IPO-Related Organizational Change and Long-Term Performance

J.H. von Eije, M.C. de Witte and A.H. van der Zwaan

Abstract

Mainstream literature on long-term performance of initial public offerings focuses on long-term underperformance. Because underperformance is an anomalous phenomenon, many authors search for explanations based on financial market imperfections. More recently, however, the attention shifts from underperformance to long-term performance in general. This induces the search for other than financial market imperfections in explaining under- or outperformance. This article presents the idea that in many companies the preparation for the IPO and the IPO itself may bring organizational change. It searches for IPO-related organizational change in The Netherlands with interviews of Dutch corporate officers. The research shows that an IPO primarily changes financial management and financial reporting, but that other types of organizational change may also be relevant. Moreover, long-term stock market performance was on average higher in companies where IPO-related organizational changes were reported than in companies where the changes were not reported.

1 The authors work at the Faculty of Management and Organization of the University of Groningen. The authors would like to thank Siebren Zijlstra for the data on Dutch IPOs and Floor van Maaren for recoding the questionnaire. The Dutch partners of Heidrick and Struggles helped in addressing and interviewing the corporate officers; this contributed without doubt to the relative high response rate. The authors acknowledge the generosity of the responding officers for their time in answering the questionnaires. The authors, finally, thank Serge Bayala, Oscar Couwenberg, Teye Marra, Caroline Quispel, Bob Scapens and Wim Westerman for their comments on previous versions of this paper, though the authors themselves are responsible for any remaining errors.
1. Introduction

Companies that go public are faced with several costs and revenues [see e.g. Pagano and Röell, 1998; Pagano, Panetta and Zingales, 1998; Goergen, 1998]. Owners that list a company at a stock exchange thus consider the revenues to be larger than the costs. The shareholders that stay with the company after the IPO and the new shareholders, however, do not necessarily profit from the listing. Much empirical literature on initial public offerings (IPOs) that addresses the long-term performance of IPOs suggests that these stockholders may not profit from the IPO because the IPO companies show underperformance. This market anomaly means that on average the returns at the stock exchange of IPOs are smaller than those of comparable companies in a period of three to five years after the IPO [Ritter, 1991; Loughran and Ritter, 1995]. This result is even independent of any pattern of prior shares trading performed by company executives [Lee, 1997].

Several explanations arise for this anomalous phenomenon. Ritter [1991, 1997] suggests various reasons for underperformance. Issuer’s timing, risk mismeasurement, fads as well as the fact that mainly optimistic investors will be prepared to buy overpriced new IPO stock may all contribute to long term underperformance. Welch [1989, 1996] proposes that low quality (underperforming) companies cannot mimic the signals of high quality companies of which the owners issue IPO-shares at a discount and then wait patiently before selling the remainder of the firm in a seasoned equity offering. Hughes and Thakor [1992] suggest that long-term underperformance originates from potential legal liabilities of misrepresenting the quality of the IPO-shares. Carter, Dark and Singh [1998] attribute lower performance to lower underwriter’s quality. Teoh, Welch and Wong [1998], finally, explain underperformance from window dressing before the company goes public.

Mainstream literature thus seems to focus on underperformance. However, some authors do not find underperformance with initial public offerings [Brav and Gompers, 1997], while there are companies even that show long-term outperformance (e.g. some
software and internet related companies). Moreover, in emerging South-East Asian markets like Korea, Singapore, Malaysia and China underperformance seems to be an exception [Kim, Krinsky and Lee, 1995; Lee, Taylor and Walter, 1996; Paudyal, Saadouni and Briston, 1998; Mok and Hui, 1998]. Recently even outperformance comes to the fore in the literature. Rajan and Servaes [1997], for example, find that there is an inverse relation between analysts’ long-term growth forecasts and long-run performance, whereas Krigman, Shaw and Womack [1999] predict under- and outperformance from the first day market reaction. Finally, Jog and McConomy [1999] find for IPOs at the Toronto Stock Exchange that low(!) retained ownership, executive compensation plans, a long operating history and the use of a large audit firm generate outperformance. This relatively recent research does not focus on underperformance and therefore it may be worthwhile to study the reasons for long-term performance in general.

The reviewed literature on long-term (under)performance suggest that firm characteristics or attributes around the IPO date may be relevant for future performance. However, no connection is made between long-term performance and the IPO-process within the company itself. This seems to be an omission, as an IPO introduces new groups of advisors and stakeholders to the company. These new groups like investment banks, investment analysts and (institutional) investors will scrutinize the enterprise and the owners and managers of IPO-companies can be assumed to react to this and to anticipate on the new environment.

In this article we therefore search whether IPO-related changes exist, and -if they exist- what type of changes are relevant. We searched IPO-related changes by asking corporate officers in The Netherlands to fill in a questionnaire. Their responses to the questionnaire indicate what qualitative organizational change was brought about by the preparation for the IPO and/or the listing of the company at the stock exchange. We then calculated the long-term performance of the individual companies from our sample and we studied whether IPO-based changes are related to long-term performance.

Section 2 presents the theory on IPO-related changes. Section 3 goes into the data and the methodology used. Section 4 shows the results from the questionnaires. Section 5 relates the questionnaire responses to the long-term performance measures used. Section 6 gives the summary and the conclusions.
2. IPO-related changes

In this article we take the stance that an IPO will create changes within a company. There are several reasons for this. First, IPO-shareholders are not only cashing in or aiming at an improved liquidity for their stock. Though some shareholders may prefer to sell their stock holdings completely at an IPO, very often a company goes public with the will also to foster performance. Primarily an increase in solvency, the need to finance capital projects more easily and the creation of liquid funds for eventualities and take-overs is often mentioned in these situations [see e.g. Jaffeux, 1992].

Second, investment bankers and others may advise management on improving performance, while more qualified (and costly) advisors are often attracted for the preparation of the IPO. These experienced outsiders may really increase the knowledge of the management. They scrutinize the strategies as well as the management itself. Such a quality impulse will benefit company performance. The fact that a higher reputation of investment bankers not only reduces underpricing but also diminishes long-term underperformance [Carter, Dark and Singh, 1998] is indicative for this.

Third, an IPO introduces new groups of investor related stakeholders (like investment analysts and managers of mutual funds and pension funds) to the company. These new groups will minutely examine the results and the performance (of the officers of) the company. In order to fulfill the demands of these new groups companies may try to improve the quality of (financial) information and to speed up the information processing internally, while investor relations become relevant.

Finally, stock exchanges require companies to agree with a listing code and they have to sign a listing contract. In particular an equal distribution of relevant (financial) information among all investors becomes very important and information cannot be provided to insiders without also informing outside investors. This means that companies may have to reconsider their public relations and information policy.

Though not all of these changes ameliorate performance automatically, the potential for IPO-related improvements exists. This potential may be valued as a real
option at the IPO-date. It is not certain that the option will get “in the money” later, but after some time investors will learn which companies adapt adequately to the new capital market environment. If the potential for IPO-related improvements is not tapped, the companies become long-term underperformers. On the other hand, when companies harvest the IPO-potential the option comes “in the money” and in this case the companies will outperform the market.

With respect to this basic idea two remarks can be made. First, this approach is partly related to Welch [1989, 1996], who also assumes that investors will learn the true quality of the company during the first years at the stock exchange. Welch, however, uses investor learning in order to explain the underpricing phenomenon of an IPO in an asymmetric information setting with fixed company quality. In his paper only high quality companies can create shareholder value by affording itself the investment costs of underpricing the IPO. In our framework we do not assume that quality is fixed in advance, but that it may be improved by the IPO-process itself for the reasons mentioned above. Our research, moreover, does not focus on underpricing, but on the types of quality changes generated by the IPO and whether these can explain long-term performance. A second remark is that the IPO-related changes do not necessarily follow an IPO chronologically in time. In fact, quite some changes will be brought about by the preparation for the IPO, but whether these changes are improvements that create long-term investors' value can only be considered some time after the IPO.

3. Data and methodology

This section presents the companies of which the officers were interviewed, the data used as well as the methodology of retrieving the qualitative and quantitative results. It should be noted that IPO-related changes are not necessarily financial in nature. Innovations, improved marketing, better financial management, enhanced communications, and a modernized human resource management may all contribute to the long-term performance of a company after an IPO. Financial statements do not directly capture these aspects and may be of minor use as a source of data on organizational change. For
this reason we used questionnaires for studying the organizational IPO-related changes within a company.

The questionnaire was presented to officers of Dutch companies that issued public shares for the first time in the period 1987-1997. We only approached officers of IPO-companies of which the headquarters during the interview period existed in The Netherlands. We excluded companies that were created from mergers and stock-splits. This left us with 53 companies to study. For these companies we approached executive officers from the board of directors and officers from the (distinctive) board of supervisors.

Officers of 27 companies wanted to cooperate. Most of the time the interviewee was the CEO. The relatively high response rate of 51% can partly be explained from the fact that we were prepared to visit the respondents in order to present our questionnaire in the form of an interview. This procedure also gave us the certainty that the questionnaire was answered by the corporate officer him/herself.

The characteristics of the companies of which officers were interviewed can be compared to the companies of which no interview was granted. The results of these comparisons are presented in tables 1 and 2.

Table 1  The number of companies both in and out of the sample (classified according to the value of the IPO)

<table>
<thead>
<tr>
<th>IPO-value in million DFLa</th>
<th>&lt;100</th>
<th>100=&lt;Value&lt;200</th>
<th>&gt;=200</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>In sample</td>
<td>14</td>
<td>6</td>
<td>7</td>
<td>27</td>
</tr>
<tr>
<td>Not in sample</td>
<td>14</td>
<td>4</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>10</td>
<td>15</td>
<td>53</td>
</tr>
</tbody>
</table>

a one DFL is now valued at 0.45378 EURO.
Table 2  The number of companies both in and out of the sample (classified according to the period of the IPO)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In sample</td>
<td>10</td>
<td>5</td>
<td>12</td>
<td>27</td>
</tr>
<tr>
<td>Not in sample</td>
<td>8</td>
<td>6</td>
<td>12</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>11</td>
<td>24</td>
<td>53</td>
</tr>
</tbody>
</table>

Table 1 indicates that more than 50% of the IPOs involved values smaller than 100 million DFL in the period 1987-1997. The number of companies within the sample does not differ much from the number of companies out of the sample if IPO-value is considered. Table 2 indicates whether the sampled companies are representative for all companies when classified according to the sub-periods. We distinguished between two "hot issue" periods and one "cold" period [Ibbotson and Jaffe, 1975]. The period 1987-1989 as well as the period of 1994-1997 are relatively "hot market" periods. The number of companies within the sample in the various periods again does not differ largely from the number of companies out of the sample. From Tables 1 and 2 we conclude that the sample does give an adequate description of the Dutch IPO-market and that it is representative for the period studied.

Interviewing corporate officers on the changes caused by the IPO gives some methodological difficulties. First, interviewing one officer does not give a complete picture of the true situation of the company. Though that individual officer's perceptions on changes will come to the fore, it is not necessarily the perception of all corporate officers. Though at some companies more interviews were held, we decided to take into account here the answers given by only one officer. When we had a choice, we preferred executive officers but only if that person had knowledge on both the situations before and after the IPO.

Second, the interviews were held from October 1997 until March 1999. The first IPOs of the sample studied then had thus been listed at the stock exchange already for more than 10 years. Officers of the early listed companies were not all available for various reasons, but according to Table 2 this did not create an absence bias in the
sample. When the relevant officers were traced, the interviewees often mentioned that it might be difficult to distinguish between changes caused by the IPO and other concomitant changes. Nevertheless, all officers interviewed vividly remembered the IPO: for the officers it is normally a "once during a life-time" event. On the other hand, the officers of companies that received a listing more recently sometimes indicated that not all IPO-related changes could already be recognized. Because we stressed with both groups to take into account only IPO-related changes, we are confident to have at least a best ‘guestimate’ of these changes.

In calculating the long-term performance of the shares of the IPO companies we were confronted with the problem that a relatively small number of companies is listed at the Dutch (Amsterdam) stock exchange. This makes it impossible to find comparable listed companies. For this reason we decided to analyze under- and outperformance in another way. We estimated the parameters of the following (market) model:

\[ r_{it} = \alpha_i + \beta_i r_{mt} + \epsilon_{it} \]  

(1)

where:
- \( r_{it} \) = the percentage daily return of IPO company i at time t;
- \( r_{mt} \) = the percentage daily return of the stock market index at time t;
- \( \alpha_i \) = the autonomous growth component of company i;
- \( \beta_i \) = the beta of company i;
- \( \epsilon_{it} \) = the stochastic residual of company i at time t

The value of \( \beta_i \) represents the company beta and the constant term of equation 1 (\( \alpha_i \)) represents the autonomous daily growth independent of the development of the stock market index. If that constant term was positive we considered IPO company i to show outperformance, while a negative \( \alpha_i \) implied underperformance. Performance measured in this way does not eliminate any survivor bias in the sample, but it has the advantage to make the performance measurement independent of such bias. This performance evaluation procedure, moreover, makes the results independent of the choice of the
benchmark that, according to Ritter [1991], may alter the outcomes. The market model procedure implies that for normal (average) performing companies only the beta and the market returns determine the results. Companies with an equal beta that show higher or lower autonomous growth than might be expected from its beta and the development of the market index are, however, considered to be different from average companies in other aspects. By comparing the IPO-related changes of company i with that company’s \( \alpha_i \)-measure on long-term performance we hope to gain knowledge on these other aspects.

4. Results of the questionnaires

At the end of our qualitative questionnaire we asked with closed questions whether the IPO created qualitative changes within the company. Table 3 presents the relevant qualitative organizational aspects as well whether the aspect increased according to the corporate officers. Table 3 also shows that only four qualitative organizational aspects did change because of the IPO according to at least 50% of the respondents. Three of these IPO-related changes are concentrated in the field of financial management: ‘effectiveness and efficiency’, ‘planning and control of company results’ and ‘carefulness of capital budgeting’. Moreover, the fourth aspect of ‘openness of internal communications’ reflects according to the officers’ responses on the open questions the reporting with respect to financial variables and company performance. Because it is of paramount importance to distribute information on company performance evenly and in due time to the financial market, it is not amazing that three corporate officers even considered that the ‘openness of internal communications’ diminished. We therefore may conclude that IPO-related changes with respect to financial management and financial reporting are considered of highest relevance to the officers interviewed.
Table 3 The number of companies in which the aspect after the IPO was increased, unchanged or decreased according to the interviewed corporate officers

<table>
<thead>
<tr>
<th>aspect</th>
<th>Increased</th>
<th>Unchanged</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>5</td>
<td>19</td>
<td>0</td>
</tr>
<tr>
<td>Client orientation</td>
<td>10</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Alertness in the market</td>
<td>9</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Effectiveness and efficiency</td>
<td>13</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>Planning and control of company results</td>
<td>17</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Carefulness in capital budgeting</td>
<td>13</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>Clarity on what is relevant for settling</td>
<td>9</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Achievement- and task-oriented leadership</td>
<td>11</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Openness of internal communications</td>
<td>11</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Decentralized decisions</td>
<td>5</td>
<td>18</td>
<td>1</td>
</tr>
</tbody>
</table>

Some reasons can be suggested for the relevance of financial management. First, officers in a company are accustomed to use the financial language for communication. For this reason the interviewees may be biased to financial aspects. Second, officers may attribute the listing at the stock exchange as a period in which financial aspects come more extensively to the fore. Both the financing of the company as well as the investment by shareholders can be considered to induce a financial connotation and it is in line with the fact that IPOs are mainly studied by financial scholars. Third, though "innovation", "client orientation" and "alertness in the market" etc. are relevant for evaluating a company, these aspects may already have been vested within many companies before its shares are issued publicly and most company officers would then not mention these types of IPO-related changes.
5. IPO-related changes and performance

In estimating the market model (equation 1) we used dividend reinvested daily returns for the IPO companies as well as the dividend reinvested market index of the Central Bureau of Statistics in The Netherlands. All data were retrieved from Datastream®. We then estimated the market model for the newly listed companies during a maximum period of three years after the moment of listing with linear regression. For all calculations we used procedures from SPSS. We both measured the impact of the whole period of three years after introduction as well as that same period without the first five days in order to reduce the potential effect of underpricing. Both estimates showed minor differences in the magnitude and no different signs of $\alpha_i$ of the market equation. We therefore excluded the first five trading days in order to focus in particular on long-run performance. In table 4 we present a summary of the results of the coefficients ($\alpha_i$ and $\beta_i$) found from the regression analyses.

Table 4 Results of estimates of the market model for 27 IPOs in The Netherlands in the period 1987-1997

<table>
<thead>
<tr>
<th>Estimate of</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
<th># positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\alpha_i$</td>
<td>0.058</td>
<td>0.083</td>
<td>-0.093</td>
<td>0.228</td>
<td>19</td>
</tr>
<tr>
<td>$\beta_i$</td>
<td>0.585</td>
<td>0.334</td>
<td>0.124</td>
<td>1.511</td>
<td>27</td>
</tr>
</tbody>
</table>

$\alpha_i$ indicates the estimated autonomous average daily percentage returns of company $i$ during a maximum period of not more than 777 trading days one week after the introduction of the stock at the stock exchange. $\beta_i$ indicates the estimated beta of company $i$ according to market equation (1).

Table 4 indicates that the abnormal daily average return for all the IPOs investigated is small (0.058%) but significantly positive: with a one sample t-value of 3.655 it is significantly different from zero at the 0.001 level. The implied outperformance may be caused by the fact that we did not approach officers of one bankrupt company. It may,
however, also be a characteristic of the long-term performance of the Dutch IPOs because in total 19 companies were outperforming, while only 8 companies showed underperformance. Finding on average outperformance may also be caused by the fact that we found on average small beta's. The latter is more often found for IPO-companies from ex post measurements [Cotter, 1992], but it may make the calculated required rate of return concomitantly small and this may induce at the same time the autonomous $\alpha_i$ to be positive. The standard deviation is -according to Table 4- relatively large and the worst performing company showed underperformance on a daily basis of 0.093 percent, while the best performer gained 0.228 percent autonomous growth a day during a period of three years.

We made OLS estimates of the relationship between the autonomous growth term and the magnitude of the separate companies (in sales and in number of employees), but we did not find any significant relationship. We also searched for relations between long term performance and the background of the company. We used a background as a family firm and a background as a venture capitalists firm in the chi-square test from a cross tabulation procedure with either under- or outperformance. Neither background variable proved to be significant. Finally, neither the background variables nor a distinction between small and large companies showed significant chi-squares with a change in the organizational variables under study.

In order to learn whether the autonomous daily growth depended on any of the IPO-related changes of Table 3, we studied the relationships between the value of the autonomous growth component $\alpha_i$ and these changes. We first tested on normality of the alfa's amongst the 27 companies studied. The Lilliefors [1967] test gave a D-value of 0.139, implying that the $H_0$ assumption that $\alpha_i$ is normally distributed cannot be refuted. We then considered the average value of $\alpha_i$ among companies where an organizational aspect changed and the average value of that autonomous component if the aspect did not change according to the corporate officers. We used the t-tests for testing the equality of these means. Before proceeding with these calculations, we first used the Levene test for equality of variances. If Levene's test did not indicate differences in variances (at a 10%
significance level), we used the t-test for equal variances, but if it indicated different variances we used the t-test for different variances. The resulting t-values and the significance of the differences between the calculated means is also shown in table 5.

Table 5 The relation between a change in organizational aspects and performance (daily returns *100%)

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Average value of the autonomous component in companies where the aspect:</th>
<th>t-value of difference (and significance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>0.115 0.042</td>
<td>1.752 (0.094)**</td>
</tr>
<tr>
<td>Client orientation</td>
<td>0.053 0.061</td>
<td>-0.208 (0.838)</td>
</tr>
<tr>
<td>Alertness in the market</td>
<td>0.031 0.081</td>
<td>-1.394 (0.178)</td>
</tr>
<tr>
<td>Effectiveness and efficiency</td>
<td>0.065 0.024</td>
<td>0.600* (0.555)</td>
</tr>
<tr>
<td>Planning and control of company results</td>
<td>0.061 0.024</td>
<td>1.010 (0.324)</td>
</tr>
<tr>
<td>Carefulness in capital budgeting</td>
<td>0.071 0.041</td>
<td>0.834 (0.413)</td>
</tr>
<tr>
<td>Clarity on what is relevant for settling</td>
<td>0.079 0.042</td>
<td>1.067 (0.297)</td>
</tr>
<tr>
<td>Achievement- and task-oriented leadership</td>
<td>0.069 0.044</td>
<td>0.745 (0.464)</td>
</tr>
<tr>
<td>Openness of internal Communications</td>
<td>0.064 0.054</td>
<td>0.268* (0.792)</td>
</tr>
<tr>
<td>Decentralized decisions</td>
<td>0.075 0.040</td>
<td>0.838 (0.411)</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>0.068 0.045</td>
<td><strong>2.196b (0.056)</strong></td>
</tr>
</tbody>
</table>

a: variances differ according to the Levene's test  
b: t-value of a matched-pairs test over the 10 aspects  
** indicates significance at a 10% level.
The first column of table 5 indicates the IPO-related changes mentioned by the interviewed officers and presented in Table 3. The second column shows the average value of the autonomous growth component \((\alpha_i)\) of the market equation (1) in companies in which the concomitant organizational aspect changed because of the IPO. The third column shows the average value of that autonomous growth component if that aspect did not change according to the interviewed officers. The fourth column presents t-values for the differences in averages between column two and three as well as the significance level of that difference.

Table 5 shows that a reported change in innovation improves on average the autonomous performance of the companies significantly. The other organizational aspects do not show significant differences in average autonomous performance between companies where the IPO-related change was found and the companies where it was not found. The negative relations between the aspects of client orientation and alertness in the market are unexpected: IPO-induced ‘wake-up calls’ on these organizational aspects may be rather late. The negative evaluation in the stock market of these aspects may indicate that the client and market consequences of the listing are unexpected and create additional costs.

Table 5 also shows that relative large, but insignificant, positive differences were in particular found if the IPO induced changes in effectiveness and efficiency, in planning and control of company results, in capital budgeting, in clarity on settling and in decentralized decision making.

By averaging the average autonomous components of the ten organizational aspects we found a value of 0.068% on a daily basis with companies where the IPO-related changes were found, while the concomitant average was only 0.045% for companies in which these changes were not reported. Therefore the ten changing aspects induced on average a positive effect of 0.023. A matched pairs t-test indicated a t-value of 2.196, representing a two-tailed significance of 0.056. From this we conclude that companies with IPO-related changes on average show higher autonomous growth and that they are more likely to be outperformers.
6. Summary and conclusions

Long-term performance of IPOs may have many causes of which some are documented in the literature. The possibility that an IPO itself may cause the company to change is, however, neglected and no information is available on what changes can be expected. In this article we present the results of a survey on IPO-related organizational change amongst 27 corporate officers of companies that received a listing at the Amsterdam Stock Exchange during 1987-1997. The interview method used is apt for countries with a small number of companies listed and when non-financial variables are relevant in explaining performance.

On four organizational aspects the respondents mentioned more than 50% of the time a change. These most relevant IPO-related changes are related to financial management and to financial reporting as they comprise changes in effectiveness and efficiency, planning and control, capital budgeting and internal communications (on company performance). Companies where the respondents reported changes in these organizational variables showed an above average long-term performance, but the relationships were not significant. In companies where the IPO induced innovation, the long-term performance, however, increased significantly. Moreover, the performance of companies was on average significantly higher in those companies where the respondents reported changes on the 10 aspects.

The first conclusion of this paper is that much IPO-literature is focussed on underperformance, while the real issue is that of long-term performance. Long-term performance is not only based on company products, markets and financing, but originates also from within the company. This research finds that an IPO (or the preparation for an IPO) can cause changes within a company. These IPO-related changes are not necessarily financial but they can contribute positively to long-term performance. This conclusion conveys a recommendation to officers of companies that hope to go public. As the IPO is a major event in the development of a company, it may be used to create preferred organizational change.
Our study, secondly, shows that the corporate officers from The Netherlands stress financial management related change, though other IPO-related changes are relevant too. The IPO-related organizational changes in general prove to be significant long-term value drivers in The Netherlands. Our conclusion is therefore that realized organizational change can be a relevant post-IPO value driver.

Thirdly, many company characteristics -like magnitude and background- can be observed before the IPO-date but they did not correlate significantly with long-term performance. If this observation would hold for all ex-ante known company characteristics, the IPO-market may be more efficient than mainstream empirical research implies when observing long-term underperformance. A company that does not generate organizational change will show underperformance and it is possible that the majority of companies are relatively unaffected by the IPO. If the IPO, however, generates change within the company, investors may notice improvements over time and they may then reward the company with relatively large increases in share prices.

As our paper is -to the best of our knowledge- the first to study IPO-related organizational changes, we do not expect to have been able to present all the potential interesting effects of IPO-related organizational change. Moreover, the population researched and the effects found are relatively small. Therefore, we hope to welcome further studies from various industries and countries on this aspect.
References


