



All the power in two hands: The role of CEOs in family IPOs



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ABSTRACT

The aim of this paper is to analyse how and if powerful CEOs affected IPO valuation in family firms that went public recently. To this end, we draw upon stewardship theory and make inferences based on a sample of family firms' IPOs that occurred on the Milan Stock Exchange between 2000 and 2011. By employing Finkelstein's (1992) framework, we rely on four sources of power (structural, ownership, expert and prestige) to build a multidimensional indicator of CEO power. Considering that such power is not directly observable, we use structural equation modelling as estimation methodology. Our findings reveal that outside investors positively evaluate the presence of a powerful CEO in the transition from private to public ownership. As such, if a family member serves as CEO the relationship is strengthened, while with a co-leadership structure IPO evaluations are less affected. Finally, the presence of a CEO who is also part of the family maximizes investor evaluations.

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1. Introduction

The influence of CEO leadership over corporate outcomes has been the subject of considerable research. Historically, this issue has been at the crossroads of two research fields, finance (e.g. Brickley, Coles, & Jarrell, 1997a, 1997b) and management (e.g. Finkelstein & Hambrick, 1996). While the former relies, mainly, on firm performance, the latter devotes significant attention to entrepreneurship choices. Since the introduction of the entrepreneurial orientation (Miller, 1983) construct scholars advocate the centrality and the prominence of CEO's role (Chatterjee & Hambrick, 2007; Simsek, 2007). Despite over a dozen studies, Simsek, Jansen, Minichilli, and Escriba-Esteve (2015, p.467) claim that the influence of CEO leadership on "corporate entrepreneurship has been relatively less addressed in comparison to top management teams or board of directors". In this vein, the Initial Public Offering (IPO, henceforth) (e.g. the transition from a private to a public ownership) research field represents an emblematic case. In fact, several studies assess the role of the board of directors (BoD, henceforth) on corporate outcomes at the time of IPO (e.g., Baker & Gompers, 2003; Mak & Roush, 2000; Filatotchev & Bishop, 2002),

while another stream of studies considers the top management team (TMT, henceforth) (e.g., Cohen & Dean, 2005; Lester, Certo, Dalton, Dalton, & Cannella, 2006; Zimmerman, 2008). Unsurprisingly, to date, only scant studies consider the influence of CEO leadership. However, they univocally focus on the role of the founder CEO (e.g. He, 2008; Jain & Tabak, 2008; Nelson, 2003). While founder status may and may not be part of executives' leadership, in his seminal paper, Finkelstein (1992) introduces the concept of power as an essential component of upper echelon executives' leadership. The power is "the capacity of individual actors to exert their will" (Finkelstein, 1992, p. 506). Although the notion of powerful CEO is well rooted in management literature (Daily & Johnson, 1997) it is quite a novelty in IPO research filed where scholars encourage new studies and call for a deeper understanding (Bach & Smith, 2007).

Going one-step further, CEO leadership is especially relevant in family firms (Miller, Minichilli & Corbetta, 2013). In such firms, CEO is quite often the dominant leader (Voordeckers, Van Gils, & Van den Heuvel, 2007) and Feltham, Feltham, and Barnett (2005) highlight that success for family company may depend from degree of dependence on its leader. The evidences of Salvato (2004) show that family entrepreneurship is indissolubly related with CEO individual characteristics.

The decision to take the firm public (e.g. the first sale of a company's shares to public investors) is, by definition, a strategic entrepreneurial choice (Lester et al., 2006). In this context,

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powerful leadership may serve as shield to protect firms against “liability of market newness” (Certo, 2003). In this sense, Certo, Holmes, and Holcomb (2007) remark that CEOs have also the power to influence potential investors’ investment. In light of all this, IPO activity is fundamental because it provides a noteworthy contribution to both the growth of equity market and promotion of entrepreneurial activities (Zingales, 1995). The entrepreneurial transition from a private to public ownership is crucial for family firms that want to attract new equity and achieve superior growth opportunities (Mazzola & Marchisio, 2002). Therefore, the role of powerful CEO assumes greater importance to provide new capital inflows via higher IPO valuations.

We take advantage of IPO context to answer the following research question: are powerful CEOs beneficial to investor evaluations of family IPOs? While literature devotes significant efforts to demonstrate that powerful CEOs influence financial performance (Daily & Johnson, 1997), there still exists a gap in our understanding of CEO power and IPO performance. This research aims to fill it.

In a stewardship framework, we argue that a powerful leader could foster trust among potential outside investors and reduce uncertainty. We use a sample of 77 family firms that went public on the Milan Stock Exchange between 2000 and 2011. We rely on Italian institutional setting to develop our hypotheses. The massive presence of family ownership as well as the introduction (1999) and the implementation (2002, 2006 and 2009) of the Corporate Governance Code, makes this market an ideal setting to investigate the CEO role in the transitional stage of IPOs (Cirillo, Romano, & Ardovino, 2015).

In our study, CEO power refers to a multidimensional construct (Finkelstein, Hambrick, & Cannella, 2009). Using an exploratory factor analysis, we consider four types of power: ownership, structural, expert and prestige. Since CEO power is not directly observable (Liu & Jiraporn, 2010), we employ structural equation modeling to infer our conclusions.

This research is designed to analyse investor response to the presence of a powerful CEO, namely, we operationalize IPO value in the short term using two measures: IPO premium and Market to Book ratio. These measures are designed to capture how external investors ‘price’ the firm at listing stage. We define family owned IPOs and evaluate family involvement in ownership and managerial positions. We also study the moderating effects of familiar leadership and the role of a co-leadership structure. Given these premises, our results suggest that a powerful CEO fosters IPO value, that the positive effect is stronger when a family member manages the firm and when leadership is not shared (e.g., absence of co-leadership). Moreover, the presence of a family CEO without a co-CEO strengthens the positive relationship between CEO power and investor evaluations. To the best of our knowledge, this is the first paper that addresses the role of powerful CEOs at the entrepreneurial stage of IPOs in family owned firms.

Our paper extends family business and strategic leadership literature in three ways. First, we contribute to the ongoing debate on family firm heterogeneity from a different standpoint and in a leadership perspective. Miller et al. (2013) highlight the tendency to compare family to non-family counterparts, which may lead to underestimating fundamental intra-family differences. By considering different configurations of family leadership (e.g., moderating effect of family CEO and co-leadership structure), we embrace the general suggestion of Melin and Nordqvist (2007) to further investigate heterogeneity among family firms. Moreover, we ideally respond to calls in IPO literature (e.g., Jaskiewicz, González, Menéndez, & Schiereck, 2005; Leitterstorf & Rau, 2014) that recommend studying how different configurations of governance mechanisms in family businesses impact on investor perceptions. Collectively, our results advance our understanding of how family

firms are differently “priced” by external investors in relation to different leadership styles. Second, this study provides evidence on family leadership (CEO) at the entrepreneurial stage of IPOs. Naldi, Cennamo, Corbetta, and Gomez-Mejia (2013) demonstrate that the impact of family CEO on performance is contingent on the context and find considerable differences for listed and non-listed firms. Along this line of research, we shed light on how family leadership at the apical level affects investor evaluations in the transition from private to public ownership. Furthermore, our analysis contributes to strategic leadership literature by taking into account the effect of co-leadership on IPO value. Considering the moderating effect on the relationship between CEO power and investors enables extending the findings of Miller, Breton-Miller, Minichilli, Corbetta, and Pittino (2014).

The remainder of the paper is structured as follows. Section 2 provides our theoretical framework and develops the hypotheses. In Section 3, we offer an overview of the database construction and explain in detail the methodology used. Section 4 shows and discusses the results. The last Section summarizes our work and identifies future research lines.

2. Theoretical framework and hypotheses development

2.1. Leadership in family firms: a stewardship perspective

Stewardship as a theoretical perspective is rooted in psychology and sociology. It admits the convergence of interests between managers and shareholders. The former are driven by financial and non-financial motives such as job satisfaction and recognition. This theory interprets managers as trustworthy stewards and posits that the human need for responsibility and achievement will outweigh opportunistic interests (Davis, Schoorman, & Donaldson, 1997). In essence, the utility obtained from acting in the interests of the organization offsets that obtained from acting against it. The stewardship framework describes organizations where stewards aim to increase shareholder wealth rather than seeking personal gratification (Nicholson & Kiel, 2007) with managerial intentions that are pro-organizational instead of self-serving (Abels & Martelli, 2013). In this line of research, scholars argue that an authoritative decision-making process combined with the strong leadership of individuals fosters higher firm performance (Donaldson & Davis, 1991). That is, CEO activities are facilitated when the governance mechanisms grant greater authority and autonomy (Sundaramurthy & Lewis, 2003).

These circumstances are likely to manifest in family firms where family members are generally more inclined to sacrifice personal objectives to develop long-term strategies (Miller & Le Breton-Miller, 2005), which also reduces managerial myopia (Stein, 1989). Furthermore, the family’s concern for subsequent generations may increase a stewardship orientation with a positive effect on corporate outcomes. As Corbetta and Salvato (2004) suggest, this framework could be particularly suitable in a context of concentrated family ownership. Advocates of stewardship theory claim that the CEO exerts the most powerful influence on the family firm’s strategy, while Voordeckers et al. (2007) indicate the CEO as the dominant person among family members and outside managers. Prior literature focuses on powerful CEOs (e.g., duality leadership) and their general impact on performance (Braun & Sharma, 2007), recognizing a beneficial effect of strong CEO leadership in family businesses. In the family context, a powerful CEO may play a key role in the selection of managerial team members and may exercise greater influence on the board (Finkelstein & Hambrick, 1996). In private family firms, strategic leadership may be largely limited to family members while in publicly listed companies such leadership may go beyond the dichotomy of family-owner,

involving in external and professionalised managers (Miller et al., 2014). In the transition from a private to a public ownership, the role of CEO in family firms is an underdeveloped topic, despite its crucial importance (Certo et al., 2007). This research seeks to provide an understanding of apical leadership's impact on IPO value.

2.2. Going public: the family perspective

Why do firms go public? This question has guided much of previous literature in finance (e.g. Pagano, Panetta, & Zingales, 1998) and management (e.g. Certo, Holcomb, & Holmes, 2009) while, to date, limited attention is devoted to such theme in family business (Mazzola & Marchisio, 2002). Considering, as Villalonga and Amit (2006) prove, that family firms dominate economic activity all over the world, the analysis of their listing process is a crucial issue (Leitterstorf & Rau, 2014).

On one hand, family firms are more successful at corporate entrepreneurship than others (Nordqvist, 2005). On the other, such firms are reluctant to strategic and organizational changes (Vago, 2004). Given that IPO transition can be defined as an entrepreneurial change (Certo et al., 2009), the application of previous concepts to the family IPOs may result in conflicting arguments. On this avenue, Boehmer and Ljungqvist (2004) suggest that firms whose controlling shareholder enjoys large private benefits, such as family owned companies, are less likely to go public. Likewise, family control enforces capital constraints that can curb family firms from funding entrepreneurial activities (Carney, 2005) such as IPO. Jain and Shao (in press) reveal that families are less prone to raise external capital (both equity and debt) at IPO stage in order to preserve control and perpetuate family dynasty. Contrasting these views, Mazzola and Marchisio (2002) claim that going public may provide to family a relative advantage position within its network of relationships; the authors observe that another reason that fosters family business to go public is the presence of external favourable conditions (e.g. the presence of tax breaks or a favourable trend of the stock exchange). By the same token, Mahéruault (2000) finds that family IPOs are more capable to catch growth opportunity than non-family counterparts. Likewise, Cirillo et al. (2015) provide evidences of positive relationship of family involvement and IPOs valuation.

Straddling these two views, family business literature stresses the founder's role. In family companies, DeTienne and Cardon (2012) reveal that the choice to go public, as an entrepreneurial exit strategy, depends on founder's human capital. But, as Bertrand and Schoar (2006) prove, is difficult for founder to leave his/her creature (firm). The founder's shadow (Davis & Harveston, 1999) may generate intergenerational conflict resulting in sub-optimal entrepreneurial choice. Furthermore, Jaskiewicz et al. (2005) offer a different perspective: German family firms with two or three founders decide to go public younger.

At the balance, literature offers limited and uncompleted evidences on the topic. This can be because "the determination of family control in IPOs is difficult, time consuming and somewhat subjective" (Astrachan & McConaughy, 2001, p.310). The present study aims to advance the current knowledge within this research area, by exploring the role of powerful CEO in family IPOs. To the best of our knowledge, there is no study that have examined this topic.

2.3. The role of powerful CEOs in IPOs

Prior literature has demonstrated the existence of a relationship between top executive characteristics and IPO value (e.g., Certo et al., 2007; Lester et al., 2006; Zimmerman, 2008), yet scholars still debate the impact of CEO characteristics on investor evaluations at the IPO stage (Yang, Zimmerman, & Jiang, 2011). A sense of

uncertainty among investors permeates the transition from closely held private ownership to more dispersed public ownership (Certo, 2003). In this context, Nelson (2003) suggests that not only the structural characteristics of the firm but also its behavioural aspects (e.g., managerial abilities) act as a potential signal to reduce scepticism on IPO future performance. Likewise, more capable management could serves as a "protective shield" (Yang et al., 2011) for the firm during the IPO process.

In addition to the management role, literature offers evidence of the greater importance of the characteristics of the leader with respect to those of the group (Cannella & Holcomb, 2005). This is especially relevant in the context of family-owned businesses where CEO leadership influences corporate outcomes (Voordeckers et al., 2007). Since the IPO is a crucial point in the evolution of entrepreneurial firms, it is reasonable to infer that CEOs play a central role in shaping the view of the firm (Bruton, Fried, & Hisrich, 1997) and that their role is preeminent (Andrews & Welbourne, 2000).

Extensive focus has been placed on the role of the founder CEO at the IPO stage. This line of research is rooted in the idea that the founder CEO is a unique governance mechanism since s/he created the company and is thus more entrenched than outside CEOs. This phenomenon therefore calls for analyses through different economic lenses (Gao & Jain, 2012). Within this research stream, Jain and Tabak (2008) discuss whether a firm should adopt a CEO founder structure on issuing an IPO. They find that both governance and ownership structures are crucial in this decision: the probability of hiring a founder CEO is higher when the board is less independent, while the probability is lower when managerial ownership is higher. Moreover, literature disentangles the effect of the CEO figure on different corporate outcomes. Nelson (2003) demonstrates that founder CEOs generate positive market reactions. She shows a positive correlation between founder executives and IPO value (measured in the short term). He (2008) finds that founder CEOs lead to greater financial performance and help firms overcome the "liability of newness" (Nelson, 2003); founder-managed IPOs are thus more likely to survive. Gao and Jain (2012) look at the market for corporate control and suggest that founder CEO behaviours are motivated by the desire to maximise the acquisition premium of post-IPO firms. Fischer and Pollock (2004) support the idea that greater ownership concentration in the hands of the founder CEO will reduce the likelihood of IPO failure.

These studies consider the founder CEO as an "asset" instead of a "liability" during the firm's transitional period. However, literature also offers contrasting results recognizing that founders may lack adequate experience or professional skills to lead new firms in an IPO process. Certo, Covin, Daily, and Dalton (2001) find that founder CEOs are associated with a higher level of underpricing than non-founder CEOs. Chahine, Filatotchev, and Zahra (2011) find similar results where underpricing increases with founder CEO ownership.

In view of the abundance of literature on founder CEO and IPO characteristics, one may conclude that this role is a good proxy for powerful CEOs. It can be argued in this light that founder CEOs exert greater influence on the board, on employees and on stakeholders due to their longer tenure and the unique knowledge of their "creature". However, Finkelstein et al. (2009) suggest considering CEO power as a construct rather than a single factor: they maintain the need for multidimensional measures. Nevertheless, in management literature we note that scholars often refer to CEO power using individual proxies (Lewellyn & Muller-Kahle, 2012). Entrepreneurial studies on IPOs examine CEO ownership (e.g., Certo, 2003), CEO duality (e.g., Fischer & Pollock, 2004) and CEO tenure/experience (e.g., Brouters, Brouters, & Werner, 2000). These studies rely on the concept of CEO power defined as the ability to centralize and reinforce the decision-making power in the hands of the CEO (Liu & Jiraporn, 2010). In contrast, in his seminal paper,

Finkelstein (1992) identifies four dimensions of CEO power: ownership, structural, expert and prestige. In order to disentangle the role of powerful CEO at transition process of IPO in family firms, we rely upon multidimensional approach and consider all the four above dimensions to construct CEO power measure.

2.3.1. CEO ownership power

Ownership is a key factor in the power building process and designates the kind of power exerted by CEOs and top external shareholders (Tosi et al., 1999). A CEO with significant ownership power may reduce the board's ability to interfere in corporate affairs (Finkelstein, 1992). Ownership power may also favour the appointment of board members whose views are more aligned with those of the CEO, where the board must be seen as "the ultimate legal authority with respect to decision-making in the firm" (Adams & Ferreira, 2007, p.218). Large equity ownership of CEOs reduces the likelihood of new firms failing (Hitt, Biermant, Shimizu, & Kochhar, 2001). Roosenboom and Schramade (2006) empirically demonstrate that post-IPO CEO ownership has a beneficial effect on firm value. In high-technology IPOs, CEO ownership power is positively related to after-IPO survival (Bach & Smith, 2007). Latham and Braun (2010) find that CEO ownership alters decision-making behaviours, namely, powerful CEOs are more likely to forgo IPOs in weak capital markets regardless of the interest of other shareholders. Roosenboom's (2005) findings are coherent with the idea that a dominant CEO has the power to influence board composition. He shows that the higher the post-IPO CEO ownership, the lower the presence of independent directors. Chahine and Goergen (2013) disentangle the impact of board ties on IPO value and find a positive effect of CEO ownership on firm value.

2.3.2. CEO structural power

Structural power refers to the influence that CEOs have over the board, top management team and, more generally, depends on their role in the firm (Daily & Johnson, 1997). Finkelstein et al. (2009) argue that scholars often adopt a dual leadership structure to proxy for structural power. On one hand, CEO duality fosters a clear sense of strategic direction and reinforces leadership. Mak and Roush (2000) find that firms with dual leadership are more likely to grow after the IPO. On the other hand, Howton, Howton, and Olson (2001) argue that this overlap of positions (e.g., chairperson and CEO) may reduce board monitoring and exacerbate conflicts, but they do not find a statistical correlation between CEO duality and IPO value. Chahine and Tohmé (2009) show that CEO duality increases IPO underpricing but this turns into a positive sign when strategic ownership (e.g., corporations and other industry-related investors) moderates the relation between the duality structure and IPO performance. According to Lin and Chuang (2011), dual leadership in emerging economies decreases IPO value. Bach and Smith (2007) show a negative association between CEO duality and the likelihood of post-IPO survival in high-technology industries.

2.3.3. CEO expert power

Expert power indicates the influence on the decision-making process exercised by professional skills as well as by specific knowledge of the company and its sector. It also refers to the CEO's ability to deal with environmental contingencies and thus contribute to the firm's success (Finkelstein, 1992). Several studies consider CEO tenure as a proxy for CEO power (Shen, 2003). Longer tenure may signal greater professionalism and superior skills, tenured CEOs therefore strengthen their bargaining power with the board (Lehn & Zhao, 2006). Zona (2014) proves that tenured CEOs exert greater power over boards. Yang et al. (2011) find that firms led by experienced CEOs go public via IPOs earlier than those with less expert CEOs. Filatotchev and Bishop (2002) suggest that CEO

experience is pivotal in the board selection process at the IPO stage. This result confirms the power the CEO figure exerts on the management team. Chahine and Goergen (2013) obtain the opposite evidence as they find a negative association between IPO premium and CEO tenure. Along the same research line, Johnson and Yi (2013) indicate that IPOs with higher relative valuations are those with shorter CEO tenure.

2.3.4. CEO prestige power

CEO's reputation is at the heart of the concept of prestige power (Finkelstein, 1992). To proxy for the prestigious status of CEO, or board members, scholars often rely upon the notion of interlocking directorship (Chahine et al., 2011). The level of prestige power is associated with the concept of being connected to prestigious entities and networks (Lewellyn & Muller-Kahle, 2012). The involvement in boards outside the firm guarantees to CEO the access to crucial information by interacting with other top executives. If this is the case, CEO may provide a useful channel for the inter-firm exchange of strategic information knowledge (Geletkanycz & Hambrick, 1997), or facilitate the findings of prestigious financing sources. The prestige derives from the strong social ties in such upper echelon networks (Granovetter, 1985) and it may depend from the structure of relationship between and among directors (Fischer & Pollock, 2004). Thus, Tang, Crossan, and Rowe (2011) assert that CEO power is a relational construct rather than an individual-level construct, confirming the importance of prestige power. Certo (2003) maintains that prestige of top managers fosters the leadership quality that enables the post-IPO success. Within this stream of research, Chahine et al. (2011) find a positive association between IPO performance and this source of power while Bach and Smith (2007) reveal that prestige power increase the likelihood of post-IPO survival.

All the measures analysed capture some aspects of power. However, Finkelstein et al. (2009) claim that there are no theoretical foundations to sustain that one of these measures better captures the overall concept of CEO power. We hence define power as "the capacity of individual actors to exert their will" (Finkelstein, 1992, p. 506). As this definition does not lend itself to a natural and univocal classification of CEO power, we adopt a multidimensional construct that encompasses four sources of power: ownership, structural, expert and prestige.

Literature has flourished on the topic of CEO founders and their impact on IPO value but rarely questions whether and how other CEO characteristics affect investor valuations. Moreover, the lens of CEO power has rarely been used to assess IPO evaluations of family firms. A shortcoming of the reviewed literature is that it fails to disentangle the influence of CEO leadership on investor investment decisions in family owned IPOs. Based on the above argumentations, our paper fills the gap in literature about CEO leadership in family firms that go public.

2.4. Powerful CEOs and IPO value

CEOs potentially have the power to influence and determine the strategy and the performance of their businesses. On one hand, the presence of a powerful CEO is beneficial in terms of reducing conflicts, fostering strong trust between directors and clarifying decision-making authority (Daily & Dalton, 1993). On the other hand, diluting CEO power can be costly as it reduces the probability of superior firm performance (Adams, Almeida, & Ferreira, 2005).

Powerful CEOs are more inclined to be subject to what Hayward, Rindova, and Pollock (2004) define as "CEO celebrity". It is the tendency of the press (e.g., journalists) to assert that the firm's positive performance is a direct result of the CEO's actions. The benefit of such celebrity status in the IPO process is in greater

media coverage. Dutton, Dukerich, and Harquail (1994) argue that media reports are crucial to the way stakeholders evaluate firms and build their reputations.

From a stewardship perspective, a powerful CEO guarantees “a sense of direction for his firm that will both help him make difficult day-to-day decisions and reduce uncertainty” (Bourgeois & Brodwin, 1984, p. 244). In the context of an IPO, the reduction of uncertainty may have a positive effect on stakeholder evaluations since this implies a less risky investment. Powerful CEOs are less subject to removal, less inclined to hide information on their behaviour and the firm's real status, and provide more transparent information (Armstrong, Balakrishnan, & Cohen, 2012). At the IPO transition stage, this could imply that in addition to the IPO prospectus, investors find a reliable and alternative source of data in the figure of the CEO. Moreover, the communication to equity markets of strong firm leadership would allow the firm to attract more capital (Daily, McDougall, Covin, & Dalton, 2002). In this sense, CEO structural power helps establish strong decision-making authority and unity of command. Expert power provides CEOs with rich knowledge and helpful tools for strategic decision-making. Pitcher and Smith (2001) demonstrate that the strategic actions of less experienced CEOs lead to a rapid decline in performance. On the board side, Hermalin and Weisbach (1998) argue that the equilibrium level of monitoring decreases as CEO expert power increases since board members are aware of the CEO's competences and tend to allow greater flexibility and independence in decision-making. Combining these two sources of power (structural and expert) enables CEOs to make timely and optimal decisions (Brickley et al., 1997a, 1997b). Timely decisions are crucial to success in the context of environmental uncertainty, as in the case of IPOs (Lester et al., 2006). Moreover, ownership power encourages CEOs to focus on long-term objectives. Managers with significant ownership are more likely to accept a lower salary (Gomez-Mejia, Tosi, & Hinkin, 1987) so their wealth strictly depends on the firm's performance. Negative performance could inhibit their wealth increase.

Given this logic, we hypothesise:

Hypothesis 1. *The presence of a powerful CEO has a positive effect on IPO value.*

2.5. Family CEOs: the power in their hands

Family CEOs are assumed to have stronger psychological attachment and commitment to the company than outside CEOs. CEO power and dominance in the management team is higher for family CEOs than for outside managers (Minichilli, Corbetta, & MacMillan, 2010). Miller et al. (2013) show that in the case of concentrated ownership, firms managed by family CEOs outperform those managed by outside CEOs. Literature offers considerable evidence supporting the idea of the superior performance achieved by family leaders (e.g., Villalonga & Amit, 2006). Moreover, family CEOs also have the power to engage easier and faster in potential business relationships (e.g., without formal or written agreements) compared to non-family outside professionals (Naldi et al., 2013). Closeness and familiarity with the firm may also increase the family CEO stewardship attitude towards the business (Gómez-Mejia, Haynes, Núñez-Nickel, Jacobson & Moyano-Fuentes, 2007). Altruism among family members fosters greater goal alignment and inhibits the opportunism (if any) of family CEOs. Drawing on stewardship theory, Braun and Sharma (2007) state that in family controlled firms, outside investors may benefit from clear and unambiguous leadership.

Family firms tend to go public to expand the capital base with lower costs than external financing rather than to attract potential

successors (Rigamonti, 2008). Family CEOs will pay more attention to preparing the IPO process as its success could be crucial to the family firm's survival in the long-term. Being part of the controlling family is a great incentive for CEOs as they are strongly motivated to accomplish future investor requirements. Families may also achieve the objective of increasing reputational and social capital through the IPO (Marchisio & Ravasi, 2001) and are therefore more concerned about potential investor evaluations. A powerful CEO who is also a family member may be able to lead the transition with a clear focus on value. From the market perspective, family IPOs come under pressure to demonstrate the economic validity of their strategies; the appointment of a family CEO could act as a mechanism to ensure the long-term orientation of new firms.

In view of the differences between family and outside CEOs, we maintain the importance of considering family leadership and study the moderating effect of family CEOs.

Based on the aforementioned arguments, we predict:

Hypothesis 2. *The positive effect of a powerful CEO on IPO value becomes stronger in the presence of a family CEO.*

2.6. Co-leadership structure and powerful CEOs

The concept of co-leadership may appear counterintuitive as leadership is by definition an individual trait (O'Toole, Galbraith, & Lawler, 2002). However, in the context of family businesses, it is not unusual for a firm to have more than one CEO (Miller et al. 2014). This can be particularly the case when there is more than one generation involved in firm governance. In the stewardship framework, a co-leadership structure violates the “unity of command” (Fayol, 1949) and may be detrimental to the decision-making process that would be less timely and efficient. The direct effect of such leadership is weakening CEO power (Worrell, Nemeč & Davidson, 1997). Shared leadership generates confusion among stakeholders on the lines of authority (Galbraith, 1977). During the IPO process, the lack of clear leadership could potentially outweigh the benefits of having a powerful CEO. The co-leader could also contend the power of the other CEO with negative consequences on performance. Hambrick and Cannella (2004) note that a shared leadership structure is less likely to occur with a powerful CEO. It is also arguable that the co-presence of more powerful managers may reduce any individual CEO's efforts (Aghion & Tirole, 1997). The competition that may occur between co-leaders is also detrimental for the board as it could reduce the monitoring function (Zhang, 2006) from higher to lower levels (e.g., monitoring of the CEO by other executives). These arguments lead us to formulate the following hypothesis:

Hypothesis 3. *The positive effect of a powerful CEO on IPO value becomes stronger in the absence of a co-leadership structure.*

Fig. 1 summarizes our hypotheses and the postulated relationships between CEO power, moderating factors and IPO value.

3. Data and sample

3.1. Dataset

The starting sample consisted of 170 firms that conducted IPOs on the Milan Stock Exchange in the period 2000–2011. We purposefully began our analysis from 2000 due to the introduction of the Code of Corporate Governance issued by the Italian Stock Exchange in 1999 as well as the Draghi reform that took place in 1998. Cattaneo, Meoli & Vismara (2014) verify that these two normative actions led to a significant improvement of new listings and

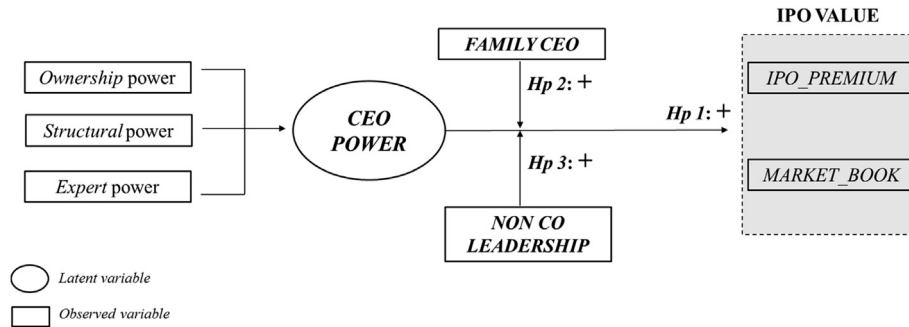


Fig. 1. CEO Power and IPO value: summary of hypotheses.

increased post-IPO survival.

We excluded firms in the financial industry (SIC code 6000–6799, for 23 observations). The sample was also purified of foreign firms (3 observations) as we intend to investigate the IPO value of Italian firms. A further 31 observations were excluded as we were unable to obtain their IPO prospectuses.

We take advantage of the Italian setting to conduct our study for several reasons. First, family entrepreneurship is the prevalent construct for firms that go public (e.g. [Giovannini, 2010](#); [Mazzola & Marchisio, 2002](#)) and listed family firms account for 60% of total market capitalization (CONSOB, 2013). Second, due to the absence of a vibrant IPO market in previous years ([Cattaneo et al., 2014](#)), CONSOB is now trying to relaunch the country and renew the growth through new listings of small and medium firms, as family firms typically are. Third, beyond the classic duality of ownership structure–firm performance, scholars are now shifting their attention to the role of CEOs and their impact on companies' outcomes within Italian family firms ([Miller et al., 2014](#)). In light of all this, the present study has a strong motivation to examine if powerful CEOs serve as a protective shield (e.g. reassuring external investors and foster valuation) in family firms that go public for the first time to Milano Stock Exchange.

The considerable presence of block-holders is characteristic of the Italian market. When defining family firms, both equity and managerial involvement must be considered. Following [Cascino, Pugliese, Mussolino, and Sansone \(2010\)](#), we identify family firms when two conditions exist simultaneously. First, one or more members of the family must control at last 30% of voting rights and second, one or more members of the family must be involved in the top management team. We focus on this threshold because Italian Law “Decreto Legislativo 58/1998” requires a level of 30% for a public tender offer and [Minichilli et al. \(2010\)](#) use this threshold to define family firms. We thus make inferences on 77¹ family owned IPOs.²

Data were collected from the IPO prospectuses. This source has been widely used in previous literature (e.g., [Lester et al., 2006](#)) as it discloses information that is freely accessible to investors and other

parties ([Beatty & Zajac, 1994](#)) and perfectly fits our research question.

3.2. Dependent variables

In coherence with our research question, we quantify IPO value from the external investors' perspective. We refer to short-term IPO performance, which enables us to consider only measures based on the first-day trading price (e.g., offering or closing price). In our analysis, we employ two proxies. First, we rely upon market perceived value: to assess investors' valuation of IPO we use IPO Premium (*IPO_PRM*). [Certo et al. \(2009\)](#) claim that conventional measures fail to account for book value of equity or asset and they may offer a distorted representation of real value. We tackle this issue by considering a relative measure: IPO Premium captures the premium that investors place on firm's assets. In line with prior literature ([Certo, 2003](#); [Lester et al., 2006](#)), we calculate percent premium as follow:

$$IPO\ premium = (Offer\ Price - Book\ Value) / Offer\ Price \quad (1)$$

where Book Value is the book value (per share) of equity from the last audited pre-IPO financial statement divided by the pre-IPO shares (resulting from the IPO prospectus). This measure weighs both accounting and stock market information ([Welbourne & Andrews, 1996](#)). Compared to only stock price, IPO Premium offers a more robust estimation of how investors reward future value. We also perform a sensitivity (unreported) test using the firm's closing price on the first day of trading rather than the offering price as in the above formula. This enables us to capture the entire market evaluation and to control for underpricing ([Certo, 2003](#)).

Our second measure is Market to Book value (*M/B*) ([Astrachan & McConaughy, 2001](#)):

$$Market\ to\ Book\ value = \left(\frac{Market\ Capitalization_{1st\ day}}{Equity\ book\ value} \right) \quad (2)$$

where market capitalization is equal to the number of post-IPO shares times the closing market price of the first trading day. Equity book value is determined as the sum of primary offering proceeds and book value of equity from the last audited pre-IPO financial statement. [Mazzola and Marchisio \(2002\)](#) use this measure to value Italian IPOs as it is useful to capture future managerial performance.

3.3. CEO power

On the one hand, top executive leadership may have multiple sources ([Combs, Ketchen, Perryman, & Donahue, 2007](#)), on the other, CEO power is not directly observable ([Liu & Jiraporn, 2010](#))

¹ Our sample is perfectly in line with previous researches on IPO and family business. For example, [Giovannini \(2010\)](#) makes inferences on 56 Italian IPOs to disentangle the issue of share performance and family involvement. On the same line, [Marchisio and Ravasi \(2001\)](#) use a sample of 43 Italian IPOs to test how the decision of go public impact on family competitive advantage. Moreover, [Jaskiewicz et al. \(2005\)](#) compare 95 German and 23 Spanish IPOs to assess the impact of family control on long-run IPO performance.

² However, we also control for a different definition of family business. In line with prior literature on IPOs ([Leitterstorf & Rau, 2014](#)), we define family firms using the power subscale of the *F-PEC* score ([Astrachan, Klein, & Smyrniotis, 2002](#)), which computes family involvement in both ownership and managerial positions in a continuous variable. With this definition, we obtain a final sample of 74 family owned IPOs. Our results are robust to this proxy.

and therefore requires a multidimensional construct rather than a single variable that can capture CEO dominance. In line with Finkelstein (1992), we consider four types of power: ownership, structural, expert and prestige. Power can be defined as formal (ownership and structural) or informal (expert and prestige) (Adams et al., 2005). The first relates to factors that directly affect CEO influence over the decision-making process, while the latter does not directly depend on the formal role of the CEO in the organizational hierarchy. However, even if from a theoretical perspective these forms of power are directly observable, it is empirically difficult to distinguish between the effects of different sources and infer conclusions.

We thus use a factor analysis to build the multidimensional construct and rely on previous literature to select the variables of interest.

First, we proxy ownership power with two continuous variables: the percentage of equity owned (e.g. total number of shares owned divided by the firm's total number of outstanding shares) by outside board members (*OUT_BOARD_VR*) (Lewellyn & Muller-Kahle, 2012) and the voting rights (e.g. the percentage of the firm's outstanding shares) held by the CEO (*CEO_VR*) (Bach & Smith, 2007). Voting rights may offer additional power to owners and such power is likely to increase with the quota of total shares held (Finkelstein, 1992). That is, the greater portion of equity in the hand of outside board members, the lower power in the hand of CEO. The reasoning beyond this idea is straightforward: if one or more directors own a substantial number of outstanding shares, the influence of CEO over the board and over decision-making process may be challenged (Mace, 1971).

Second, we operationalize structural power using two variables: the first is a dummy variable equal to one if the CEO is also the chairperson of the board (*CEO_DUALITY*) and zero otherwise (Adams et al., 2005), while the latter is the percentage of independent directors (e.g. the ratio of independent directors to total directors) (*INDEP_DIR*) (Lewellyn & Muller-Kahle, 2012). On the one hand, If CEO serves also as chairperson of the board, he/she may increase the likelihood of nominate affiliated board members who will not contrast his/her decision, further fostering power position. On the other, a more independent board has a reputational concern (e.g. moral incentive) to monitor firm executives and act to protect shareholders' interests (Walsh & Seward, 1990). Empirical evidences support this assumption: boards with a majority of independent directors mitigate CEO power (e.g. Beatty & Zajac, 1994) or, putting it different, the level of CEO power is negatively related to the level of monitoring (Finkelstein et al., 2009). Generally speaking, independent directors are defined as those who do not have substantial ties with firm (e.g. not past employees), with dominant shareholders (e.g. family related or family members) or with CEO (Johnson Daily & Ellstrand, 1996). In this study, we use the concept of independent director given in the Italian Code of Governance (Codice di Autodisciplina) provided by the Milan Stock Exchange. This code explicitly indicates evaluating form over substance when defining independent directors. We are able to following this criterion because firms are obligated to disclose this information in IPO prospectus.

Third, we employ two variables to account for expert power: CEO board tenure (e.g. number of months that the individual has served as the CEO of the firm) (*CEO_TENURE*) (Combs et al., 2007) and CEO age (*CEO_AGE*) (Yang et al., 2011). We rely on Combs et al. (2007) and consider only CEO's board tenure rather than job tenure; this assures that power is not affected by movement among top management positions. Expert power encompasses the skills essential for success in the firm (Oler, Olson, & Skousen, 2010). Lehn and Zhao (2006) show that CEO turnover may be due to poor strategic decisions and, consequently, longer tenure may signal

grater competences and abilities. More specifically, executive tenure and age have been found to affect strategic deviance and thus leadership power (Simsek, 2007).

Lastly, we disentangle prestige power with the help of one variable: the number of outside directorates that the CEO holds at the IPO time (*CEO_INTERLOCK*) (Oler et al., 2010). Multiple board directorship appointments add valuable experiences and knowledge. Moreover, if the CEO seats in more than one board, he/she may "be viewed as being in demand or having a valuable reputation by their own firm's board members, in the sense that other firms see merit in the CEO's opinions and service" (Lewellyn & Muller-Kahle, 2012, p.295). By this way, the level of prestige power tends to increase. As such, when CEO exhibits higher prestige power, the likelihood to face external constraints decreases while the availability of social resources increases.

To identify the most relevant measures of CEO power, we run an exploratory factor analysis (EFA), a widely used methodology for data reduction. The concept is to obtain a small set of variables from the large set of variables described above that are subsequently used to build the latent endogenous variable *CEO power*. By using this technique we tackle methodological issues occurred in earlier studies. In fact, previous researches normally consider all the four sources of CEO power, or only two or three (e.g. Chen, 2014; Haynes & Hillman, 2010), standardize and sum them to create an index of CEO power. However, if on one hand there is no reason to randomly choose one or more sources of power (Finkelstein et al., 2009), on the other hand there are numerous empirical evidences showing that not all the types of power are necessary related to corporate outcomes (e.g. Bach & Smith, 2007). We overcome any potential bias by employing EFA; it allows us to prior consider all the sources of power, as in the construct of Finkelstein (1992), but also to take into account only the most pertinent, regarding our sample, among them.

The factor analysis shows that two of the seven factors have Eigenvalues greater than one. Taken together, the two factors explain around 75% (5.24/7) of the total variance of variables considered in the analysis. The first factor accounts for 57.3% of the total variance and the second for the remaining 17.7%. Table 1 summarizes the values of factor loadings after orthogonal rotation. *CEO_DUALITY*, *CEO_VR* and *CEO_TENURE* have the highest loads in factor 1 and *INDEP_DIR* in factor 2. The first factor can be considered a broad measure of CEO power including ownership, structural and expert power; the second factor primarily measures CEO power in terms of structural power.

The values of communalities are reasonably high, indicating that the results are quite reliable. Thus, the EFA suggests that the most pertinent measures of CEO power in our sample are *CEO_DUALITY*, *CEO_VR*, *CEO_TENURE* and *CEO_INTERLOCK*. However, the last variable, as we will explain further on, appears to be a very weak indicator of CEO power and will not be considered in constructing the

Table 1
Rotated factor loadings and communalities.

Variable	Factor 1	Factor 2	Communality
<i>CEO_DUALITY</i>	0.854	-0.185	0.843
<i>CEO_VR</i>	0.849	0.225	0.842
<i>CEO_TENURE</i>	0.844	0.333	0.825
<i>CEO_AGE</i>	-0.06	-0.394	0.733
<i>CEO_INTERLOCK</i>	0.110	-0.824	0.730
<i>INDEP_DIR</i>	0.200	0.694	0.680
<i>OUT_BOARD_VR</i>	-0.368	0.228	0.589
Eigenvalue	4.00	1.24	4.24

Note: To build our indicator (*CEO_POWER*) we rely on four types of power: ownership, structural, expert and prestige (Finkelstein, 1992).

See Table 2 for variable definitions.

The values in bold highlight the significance of the variables of interest.

endogenous latent variable.

Based on the arguments presented, we consider only three measures of power, namely, CEO voting rights (*ownership power*), CEO duality (*structural power*) and CEO board tenure (*expert power*). Our factor analysis also confirms the results of Combs et al. (2007) who use these variables to measure CEO power. Our indicator (*CEO_POWER*) allows us to disregard prestige power.

3.4. Moderating variables

To test our second hypothesis, we define *FAM_CEO* as a dichotomous variable equal to one if the CEO is a family member, zero otherwise. We use the IPO prospectus to carefully identify family members (related through blood or marriage). In line with Miller et al. (2014), we employ a binary variable to account for a co-leadership structure (*CO_LEADER*), which assumes the value of one if the firm is managed by two or more co-CEOs, zero otherwise.

3.5. Control variables

We employ several control variables. First, we use a standard control for size, leverage and age. We operationalize size (*SIZE*) with a natural logarithm of market capitalization computed at offer price (Filatotchev & Bishop, 2002). As Brav and Gompers (1997) argue, larger IPOs may be able to better reap the benefits from their public listing than smaller IPOs: we expect a positive sign with IPO value. Leverage (*LEV*) is equal to the book value of non equity-liabilities on the book value of total asset. The level of debt may play a monitoring role; in line with Chahine and Goergen (2013), we expect a positive sign. For both these variables, we use data referring to the last audited pre-IPO financial statement. Age (*AGE*) is the difference between IPO date and firm founding date. This measure is an ex-ante proxy for risk (Loughran, Ritter, & Rydqvist, 1994; Pennacchio, 2014): we expect that risky firms tend to receive lower market valuation. Thus, we predict a negative association with IPO value.

In line with Chahine et al. (2011), we control for firms belonging to Nuovo Mercato, the market segment of Borsa Italia for firms operating in high-tech industries: we set a dummy variable (*MARKET*) equal to one if the firm is listed on this market, zero otherwise. Roosenboom (2007) claims that such market attracts small family firms with great growth potential, thus we expect a positive sign. So far, literature highlights that global financial crises profoundly influenced new listings and IPO success within Italian market (Cattaneo et al., 2014). As such, we define a dummy variable (*CRISIS*) equals to one if the IPO took place during the crisis (e.g. January 2007–September 2008, in line with Erkens, Hung, & Matos, 2012) and zero otherwise. Finally, we also control for board size (*BOARD_SIZE*) using the logarithm of the total board members. We assume that CEO power will decrease if a higher number of executives is involved in decision-making.

All the variables are summarized in Table 2.

3.6. Data analysis

In Table 3, we report summary statistics of the sample. Family members serves as CEO in 43 cases: family leadership is widely used in the IPO transition stage. Of interest among other things is that 21 out of 77 firm IPOs adopted a co-leadership structure (*CO_LEADER*).

Table 3 also provides the correlation among variables. The Pearson correlation coefficients do not evidence serious multicollinearity problems.

The conceptual model shown in Fig. 1 contains not only the observed variables but also the latent endogenous variable *CEO*

power. Latent variables refer to phenomena that cannot be directly observed but can be measured through observed variables. As mentioned earlier, CEO power is not directly observable as it is a multidimensional concept measured in a different and competing way. Thus, in order to test our theoretical hypotheses we rely on Structural Equation Modeling (SEM), a methodology that allows the simultaneous use of both latent and observed variables (Bollen, 1998). This method has been widely used in management researches (e.g. Ouakouak, Ouedraogo, & Mbengue, 2014) as well as in family business literature (e.g. Marko Sarstedt, Ringle, Smith, Reams & Hair, 2014). In addition, SEM offers several advantages (Hoyle, 2012): i) under given conditions, this is a robust method to deal with small samples³; ii) it is a powerful tool for the confirmatory analysis of theoretical predictions, iii) it allows reliably defining latent variables by using the observable variables. Lastly, with respect to other estimation method, SEM easily takes into account for the correlation among variables and, consequently, allows to adjust the model for the reality of the situation.

Our SEM consists of two components: the measurement model that relates the latent variable *CEO power* to its indicators and the structural model that tests the hypotheses drawn from theoretical literature.⁴

As regards the measurement model, initially we considered as indicators of CEO power *CEO_DUALITY*, *CEO_VR*, *CEO_TENURE* and *INDEP_DIR*, that is, the variables identified with ECA. However, the estimates (not reported due to lack of space) show that *INDEP_DIR* is not statistically significant. The variable is therefore excluded from the analysis and the final measurement model only includes measures of power related to the ownership, structural and expert dimensions. The overall goodness-of-fit statistics of the final model are reported in Table 4. The table shows actual and critical values of the χ^2/DF (DF indicating degrees of freedom), the root mean square error of approximation (RMSEA), the goodness-of-fit index (GFI), the Tucker–Lewis Index (TLI) and the comparative fit index (CFI). All indices meet their critical values, indicating that the model has a satisfactory fit with the data.

4. Results and discussion

Panel A of Table 5 presents the estimates of our base structural model. We test our first hypothesis using two proxies for IPO value. In model 1, we consider the Market to Book value (*M/B*) as the dependent variable: in this case, powerful CEOs increase external investor evaluations (0.285, $p < 0.01$). We obtain similar results when using IPO premium (*IPO_PRM*) as a dependent variable (0.068, $p < 0.01$ model 2). Our results confirm that CEO power is useful to reduce self-serving CEO behaviours. Given the prominent role of a CEO during the IPO transitional stage (Andrews & Welbourne, 2000), our analysis suggests concentrating power in the CEO's hands to reassure potential investors and obtain a better evaluation at the time of going public. This finding indicates that investors view powerful leaders positively in such uncertain environments. Both models show the same relationship between the dependent variable and the control factors. Size (*SIZE*) is positively related with IPO value (0.231, $p < 0.01$ model 1; 0.051, $p < 0.05$ model 2), denoting that larger firms are less risky (Giudici & Roosenboom, 2006). Leverage (*LEV*) enters the equation with a

³ As preliminary step, we have assessed the normality assumption underlying SEM by computing the rescaled kurtosis indexes and the Mardia's (1970) normalized estimate of multivariate kurtosis. All the rescaled indexes are much lower than 7 (the highest is 2.731 for *IPO_PRM*), the critical value indicating nonnormality distribution (West, Finch, & Curran, 1995). Also the Mardia's kurtosis index is much lower than 5 (1.674), its critical value (Bentler & Wu, 2005).

⁴ We use AMOS software (v. 21) to perform the empirical analysis.

Table 2
Variables definition.

Variable	Description	Related literature
Ownership power		
<i>OUT_BOARD_VR</i>	Continuous variable. The sum of total voting rights owned by outside board members.	Lewellyn and Muller-Kahle (2012)
<i>CEO_VR</i>	Continuous variable. The voting rights owned by CEO.	Bach and Smith (2007)
Structural power		
<i>CEO_DUALITY</i>	Binary variable. It is equal to one if the CEO is also the chairperson, zero otherwise	Adams et al. (2005)
<i>INDEP_DIR</i>	Continuous variable. The ratio of independent directors over the total board members	Lewellyn and Muller-Kahle (2012)
Expert power		
<i>CEO_TENURE</i>	Continuous variable. The number of months that manager servers as CEO in the firm.	Combs et al. (2007)
<i>CEO_AGE</i>	Continuous variable. The age of CEO (computed in years).	Yang et al. (2011)
Prestige power		
<i>CEO_INTERLOCK</i>	Continuous variable. The number of outside directorship held by CEO at IPO time.	Oler et al. (2010)
Dependent variables		
<i>M/B</i>	Continuous variable. It is the first day market capitalization over book value of equity. Where the first-day market capitalization is equals to the number of post-IPO shares multiplied by the closing price on the first trading day; the equity book value is the post-issue value of equity; it sums the book value of last audited pre-IPO financial statement with the primary offering proceeds. We use the logarithm.	Astrachan and McConaughy (2001)
<i>IPO_PRM</i>	Continuous variable. It is the offering price minus the book value of equity over the offering price. The book value of equity is per shares; data are from last (pre-IPO) audited financial statement.	Lester et al. (2006)
Moderating variables		
<i>FAM_CEO</i>	Binary variable. It is equal to one if the CEO is a family member (related through blood or marriage), zero otherwise.	Minichilli et al. (2010)
<i>CO_LEADER</i>	Binary variable. It is equal to one if the firm is managed by two or more co-CEOs, zero otherwise.	Miller et al. (2014)
Control variables		
<i>SIZE</i>	Continuous variable. It is logarithm of market capitalization computed at offer price.	Filatotchev and Bishop (2002)
<i>LEV</i>	Continuous variable. It is the ratio of Book Value of non-Equity Liabilities on book value of Total Asset. Data are from last (pre-IPO) audited financial statement.	Chahine and Goergen (2013)
<i>AGE</i>	Continuous variable. It is the logarithm of the difference between the IPO year and the founding year in the prospectus.	Roosenboom and Schramade (2006)
<i>MARKET</i>	Binary variable. It is equal to one if the firm will be listed on Nuovo Mercato, zero otherwise.	Chahine et al. (2011)
<i>CRISIS</i>	Binary variable. It is equal to one if the firm went public during financial crisis (January 2007–September 2008), zero otherwise.	Erkens et al. (2012)
<i>BOARD_SIZE</i>	Continuous variable. It is the logarithm of the total board members.	

Table 3
Descriptive statistics & correlation matrix.

	Mean	Std. Dev.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Dependent variables														
(1) <i>M/B</i>	1.24	0.73	-0.47	3.93	1.00									
(2) <i>IPO_PRM</i>	0.77	0.21	-0.073	0.99	0.64	1.00								
Control variables														
(3) <i>SIZE</i>	11.37	1.45	8.38	14.30	-0.11	-0.34	1.00							
(4) <i>LEV</i>	0.71	0.18	0.03	0.99	0.26	0.41	0.03	1.00						
(5) <i>AGE</i>	2.40	1.02	-0.69	4.29	-0.08	-0.16	0.17	-0.01	1.00					
(6) <i>MARKET</i>	0.23	0.43	0	1.00	0.14	0.42	-0.47	0.13	-0.15	1.00				
(7) <i>BOARD_SIZE</i>	1.98	0.40	0.69	2.77	-0.00	0.02	0.37	-0.02	0.28	-0.03	1.00			
(8) <i>CRISIS</i>	0.23	0.42	0	1.00	0.16	0.07	-0.06	0.00	-0.07	-0.30	0.03	1.00		
Moderating variables														
(9) <i>FAM_CEO</i>	0.56	0.50	0	1.00	0.05	0.13	-0.01	0.13	-0.13	-0.16	0.22	0.18	1.00	
(10) <i>CO_LEADER</i>	0.27	0.44	0	1.00	-0.06	0.13	-0.21	0.00	0.13	0.03	0.27	-0.11	-0.07	1.00

Note: See Table 2 for variable definitions.

Table 4
Indexes of model fit.

Fit index	Value	Critical value
χ^2/DF	1.062	<3
RMSEA	0.029	<0.05
GFI	0.971	>0.95
TLI	0.978	>0.95
CFI	0.988	>0.95

Note: RMSEA: root mean square error of approximation; GFI: goodness-of-fit index; TLI: Tucker–Lewis Index; CFI: comparative fit index.

positive sign (0.843, $p < 0.01$ model 1; 0.357, $p < 0.01$ model 2). As Bruton, Filatotchev, Chahine, and Wright (2010) show, a high level of debt may reduce managerial discretion. Age (*AGE*) is not significant in our models. The choice to list on Nuovo Mercato (*MARKET*) is positively evaluated by external investors (0.330, $p > 0.1$ model 1; 0.109, $p < 0.01$ model 2). As expected, a greater number of managers involved in the decision-making process may be detrimental to CEO power, consequently, board size (*BOARD_SIZE*) is negatively associated with IPO value but no significance emerges. Among control variables, we find a positive, and significant, relation between *CRISIS* and IPO value (0.417, $p < 0.05$ model 1; 0.098, $p < 0.05$ model 2). Although unexpected, this result may imply that

Table 5
CEO Power and IPO value.

Variable	Predicted sign	Model 1 (I) $y = M/B$	Model 2 (II) $y = IPO_PRM$
<i>Panel A: Structural model</i>			
CEO_POWER	+	0.285*** (0.086)	0.068*** (0.022)
SIZE	+	0.231*** (0.064)	0.051** (0.016)
LEV	+	0.843*** (0.329)	0.357*** (0.128)
AGE	–	0.061 (0.085)	0.009 (0.025)
MARKET	+	0.330 (0.234)	0.109*** (0.073)
BOARD_SIZE	–	–0.242 (0.183)	–0.060 (0.066)
CRISIS	+/-	0.417** (1.198)	0.098** (0.051)
Industry controls		YES	YES
<i>Panel B: Measurement model</i>			
CEO_DUALITY		0.060*** (0.021)	
CEO_VR		0.059*** (0.015)	
CEO_TENURE		9.180*** (2.824)	
N		77	

Note: ***, ** and * denote statistically significant coefficients at 1, 5 and 10% level of significance. Heteroskedasticity-robust standard errors in parentheses.

Models 1 and 2 present the results about first hypothesis.

In column I we regress M/B on: CEO Power, Size, Leverage, Age, Market and Board of Directors size.

In column II we use IPO_PRM to proxy IPO value.

See Table 2 for variable definitions.

investors positively evaluate the few firms that are solid enough to go public during the financial crisis (2007–08).

There is no doubt that the first hypothesis is verified: CEO power is positively associated with IPO value, irrespective of how this is measured.⁵ As discussed above, listing firms do not have performance records in public markets and may suffer from “liability of market newness” (Certo, 2003). As such, a sense of uncertainty characterizes the entrepreneurial stage of IPOs. Our results, in line with expectations, are coherent with the above reasoning. In fact, “this authority allows CEOs to manage uncertainty” (Finkelstein, 1992, p.508) and, as result, fosters trust among new potential investors. With regard to the measurement model, Panel B of Table 5 shows that all coefficients are statistically significant at the usual levels.⁶

Graphically, Fig. 2 provides the detailed results of our SEM testing Hypothesis 1. It shows the relations between latent and observed variables, the estimated coefficients and the heteroskedasticity-robust standard errors (in parentheses).

Table 6 shows the results concerning our second and third hypotheses. Models 3a and 3b, as well as 5a and 5b, support the second hypothesis. When a family member serves as CEO, the positive effect of powerful leadership becomes stronger. That is, the CEO_POWER coefficient in model 3a (0.411, $p < 0.05$ model 3a) is higher than the coefficient in the previous models (0.285, $p < 0.01$ model 1) while the coefficient in model 3b is lower than in the previous models (0.262, $p < 0.05$ model 3b). These results suggest that potential investors positively evaluate the strong commitment of family leaders to their businesses. Our empirical evidence is coherent with the research line that empirically demonstrates that *familiness*, at leadership level, has a positive impact on firm

⁵ We also perform the analysis using a third proxy for IPO value: we compute IPO premium 2 (IPO_PRM2) using the closing price rather than the offer price in Formula (1). We obtain similar results (0.059, $p < 0.01$ model 3). Moreover, we also run the analysis with a different definition of family firms: the power subscale of the F-PEC score (Astrachan et al., 2002). This leaves us with 74 observations but the results remain unchanged (0.258, $p < 0.01$ model 1; 0.062, $p < 0.05$ model 2; 0.110, $p < 0.01$ model 3).

⁶ Due to space constraints, we do not report the estimates of the measurement model for the subsequent models.

performance (e.g., Minichilli et al., 2010). Our results are the same when we consider IPO premium as a dependent variable (models 5a and 5b): the CEO_POWER coefficient in the presence of a family CEO (0.081, $p < 0.05$ model 5a) is higher than in the previous models (0.068, $p < 0.01$ model 2; 0.047, $p < 0.05$ model 5b). However, Salvato, Chirico, and Sharma (2010) offer a contrasting perspective: they claim that family firms often hire non-family CEO to increase performance outcomes. As such, despite of CEO formal position (e.g. family or non-family member), our results must be interpreted in the light of the power that executive leaders exercise. The findings of Miller and Le Breton-Miller (2006) reveal that CEO dominance is likely to be higher for family CEOs than for external appointees. That is, due to family ties and their prominent stewardship attitude (Henssen, Voordeckers, Lambrechts, & Koironen, 2014), family CEOs may be able to exert greater power and act as a valid signal to reassure external investors about the quality of firm.

We also test the moderating effect of a co-leadership structure (models 4a, 4b, 6a and 6c). Although in management researches the co-leadership phenomenon is an underdeveloped topic (Krause, Priem, & Love, in press), Alvarez, Svejnova, and Vives (2007) indicate family ties as a common driver of co-CEO leadership.

Our last hypothesis is also supported: in line with stewardship theory, we find that the ‘unity of command’ is beneficial for family IPOs. Our findings indicate that the impact of powerful CEOs is magnified when they do not share leadership: the presence of at least one other CEO is detrimental for external investors who may be confused by multiple leadership roles. Within this research line, Hackman (2002) claims that co-CEO structure may be overwhelmed by coordination problems as well as interpersonal conflicts. CEOs’ personalities can lead to competition for power among individuals: this results in a negative impact on decision-making-process. Krause et al. (in press) offer support for the ‘unity of command’ principle: they find a negative relation between co-leadership structure and firm performance. Conversely, O’Toole et al. (2002) suggest that two CEOs are better than one if the firm is facing a complex challenge that may require a set of skills too wide to be possessed by only one leader. However, as stated before, our results should be analysed with power lens. In fact, according to Mintzberg (1989), more powerful CEOs might be reluctant to accept co-leadership structure. To be effective, in the co-leadership structure power must be decentralized among the two co-CEOs (Pearce & Conger, 2002). This is less likely to occur in family firms, where CEO leadership is more pronounced and centralized. As results, such unusual co-CEO arrangement may confuse investor who tributes less trust in co-leadership structure. The consequence is a lower value for the firm at IPO stage.

In model 4a, the CEO_POWER coefficient is higher than in the other models (0.461, $p < 0.01$ model 4a; 0.092, $p < 0.01$ model 4b; 0.285, $p < 0.01$ model 1) and the same results can be observed when IPO premium is a dependent variable (0.107, $p < 0.05$ model 6a; 0.031, $p < 0.01$ model 6b; 0.068, $p < 0.01$ model 2).

To assess whether the estimated CEO power coefficients in the model with a moderating effect of CEO family (CEO_FAM) are higher than those in the base models (models 1 and 2), we rely on the Welch–Satterthwaite (WS) test, the two-sample t-test with unequal variance. The t-statistics reported in Table 3 (model 3a and 5a) show that the differences are statistically significant at the usual levels. Thus, we can conclude that the stronger effect of CEO power for IPOs with CEO family has robust statistical significance. We also perform the WS Test for the CO_LEADER moderating effect (models 4a and 6a): our results confirm the hypothesis.

Finally, we consider the case of powerful family CEOs who do not share leadership (32 observations). We empirically test this with unsurprising results: there is a stronger effect of CEO_POWER

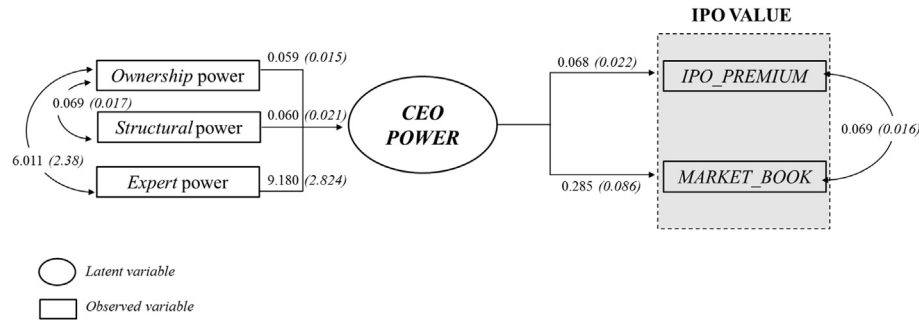


Fig. 2. Relations between latent and observed variables.

Table 6
CEO Power and moderating effects.

	Model 3a (I)	Model 3b (II)	Model 4a (III)	Model 4b (IV)	Model 5a (V)	Model 5b (VI)	Model 6a (VII)	Model 6b (VIII)
	FAM_CEO = 1	FAM_CEO = 0	CO_LEADER = 0	CO_LEADER = 1	FAM_CEO = 1	FAM_CEO = 0	CO_LEADER = 0	CO_LEADER = 1
Variable	$y = M/B$				$y = IPO_PRM$			
CEO_POWER	0.411** (0.162)	0.262** (0.119)	0.461*** (0.110)	0.092*** (0.021)	0.081** (0.032)	0.047** (0.020)	0.107** (0.051)	0.031*** (0.003)
SIZE	0.246*** (0.084)	0.227** (0.114)	0.277*** (0.071)	0.148 (0.158)	0.048*** (0.013)	0.057 (0.040)	0.063*** (0.019)	0.092** (0.042)
LEV	0.265 (0.445)	1.485** (0.588)	0.750** (0.330)	0.880 (1.382)	0.121 (0.091)	0.603*** (0.199)	0.312** (0.148)	0.577* (0.309)
AGE	0.079 (0.104)	0.039 (0.121)	0.039 (0.087)	0.438* (0.235)	-0.002 (0.019)	0.001 (0.045)	0.001 (0.023)	0.074 (0.075)
MARKET	0.767*** (0.197)	0.074 (0.374)	0.573** (0.246)	0.704 (0.364)	0.161*** (0.042)	0.086 (0.130)	0.227*** (0.067)	0.082 (0.118)
BOARD_SIZE	-0.208 (0.230)	-0.303 (0.360)	-0.278 (0.209)	-0.195 (0.538)	-0.050 (0.042)	0.006 (0.158)	-0.085 (0.070)	-0.078 (0.142)
CRISIS	0.655** (0.278)	0.378 (0.323)	0.525** (0.226)	0.406 (0.416)	0.116*** (0.043)	0.091 (0.112)	0.123** (0.061)	0.202* (0.121)
Industry controls	YES	YES	YES	YES	YES	YES	YES	YES
N	43	34	56	21	43	34	56	21
Welch–Satterthwaite Test (t-statistics)	4.74		9.96		2.37		5.37	

Note: ***, ** and * denote statistically significant coefficients at 1, 5 and 10% level of significance. Heteroskedasticity-robust standard errors in parentheses. Models 3a, 3b and 5a, 5b provide evidences about the moderating effect of Family CEO on the base relationship between CEO Power and IPO value (hypothesis 2). Columns I and II show the results obtained by using M/B to proxy IPO value; in columns V and VI IPO value is measured by IPO_PRM. Models 4a, 4b and 6a, 6b tests our last hypothesis (the moderating effect of co-leadership structure). In columns III and IV we employ M/B to account for IPO value; in columns VII and VIII we rely on IPO_PRM.

We perform Welch–Satterthwaite test, the two-sample t-test with unequal variance, to assess wheatear or not the coefficient of CEO_POWER in the above models are higher those in the base models (Table 3). We compare, one by one, the coefficient of CEO_POWER of models 3a, 4a, with that of model; while we compare the coefficient of models 5a and 6a with that of model 2.

See Table 2 for variable definitions.

The values in bold highlight the significance of the variables of interest.

on investor evaluations at IPO stage. A co-leadership structure would seem crucial to the effectiveness of a family CEO. The case under scrutiny can be interpreted as an extreme form of hierarchical structure: it may well be that individuals prefer hierarchical settings where leadership power is clearly defined (Tiedens, Unzueta, & Young, 2007). Moreover, a powerful CEO may also affect employee behaviour: Jost and Banaji (1994) show that people are inclined to disempower themselves to create or sustain a hierarchical structure, which is particularly true among family members.

The WS Test confirms the statistical significance of the differences between the CEO power coefficients obtained in the last models (models 7a and 8a) and those obtained in the base models (models 1 and 2) (Table 7).

5. Conclusions

In the transition from private to public ownership, the link between CEO power and investor evaluations in the context of family

firms has remained an unexplored area. The goal of this research is to better understand whether, how and why a powerful CEO has an effect on IPO value.

We argue, in line with Finkelstein et al. (2009), that CEO power must be analysed as a construct rather than multiple variables. Thus, by using an exploratory factor analysis (EFA), we empirical build an indicator for CEO power. Considering Finkelstein's (1992) framework, after an explorative factor analysis, we take into account three dimensions of power through a factor analysis: ownership, structural and expert. Using a unique hand-collected dataset, we make inference on 77 family owned IPOs that took place on the Milan Stock Exchange in the period 2000–2011. In a stewardship framework, we confirm that a powerful leader can reduce uncertainty and foster trust among new potential investors. Our results suggest that outside investors positively evaluate family IPOs managed by powerful CEOs.

Further, broader family business literature has generally assumed that IPO firms belong to a homogenous group. We introduce two moderating factors that allow us to distinguish between

Table 7

CEO Power, Family CEO and co-leadership structure: joint moderating effects.

	Model 7a IX)	Model 7b X)	Model 8a XI)	Model 8b XII)
	FAM_CEO = 1 & CO_LEADER = 0	FAM_CEO = 0 & CO_LEADER = 1	FAM_CEO = 1 & CO_LEADER = 0	FAM_CEO = 0 & CO_LEADER = 1
Variable	$y = M/B$		$y = IPO_PRM$	
CEO_POWER	0.520 *** (0.095)	0.018 *** (0.04)	0.112 *** (0.016)	0.016 *** (0.003)
SIZE	0.276*** (0.085)	1.17 (1.310)	0.056*** (0.017)	0.020 (0.095)
LEV	0.132 (0.502)	1.155 (1.365)	0.067 (0.097)	0.850** (0.410)
AGE	0.074 (0.135)	0.050 (0.047)	0.001 (0.002)	0.041 (0.148)
MARKET	0.991*** (0.274)	0.523 (0.688)	0.264*** (0.050)	0.125 (0.161)
BOARD_SIZE	-0.369 (0.338)	-0.117 (0.098)	-0.097* (0.060)	-0.102 (0.128)
CRISIS	0.757** (0.310)	0.751 (0.668)	0.143*** (0.504)	0.511* (0.288)
Industry controls	YES	YES	YES	YES
N	32	11	32	11
Welch–Satterthwaite Test (<i>t</i> -statistics)	12.08		11.64	

Note: ***, ** and * denote statistically significant coefficients at 1, 5 and 10% level of significance. Heteroskedasticity-robust standard errors in parentheses.

Models 7a and 8a consider the joint effect of having a family member as CEO without shared leadership. In columns IX and X we proxy IPO value with *M/B*; in columns XI and XII we rely on *IPO_PRM*.

We perform Welch–Satterthwaite test, the two-sample *t*-test with unequal variance, to confirm the statistical significance of the differences between the coefficients of *CEO_POWER* obtained in models 7a and 8a with those obtained in the models 1 and 2.

See Table 2 for variable definitions.

The values in bold highlight the significance of the variables of interest.

different familiar leadership styles: we find differences in powerful family and non-family leaders as well as between a co-leadership structure and the case of ‘one man in command’. The presence of a powerful family CEO strengthens the relationship between leader power and IPO value. Considering the second moderating factor, the presence of a co-leadership structure, we can state that IPO value will benefit from unity of command (e.g., absence of co-leaders). Moreover, we analyse the case of powerful family CEOs who are the only leaders (e.g., no co-leadership structure) of the board and unsurprisingly find that this leads to superior performance of family IPOs.

Our results are robust to different proxies: we employ two different measure of IPO, short term and value. We define family owned firms by evaluating family involvement in both equity and managerial positions, and perform a sensitivity test using an alternative definition (e.g., *F-PEC score*).

Previous studies tend to focus only on specific aspects of leaders' power (Adams et al., 2005) or assess family leadership in terms of the well known dichotomy family vs. non-family CEO (Miller et al., 2013). At the current state of the art, there is no study that considers the joint effect of such aspects. Our study combines both perspectives, as suggested by Zahra and Sharma (2004), by taking into account the power construct, rather than single variables, and applies it to the analysis of family and non-family CEO. As result, the paper advises researchers to consider the effective power exercised by family leaders and not just the formal status (e.g. family or non-family). The implications of the results are also at issue. The present study suggests that families must carefully consider whether or not a powerful CEO can effectively lead the firm through the transitional stage of going public. Our findings reveal that centralizing the power in CEO's hands is advantageous for firms' evaluation. Thus, one primary implication is that any policy endorsement for the design of optimal governance structure should consider that CEO duality, as well as the equity owned by family leaders, may also be beneficial and not only detrimental. The study points out that lone family CEOs operate best when the leadership is not shared: this provides a practical guidance for designing effective governance configurations. In a broad sense, this paper highlights the need for specific governance measures at IPO stage but also stresses that governance provisions may differently apply to different configurations of family leadership.

We must point out three limitations of our study. First, we focus

on a single country. On one hand, as in Chahine (2007), we are able to avoid any endogeneity problems between family ownership and country-specific characteristics, but on the other, this may limit the overall validity of the results. However, our findings can be extended, carefully, to others countries with low investor's protection (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000) where family ownership can be seen as a governance mechanism (Burkart, Panunzi, & Shleifer, 2003). As such, French and Spanish IPO markets may offer a fruitful extension and comparison with our results. In fact, to assure the above comparability, we propose a measure (*F-PEC score*) for identify family firms not biased by country specific characteristics. Future studies, where possible, should attempt to replicate our analysis in other countries and consider institutional or cultural conditions that affect the relationship between CEO power and IPO value in family firms. Second, we focus on short-term evaluations, we cannot exclude that in the long run the relationship may differ. According to Shleifer and Vishny (1989), a more powerful leader may exhibit stronger entrenchment behaviour, in particular with respect to the market for corporate control and thereby lowering firm value in the long run. Future studies could address the differences, if any, between the short and long term by analysing how outside investors perceive powerful CEOs. Third, we consider only the CEO role but literature recognizes that the top management team and its prestige (Lester et al., 2006) could also reduce uncertainty and influence IPO value. We do not take into account the possible interaction between powerful CEOs and top management team structure, which scholars may be interested in exploring further.

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