

Director characteristics and the survival of newly incorporated companies

Nick Wilson¹ and Ali Altanlar
Credit Management Research Centre
Leeds University Business School

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Abstract

This article explores the link between the characteristics of company directors and the survival of newly incorporated companies. Utilising a unique and considerable data-set of over 6 million company-year observations and guided by theoretical propositions we construct variables reflecting the capabilities and experiences of directors at company incorporation date and relate these to corporate outcomes (survival, dissolution or insolvency). We estimate both continuous time (competing risk) and discrete time hazard models for a 12 year period (1998-2009) in order to test our hypotheses. We find strong evidence that links director characteristics (board size, networks, proximity and involvement) with survival. We find that companies with directors that have previous insolvency experiences and/or recent director resignations have a higher insolvency hazard risk. Furthermore, findings suggest that newly founded firms tend to have a “honeymoon period” and this period may differ for each unique company. The macroeconomic environment at start-up is found to have a significant impact on the survival likelihood of start-ups.

Key Words: Business failure, competing risks, director (board) characteristics, new ventures, entrepreneurship

¹ Corresponding author, CMRC, Leeds University Business School, LEEDS LS2 9JT, UK
Tel: +441133434472 E: nw@lubs.leeds.ac.uk