companies floated on the London Stock Exchange (Main market and the TechMark) and the Alternative Investment Market (AIM) over a five year period from 1 January 1998 and 31st December 2002.

For the given period, the London Stock Exchange lists show us that 872 companies were floated as initial public offerings. Any company with non UK incorporation was excluded as this might be seen as leading to different governance structures. The IPO prospectuses for all remaining 766 UK companies were obtained from Thomson Research, which provides a comprehensive coverage of company filings for publicly quoted UK companies. Missing prospectuses were obtained either via company web sites, or by telephone/written request to the companies or their advisors whichever was deemed more appropriate. Any company deciding upon UK flotation must produce and file with the Stock Exchange a prospectus. This provides a wealth of information including details of the company's financial history, background details to the board of directors and their compensation contract, share ownership and details of any equity based incentive schemes. Each prospectus was examined and particular emphasis given to the section detailing the history and founders of the company. Any companies that were unit or investment trust were excluded from the sample first (these have particular governance characteristics), then those deemed to involve a de-merger, merger or acquisition, corporate spin off, equity carve outs, reorganizations, or could be considered as solely acquisition vehicles were also excluded (Filatotchev & Bishop, 2002). This resulted in 311 companies who clearly demonstrated that they had been developed via the entrepreneurial process with entrepreneurial founders and those founders were serving as directors at the time of the company's flotation.

Measures

Dependent Variables

The dependent variables in both instances are dichotomous and are measured by the implementation of equity based incentive schemes at the point of IPO and the presence of any conditional equity based remuneration scheme (i.e. with specific performance criteria to be

achieved in order for grants to vest) at the point of IPO. This information has been primarily taken from the IPO prospectus that gives details of such schemes to future investors. In order to ensure accuracy, where details in the prospectus were vague, to prevent the possibility of missing data or a wrong assumption, annual report and accounts following the IPO were checked with reference to the scheme date in the IPO prospectus. This ensured completeness, especially in light of the implementation of the Directors' Remuneration Report Regulations (2002).

Independent variables

Company Risk

Since the *ex ante* IPO's risk is unobservable and multi-dimensional factor, we use a number of proxies to operationalize it. In line with previous research on IPO companies, the fist measurement for risk has been taken from the 'risk factors' discussed in the prospectus. These have simply been counted to provide a continuous measure for the risk of the firm. In line with previous research, these can be seen as an adequate proxy for the risks surrounding the firm (Beatty & Zajac, 1994; Certo et al., 2001; Cyr, Johnson & Welbourne, 2000).

A second measure for risk was created against the strength of the present executive team, with particular reference to the founder executives. A dichotomous variable was created to indicate whether the loss of founder/key personnel within the executive team was mentioned within the risk factors (1 = yes; 0 = no). If so this will be a particular risk to the further performance and direction of the company.

The third risk proxy measure is derived from the profitability (or un-profitability) of the firm as disclosed to the future investors in the IPO prospectus. Unfortunately due to the age of the

many of the firms a trend variable proved to be impractical. So, in line with previous research, a dichotomous measure was created (1= profitable, 0 = unprofitable) (Beatty & Zajac, 1994).

The fourth measure for risk was created, again against the (un)profitability of the firm. This was an expansion of the dichotomous measure above in that the variable was made ordinal over the four year period prior to the IPO. No trading, or a loss disclosed in any one year prior to the IPO was given the value of 1. Summing the values for each year gave a rank of 0 to 4. Hence over the four year period, companies with zero were determined as very low risk, as compared with companies with a four, i.e. four years of either no trading or losses, which were assessed as very high risk.

Ownership Measures

Ownership of the company is very clearly stated in the prospectus in the section detailing "Directors' Interests" within the 'Additional Information' in the prospectus. As a rule, the ownership in this section is broken down into both the number of shares held by each director on the board and the percentage of the total equity held by each individual member. Details both prior to and at the point of the IPO are given together in this one section. Additional information as to whether the shares are beneficial or non-beneficial and voting rights are also stipulated giving sufficient information for exact ownership details to be calculated. Later on in the same section of the document, block-holders (having greater than 3% share ownership) are also cited. For this research, ownership details were carefully collated for each individual director and the position on the board was noted (4 categories, CEO, Chair, Executive director, non-executive director). A dichotomous variable was also created to state weather the board member was a founder of the company or not. By combining this

information, ownership variables for the executive and non-executive founder-directors and other executive and other non-executives were created.

Two variables were used to operationalize the presence of block-holders in the IPO. First, a continuous variable measuring the cumulative ownership stake of 3% blockholders (apart from the company directors) was used. We also used a dichotomous variable that was equal one if the IPO had more than one blockholder, and zero otherwise.

Board Characteristics

Building on previous research, a continuous variable measuring the ratio of non-executive directors to the total number of board members was used to operationalize the extent of board structural independence (see Filatotchev, 2006, for an extensive discussion). The extent of founders' control over board was operationalized by a continuous variable measuring the proportion of board seats held by founders. In addition, a dummy variable "CEO/Founder" was assigned a value of one if the CEO was a founder of the firms, and zero otherwise.

Control Variables

Several control variables were used. The sample of 311 entrepreneurial IPO companies bridges a five year period that covers a bullish peak in the market mid way and then a slower bear market. As a result of this market fluctuation, four year dummies were created. This gave the ability to control for variations due to the nature of the market in the year of the IPO. Similarly, industry differences between sample firms needed to be controlled for. Three digit SIC codes proved to give too much diversification within the sample so the dummy variables created were based on a combination of the London Stock Exchange's transfer to two digit SIC codes and a further amalgamation to more general sectors

(resources, consumer goods, services, financial and information technology). The age of the firm has been used to control for the sophistication of the firm as its organizational structure and the development of governance strategies may be linked to a life-cycle development effect. Similarly, if a company had an incentive pay scheme prior to the IPO, it would be logical to continue this scheme or replace it with a new one at the point of IPO. This path-dependency in executive remuneration was controlled for in the model by using a dichotomous variable to indicate the presence of any incentive schemes rewarding executives with equity prior to the point of the flotation.

Previous research within mature companies shows that size might also be seen as a determinant of the executive compensation contract (Conyon, Peck & Sadler, 2000; Gregg et al., 1993). In order to control for the size of the IPO company, two variables were considered: the market capital value of the firm at the point of the IPO and turnover in the year prior to the IPO. Using market capital value at the time of the IPO to control for size has specific problems. The value placed on the share price might be influenced by the adoption of governance factors, including the provision of equity based incentive schemes (Beatty & Zajac, 1994; Certo, 2003; Certo et al., 2003). Indeed market capitalization may be under-valued as information asymmetries between the various teams involved in the IPO process can lead to underpricing (when the initial offer price is less than the first day close of trade price) (Certo et al., 2001; Filatotchev & Bishop, 2002; Michaely & Shaw, 1994). Alternatively, governance signals (including retained ownership levels) may have a positive effect on the value of the firm (McBain & Krause, 1989; Mikkelson et al., 1997). With these factors in mind, the measure of market capitalization as a control for the size of the organization might have considerable endogenous and exogenous influences. For this reason, sales turnover has been used to provide an adequate control for the size of the firm.

Analytical Technique

Ordinary least square (OLS) regression analysis makes the assumption that any linear model is continuous, homoskedastic and normally distributed. Thus with the dependent variable being the presence of conditional equity incentive schemes within the compensation contract of the executives, the use of OLS regression to model this data is inappropriate. When the dependent variable is of a dichotomous nature a more appropriate tool is multiple discriminant analysis or a logistic regression model (Hair, Anderson, Tatham & Black, 1998). In most applications of this nature the logit and probit models are quite similar, with the main difference being that "the logistic distribution has slightly flatter tails" (Gujarati, 2003).

For the implementation of schemes, the logit regressions were run on the total sample of 311 companies. In order to truly have a dichotomous variable for the presence of conditional incentive schemes, a sub sample on 295 companies was selected as being all those who presented and an equity base incentive scheme at IPO. For comparison, both logit and probit models have been run on the variables. The results for both models were similar, with only marginal differences in the levels of significances. With such similar results, only those of the one (logit) model have been reported.

EMPERICAL RESULTS

Tables 1 and 2 provide the correlation matrix and descriptive statistics for all variables used in the study. Of the 311 companies comprising our sample, 126 companies (41%) already had incentive schemes operating within the company prior to the IPO. Of the companies without schemes (185), 173 companies took the opportunity to implement an equity based incentive scheme, either an executive share option scheme or long-term incentive plan. At the time of

IPO, a total of 295 companies (94.9%) of the sample had some type of equity based incentive scheme operating. From the sub sample of 295 companies, 49.2% of these schemes had some form of performance criteria attached to make vesting conditional to meeting (or exceeding) these targets. Such a high number of companies operating schemes at the IPO show the importance attached to these, both internally and externally.

Table 1: Means, Median and Standard Deviations

Variable		Mean	Median or % [a]	S.D.
Dependent Variables				
1	At IPO: implementation of equity based incentive scheme		55.80	
2	At IPO presence of any conditional scheme		50.20	
Risk				
3	Number of risk factors in prospectus	11.87	10.00	7.28
4	Departure of Key Personnel as risk factor		70.80	
5	Risk proxy based on (un) profitability		61.00	
6	Risk proxy indicator relating to previous reported profit/loss	2.63	4.00	1.58
Ownership at IPO				
7	Exec founders' ownership (%)	28.02	23.71	21.68
8	NED founders' ownership (%)	3.02	0.00	10.43
9	Non founder execs' ownership (%)	4.32	1.17	7.10
10	Non founder NEDs' ownership (%)	3.64	0.52	8.14
11	Total board ownership (%)	39.02	38.13	22.22
12	Presence of block-holder		82.14	
13	Total equity block-holders (%)	22.75	19.56	20.19
Board Variables				
14	CEO founder present		60.00	
15	Proportion of founders on the board	29.11	25.00	14.37
16	Proportion of NED's on the board	41.86	40.00	14.50
Control Variables				
17	Annual Turnover (£,000)	21429	2612	88966
18	Founding Age	6.33	4.00	6.39
19	Pre IPO: Presence of incentive scheme		40.50	

[a] Percentages are reported for the 0/1 variables.

Table 2: Correlation matrix for all variables

	Variable	1	2	3	4	5	6	7	8	9
1	At IPO: implementation of equity based incentive scheme									
2	At IPO presence of any conditional scheme	.017								
3	Number of risk factors in prospectus	-.218	.039							
4	Departure of Key Personnel as risk factor	-.099	-.147	.175						
5	Risk proxy based on (un) profitability	-.040	-.122	.073	.181					
6	Risk proxy indicator relating to previous reported profit/loss	-.047	-.165	.072	.226	.779				
7	Exec founders' ownership (%)	.204	-.010	-.146	-.036	-.182	-.269			
8	NED founders' ownership (%)	-.054	-.096	.136	-.123	-.089	-.030	-.252		
9	Non founder execs' ownership (%)	.035	.068	-.150	-.041	-.062	-.113	-.063	-.040	
10	Non founder NEDs' ownership (%)	.067	-.073	.026	.044	.105	.116	-.142	-.063	-.025
11	Total board ownership (%)	.210	-.060	-.111	-.092	-.201	-.270	.786	.188	.231
12	Presence of block-holder	-.150	.041	-.011	.224	.175	.236	-.342	-.109	-.036
13	Total equity block-holders (%)	-.150	.003	.113	.175	.122	.155	-.479	-.134	-.157
14	CEO founder present	.202	-.136	-.256	-.038	.016	-.019	.246	-.199	-.139
15	Proportion of founders on the board	.166	-.106	-.161	-.052	-.028	.033	.242	.073	-.289
16	Proportion of NED's on the board	-.118	-.003	.270	.003	.039	.064	-.312	.182	-.241
17	Annual Turnover (£,000)	-.145	.096	.236	.020	-.218	-.209	-.043	.046	.085
18	Age of Company	-.138	.166	.048	-.116	-.441	-.495	.065	-.035	.091
19	Incentive scheme pre IPO	-.910	.066	.259	.087	.008	-.012	-.228	.075	-.027

Values > .155 are significant at the 1% level (2-tailed)

Values > .120 are significant at the 5% level (2-tailed) N = 311

Table 2 Continued: Correlation matrix for all variables

Variable		10	11	12	13	14	15	16	17	18
1	At IPO: implementation of equity based incentive scheme									
2	At IPO presence of any conditional scheme									
3	Number of risk factors in prospectus									
4	Departure of Key Personnel as risk factor									
5	Risk proxy based on (un) profitability									
6	Risk proxy indicator relating to previous reported profit/loss									
7	Exec founders' ownership (%)									
8	NED founders' ownership (%)									
9	Non founder execs' ownership (%)									
10	Non founder NEDs' ownership (%)									
11	Total board ownership (%)	.190								
12	Presence of block-holder	.024	-.393							
13	Total equity block-holders (%)	-.094	-.626	.502						
14	CEO founder present	.004	.103	-.022	-.168					
15	Proportion of founders on the board	-.042	.168	-.067	-.129	.251				
16	Proportion of NED's on the board	.179	-.232	.100	.134	-.027	-.227			
17	Annual Turnover (£,000)	-.081	-.021	-.083	.022	-.185	-.187	.002		
18	Age of Company	-.145	.023	-.070	.011	-.176	-.224	-.005	.401	
19	Incentive scheme pre IPO	-.073	-.224	.149	.159	-.224	-.231	.125	.154	.187

Values > .155 are significant at the 1% level (2-tailed)

Values > .120 are significant at the 5% level (2-tailed) N= 311

Table 1 also shows that founders occupied approximately 30 percent of board seats in the companies we studied. A founder was the firm's CEO in 60 percent of cases, indicating that founders had retained strong leadership positions even at the IPO stage. The founders-directors were by far the predominant group of insider shareholders, retaining above 32 percent of voting shares after the IPO on average. In terms of board structure, independent directors held 42 percent of board seats on average, with an average non-executive share ownership being 3.6 percent. Above 80 percent of our sample had blockholders, with the cumulative ownership stake of blockholders amounting to 22.8 percent, the second largest stake after founders' share ownership.

The results of formal tests of hypotheses are provided in Tables 3, 4 and 5.

Table 3: Hierarchical Logistic regression results for risk models [a]

Dependent Variable	Implement incentive scheme	Implement incentive scheme	Implement incentive scheme	Implement incentive scheme	Implement incentive scheme
	Logit Control	Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4
Constant	1.481	1.458 †	1.882 *	2.857 **	4.779 ***
Number of risk factors		-.053 **	-.046 *	-.040 †	-.026
Departure of key personnel			-1.254 **	-1.249 **	-1.373 **
(Un)profitability				-.902 *	1.257 †
Previous trading/(un)profitability					-1.035 ***
Controls					
Log Turnover yr-1 (£,000)	-.351 †	-.251	-.180	-.362 †	-.581 **
Age of Company	.009	.003	.001	-.010	-.046
% correct predictions	60.6	63.9	58.9	61.4	72.9
Nagelkerke R^2	.062	.110	.159	.191	.304
Model X^2 value	11.8	17.9 †	26.3 **	32.0 **	53.6 ***

† p≤0.10; * p≤0.05; ** p≤0.01, *** p≤0.001 N=208

[a] The logistic regression also includes unreported dummy variables to control for the year of the IPO and industry effects.

Each set of regressions includes the regression with controls only, and this help to verify whether the main regressors contributed to the explanatory power of the models used. The results in Table 3 provide support for hypothesis 1. Four risk measures show that firms considered more risky are significantly less likely to implement any form of equity based incentive scheme at the time of IPO. The significance of the risk variables suggests that firms, whose executives face personal employment risk related to the potential for company survival, are not subjected to further risk bearing via their compensation contract.

Table 4: Logistic regression results for retained ownership models [b]

Dependent Variable	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme
	Logit Control	Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4
Constant	-1.269 †	-.962	-2.900 ***	-2.155 *	-2.445 *
Exec founders' ownership (%)		-.015 *			-.012 †
NED founders' ownership (%)		-.053 **			-.042 *
Non founder execs' ownership (%)		.005			.002
Non founder NEDs' ownership (%)		-.020			-.016
Presence of block-holder			1.078 **		.742 †
Total equity block-holders (%)				.012 †	
Controls					
Log Turnover yr-1 (£,000)	.371 *	.484 **	.554 **	.499 **	.647 ***
Age of Company	.044 †	.036	.041	.040 †	.033
Incentive scheme pre IPO	.112	-.054	-.261	-.239	-.371
% correct predictions	65.0	67.5	67.3	66.5	67.6
Nagelkerke R^2	.136	.195	.193	.168	.231
Model X^2 value	25.9 **	36.9 ***	34.0 ***	29.0 **	40.5 ***

† p≤0.10; * p≤0.05; ** p≤0.01, *** p≤0.001 N=240

[b] The logistic regression also includes unreported dummy variables to control for the year of the IPO and industry effects.

The second set of results in Table 4 relates to the effects of the ownership structure at the point of the IPO. This shows that firms with stronger alignment between the interests of founders and shareholders are less likely to impose performance conditions on any equity based schemes in place, in line with Hypothesis 2. The level of retained ownership by the founders (mean ownership of 31.05%) shows that the founders on the board of directors still effectively control the firms. At the time of the IPO they embrace the opportunity to gain capital and transfer risk to outside investors. Although the non-founding executive and independent directors hold on average 4.3 and 3.6 percent ownership in the companies, there is no significant association between conditional schemes and these levels of ownership. Therefore, our hypotheses 3 and 4 are not supported.

Hypothesis 5, on the other hand, is supported for both operationalizations of blockowners, with the presence of external block-holders enhancing the governance and indeed being positively associated with any incentive pay schemes having specific performance targets attached.

Table 5 provides the logistic regression results for the effects of board characteristics. There is no significant association between the introduction of conditional schemes and the board independence variable. Therefore, our hypothesis 6 is not supported. However, both CEO/Founder dummy and the proportion of founders on board are significantly and negatively associated with conditional schemes, supporting, therefore, hypotheses 7a and 7b.

Table 5: Logistic regression results for governance models [c]

Dependent Variable	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme
	Logit Control	Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4	Logit Model 5
Constant	-1.269 †	-.995	-.551	-.441	-1.354 †	-1.077
CEO founder present		-.453 †		-.326		-.453 †
Proportion of founders on the board			-.022 *	-.019 †		
Proportion of NED's on the board					.002	.002
Controls						
Log Turnover yr-1 (£,000)	.371 *	.359 *	.393 *	.382 *	.370 †	.358 **
Age of Company	.044 *	.041 †	.035	.034	.044	.041 †
Incentive scheme pre IPO	.112	.020	-.012	-.066	.102	.009
% correct predictions	65.0	61.3	65.0	65.8	64.6	63.3
Nagelkerke R^2	.136	.148	.159	.164	.137	.149
Model X^2 value	25.9 **	28.3 **	30.4 **	31.5 **	25.9 **	28.3 **

† p≤0.10; * p≤0.05; ** p≤0.01, *** p≤0.001 N=240

[c] The logistic regression also includes unreported dummy variables to control for the year of the IPO and industry effects.

Finally, in terms of control variables, older and larger firms are more likely to have conditional executive compensation schemes. We did not identify any consistent effects of the sector and year dummies on the dependent variable.

DISCUSSION

Using the sample of 311 entrepreneurial IPO firms has enabled a unique study of the impact that ownership structure within the company can have on the governance of the company and in particular the use of equity based incentive schemes to tie executives to performance and increasing shareholder return. The findings suggest that the founders of newly listed companies are still very much in control and resist executive equity rewards being tied directly to objective performance measures. In line with Jensen and Meckling (1976) who suggest that minimal dilution of ownership should create a principal-agent problem, our study

indicates that the retention of ownership ensures that the founders' interests are aligned with interests of other shareholders.

Our analysis also suggests that the founders are still able to exercise strong leadership including the influence of governance strategies. Tied with the power of the Chief Executive (many of whom are founders), firms are maintaining a 'founder-centric' structure and have influence to negotiate governance structures that are positively preserving their influence and rewarding their length of service rather than performance by the nature of incentive grants being unconditional.

On the other hand, we did not find evidence of the "good governance" roles of non-executive directors. The very fact that some founders of the firm also retain their influence by becoming non-executive directors, rather than exiting, also brings into question the objectivity of this role. Our empirical results suggest that the non-executives are happy to leave objective performance targets out of the incentive schemes. Bearing in mind that non-executive directors in our sample have a substantial equity stake in the firm, this brings into question the selection processes for the non-executive directors, as well as the extent of their independence from the founding directors in the context of IPOs.

However, it is not totally a founder 'self governing' picture that emerges from our analysis. The IPO process by its very nature allows the institutional investor to purchase shares. In our study it is the block-holder who appears to be at the forefront of the monitoring process. It is no surprise to see a positive association between block-holders and the presence of conditional equity based incentive schemes. Indeed this is one area that has been at the top of the agenda of institutional investor communities such as the Association of British Insurers,

and they have positively contributed to many guidelines promoting objective performance criteria for executives' rewards (Association of British Insurers, 2002).

Previous research has recognized that governance mechanisms operate interdependently with the overall effectiveness depending on a simultaneous operation of several mechanisms in limiting managerial opportunism (Rediker & Seth, 1995; Walsh & Steward, 1990). Different governance mechanisms can substitute or complement each other, (Dalton, Daily, Certo & Roengpitya, 2003; Hoskisson et al., 2002), and the cost-benefit trade-offs among a variety of governance mechanisms would determine their use (Rediker & Seth, 1995: 88). We extend this research further and make two contributions. First, we suggest that substitution/complementarity hypothesis (e.g., Dalton et al., 2003) has relevance not only within the context of mature firms with diffused share ownership, but it plays a very important role in terms of mitigating conflicts between founders and shareholders in the IPO firm. Second, we analyze links between "toughness" of executive compensation and general governance factors in "threshold" firms, and this area was largely overlooked by agency research.

With clear changes to the pay strategies happening at the point of IPO, there is the potential for further research in this area. The commanding position of the founders' leads to unconditional incentive rewards. However, research shows that founders do depart companies (either willingly or unwillingly). Once this happens governance strategies again might be changed. There is also the point that the majority of the schemes implemented follow a three-year cycle from granting to vesting. One cannot ignore the possibility that grants are unconditional as their implementation has been no more than an experimental' view of this

type of incentive scheme. Further research based on a longitudinal study could provide insight into the changes and development of such schemes.

CONCLUSIONS

The paper's findings indicate that corporate governance is not an exogenous mechanism that solely provides checks and controls over the efficiency with which companies are run and whether managers make decisions in the interests of shareholders. More specifically, executive incentive schemes are closely related to the distribution of ownership and power among founding and independent board members; insiders and external blockholders. The next step would be to link different governance configurations with organizational outcomes, and previous research provides evidence of possible effects of the IPO governance characteristics on the level of internationalization (e.g., Carpenter et al., 2003) and performance (e.g., Certo et al., 2001). Although it is beyond the ambitions of this paper to specify and test empirically complex linkages between board dynamics, incentive schemes and IPO performance, it helps to map out future broad areas and questions for empirical enquiry guided by a processual and contextual analysis of executive compensation.

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Table 1: Means, Median and Standard Deviations

Variable		Mean	Median or % [a]	S.D.
Dependent Variables				
1	At IPO: implementation of equity based incentive scheme		55.80	
2	At IPO presence of any conditional scheme		50.20	
Risk				
3	Number of risk factors in prospectus	11.87	10.00	7.28
4	Departure of Key Personnel as risk factor		70.80	
5	Risk proxy based on (un) profitability		61.00	
6	Risk proxy indicator relating to previous reported profit/loss	2.63	4.00	1.58
Ownership at IPO				
7	Exec founders' ownership (%)	28.02	23.71	21.68
8	NED founders' ownership (%)	3.02	0.00	10.43
9	Non founder execs' ownership (%)	4.32	1.17	7.10
10	Non founder NEDs' ownership (%)	3.64	0.52	8.14
11	Total board ownership (%)	39.02	38.13	22.22
12	Presence of block-holder		82.14	
13	Total equity block-holders (%)	22.75	19.56	20.19
Board Variables				
14	CEO founder present		60.00	
15	Proportion of founders on the board	29.11	25.00	14.37
16	Proportion of NED's on the board	41.86	40.00	14.50
Control Variables				
17	Annual Turnover (£,000)	21429	2612	88966
18	Founding Age	6.33	4.00	6.39
19	Pre IPO: Presence of incentive scheme		40.50	

[a] Percentages are reported for the 0/1 variables.

Table 2: Correlation matrix for all variables

	Variable	1	2	3	4	5	6	7	8	9
1	At IPO: implementation of equity based incentive scheme									
2	At IPO presence of any conditional scheme	.017								
3	Number of risk factors in prospectus	-.218	.039							
4	Departure of Key Personnel as risk factor	-.099	-.147	.175						
5	Risk proxy based on (un) profitability	-.040	-.122	.073	.181					
6	Risk proxy indicator relating to previous reported profit/loss	-.047	-.165	.072	.226	.779				
7	Exec founders' ownership (%)	.204	-.010	-.146	-.036	-.182	-.269			
8	NED founders' ownership (%)	-.054	-.096	.136	-.123	-.089	-.030	-.252		
9	Non founder execs' ownership (%)	.035	.068	-.150	-.041	-.062	-.113	-.063	-.040	
10	Non founder NEDs' ownership (%)	.067	-.073	.026	.044	.105	.116	-.142	-.063	-.025
11	Total board ownership (%)	.210	-.060	-.111	-.092	-.201	-.270	.786	.188	.231
12	Presence of block-holder	-.150	.041	-.011	.224	.175	.236	-.342	-.109	-.036
13	Total equity block-holders (%)	-.150	.003	.113	.175	.122	.155	-.479	-.134	-.157
14	CEO founder present	.202	-.136	-.256	-.038	.016	-.019	.246	-.199	-.139
15	Proportion of founders on the board	.166	-.106	-.161	-.052	-.028	.033	.242	.073	-.289
16	Proportion of NED's on the board	-.118	-.003	.270	.003	.039	.064	-.312	.182	-.241
17	Annual Turnover (£,000)	-.145	.096	.236	.020	-.218	-.209	-.043	.046	.085
18	Age of Company	-.138	.166	.048	-.116	-.441	-.495	.065	-.035	.091
19	Incentive scheme pre IPO	-.910	.066	.259	.087	.008	-.012	-.228	.075	-.027

Values > .155 are significant at the 1% level (2-tailed)

Values > .120 are significant at the 5% level (2-tailed) N = 311

Table 2 Continued: Correlation matrix for all variables

Variable		10	11	12	13	14	15	16	17	18
1	At IPO: implementation of equity based incentive scheme									
2	At IPO presence of any conditional scheme									
3	Number of risk factors in prospectus									
4	Departure of Key Personnel as risk factor									
5	Risk proxy based on (un) profitability									
6	Risk proxy indicator relating to previous reported profit/loss									
7	Exec founders' ownership (%)									
8	NED founders' ownership (%)									
9	Non founder execs' ownership (%)									
10	Non founder NEDs' ownership (%)									
11	Total board ownership (%)	.190								
12	Presence of block-holder	.024	-.393							
13	Total equity block-holders (%)	-.094	-.626	.502						
14	CEO founder present	.004	.103	-.022	-.168					
15	Proportion of founders on the board	-.042	.168	-.067	-.129	.251				
16	Proportion of NED's on the board	.179	-.232	.100	.134	-.027	-.227			
17	Annual Turnover (£,000)	-.081	-.021	-.083	.022	-.185	-.187	.002		
18	Age of Company	-.145	.023	-.070	.011	-.176	-.224	-.005	.401	
19	Incentive scheme pre IPO	-.073	-.224	.149	.159	-.224	-.231	.125	.154	.187

Values > .155 are significant at the 1% level (2-tailed)

Values > .120 are significant at the 5% level (2-tailed) N= 311

Table 3: Hierarchical Logistic regression results for risk models [a]

Dependent Variable	Implement incentive scheme	Implement incentive scheme	Implement incentive scheme	Implement incentive scheme	Implement incentive scheme
	Logit Control	Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4
Constant	1.481	1.458 †	1.882 *	2.857 **	4.779 ***
Number of risk factors		-.053 **	-.046 *	-.040 †	-.026
Departure of key personnel			-1.254 **	-1.249 **	-1.373 **
(Un)profitability				-.902 *	1.257 †
Previous trading/(un)profitability					-1.035 ***
Controls					
Log Turnover yr-1 (£,000)	-.351 †	-.251	-.180	-.362 †	-.581 **
Age of Company	.009	.003	.001	-.010	-.046
% correct predictions	60.6	63.9	58.9	61.4	72.9
Nagelkerke R^2	.062	.110	.159	.191	.304
Model X^2 value	11.8	17.9 †	26.3 **	32.0 **	53.6 ***

† p≤0.10; * p≤0.05; ** p≤0.01, *** p≤0.001 N=208

[a] The logistic regression also includes unreported dummy variables to control for the year of the IPO and industry effects.

Table 4: Logistic regression results for retained ownership models [b]

Dependent Variable	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme
	Logit Control	Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4
Constant	-1.269 †	-.962	-2.900 ***	-2.155 *	-2.445 *
Exec founders' ownership (%)		-.015 *			-.012 †
NED founders' ownership (%)		-.053 **			-.042 *
Non founder execs' ownership (%)		.005			.002
Non founder NEDs' ownership (%)		-.020			-.016
Presence of block-holder			1.078 **		.742 †
Total equity block-holders (%)				.012 †	
Controls					
Log Turnover yr-1 (£,000)	.371 *	.484 **	.554 **	.499 **	.647 ***
Age of Company	.044 †	.036	.041	.040 †	.033
Incentive scheme pre IPO	.112	-.054	-.261	-.239	-.371
% correct predictions	65.0	67.5	67.3	66.5	67.6
Nagelkerke R^2	.136	.195	.193	.168	.231
Model X^2 value	25.9 **	36.9 ***	34.0 ***	29.0 **	40.5 ***

† p≤0.10; * p≤0.05; ** p≤0.01, *** p≤0.001 N=240

[b] The logistic regression also includes unreported dummy variables to control for the year of the IPO and industry effects.

Table 5: Logistic regression results for governance models [c]

Dependent Variable	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme	Conditional scheme
	Logit Control	Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4	Logit Model 5
Constant	-1.269 †	-.995	-.551	-.441	-1.354 †	-1.077
CEO founder present		-.453 †		-.326		-.453 †
Proportion of founders on the board			-.022 *	-.019 †		
Proportion of NED's on the board					.002	.002
Controls						
Log Turnover yr-1 (£,000)	.371 *	.359 *	.393 *	.382 *	.370 †	.358 **
Age of Company	.044 *	.041 †	.035	.034	.044	.041 †
Incentive scheme pre IPO	.112	.020	-.012	-.066	.102	.009
% correct predictions	65.0	61.3	65.0	65.8	64.6	63.3
Nagelkerke R^2	.136	.148	.159	.164	.137	.149
Model X^2 value	25.9 **	28.3 **	30.4 **	31.5 **	25.9 **	28.3 **

† p≤0.10; * p≤0.05; ** p≤0.01, *** p≤0.001 N=240

[c] The logistic regression also includes unreported dummy variables to control for the year of the IPO and industry effects.