

# Getting Off to a Good Start: The Effects of Upper Echelon Affiliations on Underwriter Prestige

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## Abstract

The initial public offering (IPO) is one of the most critical events in the lifetime of a young firm. Prior research has shown that firms tend to have successful IPOs if they go public with the endorsement of a prestigious lead underwriter. This paper examines the antecedents to receiving endorsement by a prestigious underwriter and links this to the experience base of a firm's upper echelon. We theorize that the amount and type of upper echelon experience serve as important symbols of a young firm's legitimacy to critical outsiders. We introduce a typology of upper echelon experience that distinguishes between upper echelon upstream, horizontal, and downstream employment-based affiliations and suggest that these different types of upper echelon affiliations allay different types of endorser concerns regarding firm legitimacy, affecting the endorsement process. Further, we theorize that the relationships between upper echelon experience and investment bank prestige will be moderated by technological uncertainty. We test our assertions on a comprehensive sample of public and private biotechnology firms that were founded between 1961 and 1994 and that went public between 1979 and 1996. Analyses of the five-year career histories of the over 3,200 executives and directors that make up the upper echelons of these firms show that firms with upper echelons with affiliations with prominent downstream organizations (i.e., pharmaceutical and/or healthcare companies) and with prominent horizontal organizations (i.e., biotechnology companies) are more likely to attract the endorsement of a prestigious investment bank. We also find that the greater the range of upper echelon affiliations across the categories of upstream, horizontal, and downstream affiliations, the more prestigious the firm's lead underwriter. We also find that these latter results are moderated by technological uncertainty. The present research has implications for the study of organizational legitimacy, interorganizational endorsements, and entrepreneurship.

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[Next >](#)



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